

The PFM Performance Measurement Framework

Simpler Case on Scope of an Assessment

Objective of the group work:

The following case is intended to provide understanding of the issues in deciding the scope of an assessment at the concept note stage of assessment planning. The case is meant to highlight the complexity of distinguishing the different levels of general government and making decisions as to what layers should be included in an assessment.

Information is provided on the structures of sub-national government in a country (typically to be included in a PFM Performance Report). The group will assess the comprehensiveness, relevance and adequacy of the information provided, and agree on the coverage of a planned assessment in accordance with the requirements of the PFM Performance Measurement Framework (June 2005), Clarifications to the Framework (September 2008) and the Guidelines for Application of the PEFA Performance Measurement Framework at Sub-National Government Level (exposure draft March 2008).

Required:

The group should answer the following questions:

1. Should LGAs be included in the scope of an assessment that is focused on central government operations? Explain rationale for your choice.
2. Is the information adequate to decide on which option to choose?
3. What should be the coverage of PI-18 on payroll management in each of the two options?

One person in each group should be chosen to report the findings of the group back to the plenary session. Reporting will be made in turn by each group, and other groups will be invited to comment.

Description of the Structure of Sub-National Government

Local Government Authorities (presently 100 urban municipal and rural districts) are established by law as legal entities, independent of central government. The LGAs are governed by councils, consisting of members entirely elected through free and fair elections. The LGAs are charged with the responsibility of providing primary government services such as primary education, primary health care, district roads, agricultural services, local business licensing etc.

About 85 percent of the LGAs' operations are financed by different types of transfers from the central government, amounting to some 25% of the central government budget expenditure. This demonstrates the low revenue base of the local governments that in fact is limited to small amounts of municipal taxes and service charges. LGAs do not have borrowing powers. In other words, the central government has delegated several of its functions to the LGAs while policy and financial aspects of these functions remain at the central level. The LGAs, therefore, in the PFM context, can be regarded as the extended arms of the central government's agencies.

The transfers from the central government to the LGAs are mostly sector-based; therefore, they can be classified as conditional grants. In other words, the LGAs must observe sector ceilings and limitations, but may implement with reasonable flexibility while following the central government's guidelines. In 2007/08 these transfers consisted of: Recurrent block transfers (60%), sector basket funds and ministerial subventions (10%), and development grants and funds (30%). Though under different names, almost all of these transfers are sector-based and fully conditional, with the exception of only 12% of recurrent block grants that is associated with a general purpose grant allocated for the improvement of the LGAs' administrative capacity.

A significant part of the recurrent grants consists of payment of staff employed in the districts, such as primary school teachers, health clinic staff and agricultural extension officers. The appointments, transfers, promotions and deployment of these staff groups are controlled by the central government and the payroll for them is prepared by the MOF and transmitted to the LGAs as part of the above mentioned grants for the districts to make payments to the individual staff members. Only the administrative staff, excluding the CEO, is appointed and funded by the LGAs own revenue collections.

Central government supervises LGAs through its Ministry of Regional Administration and Local Government. This ministry has regional offices that coordinate central and local government activities, approve LGA budgets and receive reports from LGAs on budget execution. The regional offices also supervise central government operations for services that have not been decentralized to LGAs - such as police and magistrate courts - which are managed by district offices under direct central government control.

LGAs' financial operations are regulated by a separate law and related regulations. They operate their own accounting systems, which are gradually being computerized, using systems and software similar to central government. LGA accounts are audited by the National Audit Office. The audit reports are submitted to the respective LGA councils and to the overseeing ministry, whereas a summary report is submitted to the national parliament. Parliament's Local Government Accounts Committee is responsible for scrutinizing the audit report.