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MTBF in Pakistan

Reform against the odds

It is now recognised that institutional incentives are critical to the successful reform of Public Financial Management (PFM) systems. However, there is relatively little guidance on how to recognise and manage these issues. The Medium Term Budgetary Framework (MTBF) reform programme in Pakistan provides a good example of how political and organisational factors play a crucial role in shaping the pace and success of PFM reforms. This *Briefing Note* uses recent thinking about public sector reform to understand the factors that led to a successful outcome for the Pakistan MTBF – against the odds.

Background

The expectations and objectives of public sector reforms tend to be ambitious and global, reflecting a list of things that need fixing, rather than a list of the things that the reforming government is ready to do.[1] This is especially true in the case of Public Financial Management (PFM) reform, which, at its most ambitious, often involves multiple initiatives across various institutions and levels of government.

Two common findings emerge from recent reviews of PFM reforms in developing countries: first, contextual factors play a significant role in shaping the success of PFM reforms. Second, the focus of reform discussions between governments and donors is often based on an implicit model of international 'best practice' which targets the external legitimacy of PFM systems, rather than the central role of PFM reforms in delivering domestic priorities and addressing immediate problems whilst recognising the constraints that apply.[2]

These two issues often come into conflict during discussions about the design and implementation of PFM reforms. Guidance has recently been issued by the PEFA Secretariat which should go a long way to improving the design of PFM reforms.[3] However, there is relatively little guidance on how to recognise and address this challenge during implementation. The response, increasingly, is to draw on change management and organisational development literature, which emphasise the importance of coalition-building and leadership, as well as specific technical measures.[4]

Key points

- PFM reforms are often designed on the basis of an implicit model of best practice and uniform improvement across a broad front, with insufficient attention to whether this has domestic political, institutional and organisational support.
- Organisational and change management literature provides a useful framework for identifying and managing these issues.
- In the case of the Pakistan MTBF, the approach helps to explain the reforms that were actually implemented and provides some lessons for other PFM reforms.

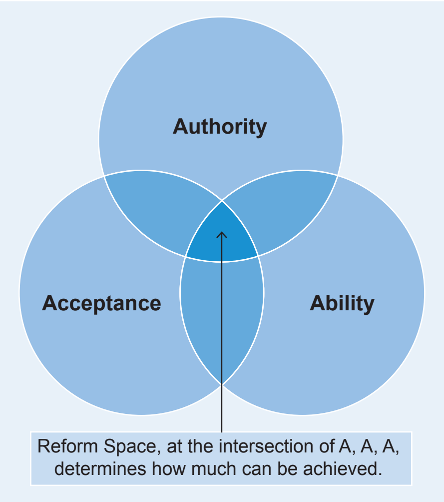
1 *Public Sector Reform: What Works and Why?* IEG Evaluation of World Bank Support, 2008.
2 Hedger and De Renzio (2010), '*What do public financial management assessments tell us about PFM reform?*' Background Note, Overseas Development Institute, London.
3 Diamond, J. (2013) *Good Practice Note on Sequencing PFM Reforms*, www.pefa.org
4 Porter, Andrews, Turkewitz and Wescott (2010), '*Managing Public Finance and Procurement in Fragile and Conflict Settings*', World Development Report 2011 Background Paper, World Bank, Washington.

Briefing Note

Authority, Acceptance and Ability

It has been argued that public sector reforms are only adopted when they are *accepted* by the institutions responsible for their implementation, formal and informal mechanisms *authorise* these ideas, and organisational units have the technical *ability* to implement the reforms effectively. These three factors intersect to create 'space' for reform and the extent of this space determines the extent of reform that is possible (Andrews, 2010).[5] Figure 1 illustrates the basic framework. This Briefing Note examines the evolution of budget reforms in Pakistan over the last 10 years, using this framework.

Figure 1: The idea of reform space



The Pakistan MTBF 2003-12

The MTBF reform programme in Pakistan, implemented with support from the UK Department for International Development (DFID) from 2003 to 2012 – and since then with support from the European Union – has successfully implemented medium-term budgeting across the Government of Pakistan. The MTBF includes two major components: a strategic 'top-down' component which involves the preparation of a medium-term fiscal framework, a budget strategy paper, and the necessary technical underpinnings – notably in the form of a financial programming framework – and also a 'bottom-up' system of output-based budgeting in line ministries. While some issues remain concerning the sustainability and impact of this system on budgetary outcomes – which will depend heavily on the commitment of the Ministry of Finance to carry the system forward – the success of the MTBF is nonetheless remarkable. In 2012, an independent review concluded that the reforms had successfully established a functioning MTBF and that important additional achievements had been made, particularly in relation to transparency, that were not envisaged in the original project design.

That the MTBF reforms would have a successful outcome was never a high probability. Indeed, several factors combined to suggest that the chances of success were actually very small. These included: a rapidly deteriorating macroeconomic and security situation, a corporate culture in the Ministry of Finance that was unused to external support and emphasised the importance of existing systems, a civil service characterised by rapid turnover of senior officials and a limited stream of technical specialists in key areas, and the limited exposure of senior officials to PFM reforms globally. At the outset there was, as a result, only limited commitment to the MTBF reforms.

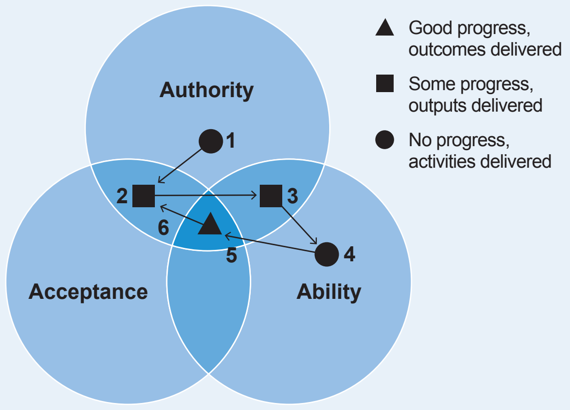
Despite these challenges, the MTBF was implemented through two main phases of support – although progress was by no means consistent or linear. An initial phase of support, from 2003 to 2006, explored a wide range of issues and provided several well-conceived analytical documents, but made no progress in actually implementing the MTBF. In the absence of broad-based support within the Ministry of Finance to change the budgetary system, this phase was confined to training activities at the lowest levels of the system in a small number of pilot ministries. Faced with such limited progress, the MTBF process was re-launched in 2006 with a new team of external advisors and renewed political commitment to implement the reforms. The new team attempted to broaden and deepen the scope of the reforms, specifically to include the strategic top-down component of the MTBF, and to introduce strategic allocation of resources in line ministries based on output-based budgeting. However, the new approach was not accepted by key units within the Ministry of Finance. Despite the development of the relevant approaches and tools, this again led to very limited progress on implementation of the MTBF. This stalemate lasted for the best part of two years. By 2008, preparations were being made to recommend that the project should be closed.

However, at this point significant staffing changes were introduced in the Ministry of Finance and unambiguous instructions that the MTBF should be taken seriously were given by the Ministry. The results of these changes were rapid and dramatic: from its previous status as a failing project, the MTBF reform programme progressed rapidly. The top-down component was introduced in mid-2008 and progressive roll-out of output-based budgeting to all ministries and divisions was underway by mid-2009. Good progress also began to be made in the institutional development necessary to build and sustain the reforms, including the functioning of various high level committees and endorsement of the reforms by Cabinet.

5 Andrews (2010), '*How far have public financial management reforms come in Africa?*', Faculty Research Working Paper Series RWP10-18, Harvard Kennedy School.

The description above makes clear that the 'reform space' necessary to implement the MTBF did not exist before 2008. It also suggests that 'space' was in place to a sufficient degree from then onwards. In reality, implementation of the MTBF reforms was never as simple or clear cut as this.

Figure 2: The Pakistan MTBF and space for reform



Reform Space, at the intersection of A, A, A, determines how much can be achieved.

Figure 2 shows the progress of the MTBF in terms of authority, acceptance and ability. This presents a more nuanced assessment, described through points (1) to (6) below. With the benefit of hindsight, it provides a more accurate description of progress and the issues faced by those tasked with implementing the reforms.

1. 2003-04 – Support for reforms from senior policymakers, some well-conceived analysis, awareness-raising on the need for reform within key units, but no progress on implementation.

2. 2004-05 – Support for budget training in a small number of pilot ministries, but the strategic top-down component is missing. The budget system essentially unaffected. No systemic change.

3. 2005-06 – Extensive discussions on a new approach with the Ministry of Finance. This is eventually agreed but acceptance is quickly lost as key officials are moved before implementation can occur. No systemic change.

4. 2007-08 – Development of new methodologies, but these lack broad-based institutional support of key units. Policy concerns are increasingly focussed on security and macroeconomic issues and move away from public sector reform. No systemic change.

5. 2008-09 – Change of key personnel and renewed political support for the MTBF. Rapid implementation of the reforms first proposed in 2006.

6. 2010-12 – External support is effectively scaled down during 2010-12. Difficulties in recruiting the necessary technical specialists from within the civil service lead to concerns about sustainability.

Measures to create and sustain 'reform space'

So how did external assistance contribute to this favourable outcome? Four key factors were important:

- **The emergence of a team of reformers at the top of the Ministry of Finance (MoF).** While there were frequent changes in key positions in the MoF relating to the MTBF reforms during the life of the programme, from 2008 onwards there was a critical mass of reformers in top positions who supported the reforms. A key task of the external advisory team was to engage with and support the priorities of this internal reform team.
- **The delivery of technically useful materials.** In gaining and retaining the support of officials, an important role of the external advisory team was the delivery of evidently useful products quickly when required. In 2008, for example, the MTBF team was able to produce analysis of a deteriorating economic situation and a rapidly expanding fiscal deficit. This analysis was used by the MoF to craft a budget which addressed the main fiscal issues and subsequently formed the centre of negotiations with the IMF.
- **Localisation of key consultant positions.** At the outset of the reforms, in 2003, the top advisory positions were held by a small number of expatriates. An important development from 2007 onwards was the increasingly prominent position taken by the more senior local consultants. An important implication was that the most senior local consultants on the MTBF became engaged in the reforms to an extent that would not have been practical or acceptable for an outsider. This played an important role in changing the perception of the MTBF from an external imposition to a domestically-driven reform process.
- **A senior advisory team.** A key feature of the external support was the contribution of a small team of three experts in the field of PFM reforms. This senior advisory team, which provided intermittent inputs throughout the reform process, provided several important roles, including: maintaining pressure on the full time technical assistance team to deliver substantive, real budget reforms; bringing the weight of international good practice to the attention of senior policymakers, and; ensuring there was a mechanism for the team to have access to senior officials to enable a proper discussion of reform concepts at the top of Government.

Lessons learned

What lessons are to be drawn from the MTBF, for future PFM reforms in Pakistan and elsewhere? Several observations stand out from the application of an organisational and change management framework to the case of the MTBF in Pakistan:

- Most obviously, reform programmes must look to the medium-term for results and accept that there will be periods of slowdown or even reversal. In these periods, the emphasis of technical assistance should be on re-establishing sufficient political and institutional support for the reform process.
- Equally, early results need to be built into the reforms to build trust in, and credibility of, the team providing the reform advice and to catch the attention of senior officials and policymakers.
- It is important to advance as fast as possible from pilot to full implementation to avoid loss of reform momentum. A turnover of key senior officials in central agencies of finance is to be expected but opportunities to make best use of the support that is available must be grasped.
- There will invariably be pressure to dilute the reform concept so that it becomes less threatening to vested interests. Mechanisms need to be in place to address these issues and resist pressure so as not to dilute the quality of the reforms.
- Finally, 'space' arrives at different times for different elements of the reform programme. Some reform initiatives which formed part of the MTBF programme remained unimplemented during the period under review, although they were fully developed at the technical level. Equally, rapid progress was made in other areas that did not form part of the original design for the reforms.

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