EEBI - Policy Brief

Medium Term Budgetary Framework (MTBF): Concept and Basics

I-SAPS
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MTBF the Concept:

Medium-term budgetary frameworks (MTBFs) are defined as those fiscal arrangements that allow government to extend the horizon for fiscal policy making beyond the annual budgetary calendar. Medium Term Budgetary Framework (MTBF) is a multi-year approach to budgeting which links the government's policy objectives and strategic priorities to its budget and spending plans. MTBF supports three important objectives of public financial management, which are: (1) fiscal discipline, (2) strategic prioritization, and (3) operational efficiency. It has two complementary "top down"[1] and "bottom up"[2] components, and involves a number of complementary reforms to ensure that the reforms take root, including coordination with the PIFRA reforms to ensure appropriate systems support to the MTBF, review of the legal framework for public financial management, and strengthening the capacity of Finance Division[3].

What MTBFs Do	How They Do It	Who Benefits
1. Reinforce aggregate fiscal discipline	o presenting deferred effects of today's decisions o imposing restrictions on future budgets	o Finance Ministers o Taxpayers o Future Generations
2. Facilitate a more strategic allocation of expenditure	o early reaction to future adverse developments o abstracting from annual legal and administrative constraints o provide an additional dimension in policy making	o Prime Ministers o Line Ministers o Parliamentarians
3. Encourage more efficient inter-temporal planning	o providing greater transparency and certainty to budget holders about their likely future resources	o Line Ministries o Agencies o Local Governments

[1] A strategic, 'top-down', component which sets the overall fiscal framework and provides guidance in the form of indicative budget preparation ceilings to each line ministry. This component focuses on Finance Division.

[2] A 'bottom-up' component, which supports line ministries to allocate resources strategically and in accordance with their ceilings. This component focuses on line ministries.

[3] Government of Pakistan, Medium Term Budgetary Framework (MTBF) Frequently Asked Questions (FAQs) Finance Division, Islamabad

Comparison of Traditional and MTBF-based Budgeting[4]

No.	Traditional Budgeting	MTBF-based Budgeting
1.	**Focus on Incremental Budgeting** The budget is incremented from the previous year's budget/expenditure	**Focus on Actual Cost and Value for Money** Initially, existing costs are assigned across the outputs to which they contribute. Once outputs have been costed, a baseline can be established. A ministerial baseline budget is the amount of money a ministry requires to continue the existing level of services under existing policies and at existing levels of economy, efficiency and effectiveness. Over time, preparation of the budget focuses on calculating the budget required to achieve defined levels of output/service delivery and on achieving value for money.
2.	**Input Based Budget** The budget primarily focuses on how many inputs (e.g. pay & allowances, inventory, fixed assets, etc.) are required. Inputs are amounts expended / consumed to achieve an output. In addition, the budget is prepared on the line-items of Chart of Accounts (e.g. Pay & allowances)	**Output Based Budget** The core of the MTBF is the introduction of output-based budgeting. The MTBF budget focuses on how many outputs and outcomes can be achieved with the resources available. Outputs are quantifiable / measurable results while outcomes are changes that take place as a result of outputs. *Example of Output*: number of students enrolled *Example of Outcome*: increase in literacy rate
3.	**No Linkages to Policy** There is no direct mechanism for linking policies of a ministry to annual budgetary allocations	**Linkages to Policy** The MTBF requires ministries to identify their policy objectives and outputs and to link these to budgetary allocations
4.	**Lack of Predictability of Resources** The fiscal resource availability is not tied up directly with the annual budgeting process	**Fiscal Framework** The fiscal framework is regarded as the starting point of the MTBF processes. The fiscal framework details the total revenue, expenditure, debt, etc. of the Federal Government. It helps in providing resources-based ceiling to sectors and ministries
5.	**Budgeting for ONE budget year** Annual budget processes focuses on the upcoming budget year	**Budgeting for THREE years** Budget for ONE budget year plus the Forecast for additional TWO budget years. In total the MTBF looks at three years of estimates
6.	**The process of Budget Preparation within Line Ministries is bottom-up** The budget preparation process within line ministries is based on the demand estimates forwarded by the Spending Units. There is currently no process that guides the Line Ministries in allocation of their budgetary resources in line with their strategic priorities.	**The process of Budget Preparation within Line Ministries is driven from a top-down strategic allocation of resources** The MTBF requires the line ministries to undergo a process in the beginning of the budget preparation process to strategically allocate budgetary resources to outputs of the highest priorities

[4] Medium Term Budgetary Framework Background Paper, PILDAT, May 2010, pp.8

Benefits of MTBF

MTBF has the following main benefits:

i. supports predictability in the budget process by ensuring the budget is based on a medium term macroeconomic and fiscal forecast;
ii. It ensures that fiscal policy objectives (levels of revenue, expenditure and fiscal deficit) provide the overall framework for budgetary management;
iii. It relates budgetary allocations to strategic priorities by focusing the budget more clearly on services (i.e. outputs) and providing budgetary ceilings to line ministries that reflect these priorities;
iv. It creates a more efficient budget management system based on delegated authority to line ministries.

I-SAPS, in collaboration with DFID, is working to improve the effectiveness of public spending in the education sector under its Effective Education Budget Initiative (EEBI).

If you have any queries, questions or need more information regarding EEBI, please write to: mnaeem@i-saps.org

I-SAPS Informing Policies, Reforming Practices
Institute of Social and Policy Sciences | UAN: +92-51-111-739-739 | Mail: info@i-saps.org | www.i-saps.org