

## IMPLEMENTATION OF MTBF IN PUNJAB: ISSUES, CHALLENGES AND WAY FORWARD

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Many budget decisions have impacts that extend well beyond the current budget year or even arise mainly in later years. To make rational budgetary decisions, decision-makers must focus on their medium- and long-term implications. Most importantly, new spending initiatives often kick in only after the budget year in which the decision is taken. Conversely, essential saving measures usually take longer than a year to take effect. This realization has prompted many countries to introduce medium-term budget frameworks (MTBF), a set of institutional arrangements for prioritizing, sequencing, and managing revenue and expenditure in a multi-year perspective.

MTBF enables governments to demonstrate the impact of current and proposed policies over several years, signal or set future budget priorities, and ultimately achieve better control over public expenditure. An effective MTBF is not solely focused on numerical revenue and expenditure projections presented alongside the annual budget. Instead, it should provide the systems, rules and procedures to ensure that the government's fiscal plans are drawn up concerning their impact over several years. Therefore, the MTBF requires a participatory effort by all parts of government, not just the Ministry of Finance.

In comparison with Annual Budgetary Framework (ABF), MTBF provides fully integrated policy objectives, planning methodology, and resource allocation over a medium-term horizon and allows mid-course correction to circumvent the effects of macro-economic uncertainties.

Evidence shows that to revolutionize the country's investment environment with reposed confidence in public policies and investment horizon, reasonable annual budgets, reliable macroeconomic projections, resilient fiscal policy, robust financial controls regime are significant and MTBF framework helps in achieving this stability. However, successful MTBF implementation has certain pre-conditioned for success like high-level public servant integrity, robust administrative accountability, and political discipline lacking in developing countries. MTBF has been adopted and mainstreamed in developed and developing countries like the UK, Australia, New Zealand, Bangladesh, India, etc. It has produced mixed results depending upon the adoption level and creating a conducive environment for political and legal initiatives.

International review of implementation and impacts of MTBF across 132 countries further reveals that such implementation has

generated mixed results, over the last two decades. Analysis indicates that implementation thrives in a unitary form of government with strong democratic norms, sustained GDP, economic and financial data accuracy, and legislative cover to support budgetary changes like New Zealand, UK and Bangladesh. Whereas in all countries showing low statistical accuracy, low GDP, inconsistent policies face difficulties in successful implementation and aligning budgeting with policy objectives such as Pakistan and Argentina.

#### **MTBF Implementation in Punjab Province, Pakistan:**

MTBF was introduced in Punjab its budget documents in 2003 as its incentive to strengthen fiscal discipline. This decision was taken to remove deficiencies of ABF like a disconnect between medium to long term policies and strategies of the government and budget preparation process. However, with the increased realization of its importance and advice from donor agencies, on 22nd December 2005, the Government of Pakistan and the Asian Development Bank (ADB) entered into a Loan Agreement for developing Punjab's Public Sector Resource Management Program (PRMP). It was introduced to counter this situation on international financial institutions' advice and remained part of various donor-assisted loan programs through Disbursement Linked Indicators (DLIs). Presently, MTBF is a part of

the Sub National Governance (SNG) Program-II.

Furthermore, the Finance Department is again scheduled to sign the Punjab Resource Improvement and Digital Effectiveness (PRIDE) Program loan agreement which also includes MTBF among one of its deliverables. The past decade has shown no political or bureaucratic ownership of MTBF. However, no substantial impact of MTBF is seen on the policy.

There are two parts to successful implementation. At the macro level, the political process is intact, and policies are in place. MTBF is introduced at the federal level in Public Financial Management Act, 2018, but no cover is available at the provincial level. Resource position in the form of National Finance Commission Award is predictable, and hence, predictable policy and its integration into budget planning over the medium term are possible.

From 2005 to 2019, the Finance Department issued separate MTBF Budget Call Circulars as implementation strategy at the micro-level, but it was discontinued. No such MTBF Budget Call Circular in practice instead of a composite annual budget call circular is reintroduced. Budget Call Circular for FY 2020-21 has mentioned preparation of one year's estimates with "two outer years' estimates" without MTBF format and requirement. It shows a rollback or back shift

as far as Punjab province is concerned.

DLIs in loan agreements.

**Major issues linked with this low implementation level of MTBF in Punjab are:**

- i.** No legislative cover is provided as yet to MTBF in Punjab
- ii.** Absence of political-will to use MTBF as a tool of policymaking and monitoring
- iii.** Ease in incremental budgeting and avoidance of responsibility on the part of line departments
- iv.** MTBF is still not covered under any act of parliament or required to be ensured under any legal enactment
- v.** Isomorphic mimicry of FD and window dressing to ensure respective

**Revitalizing MTBF in Punjab will require the following action plan:**

- i.** Revitalization of concept through consultative process and motivation within government departments and political leadership
- ii.** Change from within by introducing team-building and development of an integrated approach towards implementation
- iii.** Moving from ABF to MTBF with gradual integration and assimilation
- iv.** Provide legislative cover through legal enactments and covers