

Scope of the PEFA Assessment: 'Central Government.....Plus'?



PEFA Secretariat



PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY PROGRAM



Coverage of a PEFA assessment

Where is the Boundary?

At the Terms of Reference (Concept Note) stage need to consider:

- The structure of the public sector
- Purpose of the assessment
- Which entities are to be included: e.g. limited to central government
- Resource availability

Purpose of the Assessment

- To inform PFM reform & track progress
 - Central government
 - Single/multiple Region/Province/State/Municipal/local level
- Satisfy fiduciary requirements (risk assessment)
 - Limited or no decentralization – Central government
 - Region/Province/State receives significant transfers from centre for service delivery - Central government plus 1st level SN
 - Municipal/local level has significant responsibility for service delivery – Central government plus 1st level plus 2nd level SN

PEFA Assessments for Sub-National Governments



PEFA program response to demand

- Recognized strong demand for a tool at SN level
- Has accepted that the PEFA Framework is largely applicable to SN government level
- Prepared guidance for PEFA use at SN level
- As at September 2009: 18 SN-level reports substantially completed (15% of all assessments), involving 11 countries



Structural Models

- Federal vs Unitary states
- Symmetrical vs Asymmetrical federalism
- Federal units covering all or part of country
- Francophone vs Anglophone decentralization

- Almost every country has a unique structure, determined by historical/political circumstances



Characteristics of Intergovernmental Fiscal Relations

- Political and Administrative Decentralization
- Fiscal decentralization
 - Service obligations / Expenditure assignments
 - Financing
- Consult the national Constitution

Political/Administrative Decentralization

- Accountability of the SN entity – to whom?
 - Elected / appointed body
 - Higher level government
 - National legislature (with scrutiny of audit reports)
- Oversight by higher level government
 - Budget approval
 - Budget execution reporting; submission of accounts
- Administrative autonomy
 - Appointment of SN govt. staff
 - Regulation of SN bank accounts

Fiscal decentralization: expenditure

- Central: typically – Defense, foreign affairs, international trade
- State/Local: typically – Primary service delivery such as health, education, agriculture, business regulation
- Many service areas may be split between two or more levels of government
- Note: Central govt may provide primary services at local level through parallel structures e.g. law & order

Fiscal decentralization: financing

- Revenue collection
 - Revenue assignments (often not called ‘tax’ even if it is)
 - Shared revenue – collected by central or SN govt
- Grants from higher level government
 - Unconditional block grants
 - Conditional block grants
 - Earmarked transfers – SN govt as an agent of CG
 - Transfers in kind
- Borrowing

Adaptation of PEFA Framework

- Two types of SN Assessments
 - **One SN entity** - **Primary Purpose:** inform entity's reform formulation & track progress: unrelated to national assessment: **Resource inputs are** high for each entity
 - **Sample of entities** - **Primary Purpose:** inform national reform formulation and donor fiduciary requirements: related to national assessment: **Resource inputs are** lower for each entity, but high in total
- For use at SN level some modifications needed to
 - Indicator set
 - Performance report

Modifications to PIs

- One additional indicator usually required: HLG-1
- Oversight indicators need careful consideration (audit and legislature) to distinguish national from local oversight
- Terminology in many indicators needs to be amended to align with local institutional structures

Additional Indicator – HLG-1

“Predictability of Central Government Transfers”

3 dimensions:

- Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter’s budget
- Annual variance between actual and estimated transfers of earmarked grants
- In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within 1 month of start of SN fiscal year)

Modifications to PFM-PR

Essential to include careful description of :

- Structure of general government, its levels & entities
- Legal & regulatory framework for sub-national government
- Intergovernmental relationship such as transfers, expenditure assignments and borrowing powers
- Institutional framework/structures at SN level
- Exact coverage of the SN level assessment

Observations on SN assessments

- Difficulties in making appropriate distinction between national and sub-national performance features
- Indicator HLG-1 not included
- Problems with scope of revenue indicators
- Misunderstanding scope of PI-8 and PI-9(ii)
- Local assessors/consultants with no prior PEFA experience

Issue of Guidance Note

- Guidance issued as Exposure Draft in March 2008
- Publicized on www.pefa.org
- Comments from practitioners and field work welcome
- Final guidelines to be completed when sufficient feedback has been received

Thank you for your attention



Structure of the Public Sector

