

The PFM Performance Measurement Framework

Group Work on Tracking Performance Progress over Time

Objective of the exercises:

The following two cases are intended to provide understanding of the information needs and results presentation for comparison of two PFM performance assessments carried out with a few years' interval in the same country. Two indicator cases are given (**PI-11 and PI-14**).

Each group needs to:

- a. Judge if the scores for each indicator in each of the years appear to be correct and based on adequate information;
- b. Explain the changes that have taken place for each indicator and its dimensions;
- c. Assess if the changes in performance ratings are justified and if other factors have influenced the ratings;

For each indicator, information is provided on the state of affairs as assessed in July 2005 and in July 2007 respectively (as found in a PFM Performance Report where the data is condensed and well arranged). The scoring of the indicators and their dimensions are provided for each of the years. The group will assess if adequate information is provided to track performance from 2005 to 2007 and will identify what element of the indicator has changed and by how much to justify the change in the score.

The PFM Performance Measurement Framework should be referred to for the purpose of this exercise.

Note: Government fiscal year July 1st to June 30th applies to both these cases.

PI-11 Orderliness and participation in the annual budget process

2005 Assessment (PI-11)

(i) The existing budget calendar demonstrates several weaknesses. The different planning cycles (i.e. the project planning/PIP cycle, the aid cycle and the MTEF) are not aligned with the annual budget cycle to allow the development of a comprehensive, consistent and predictable budget. Overall, a rudimentary budget calendar exists but substantial delays are often experienced in its implementation, i.e. allowing budget entities too little time to complete detailed estimates **(Score: C)**.

(ii) During FY 2005/06-budget preparation, budget instructions were not issued until February and provided the budget entities with provisional individual ceilings for the next year. Due to this delay, budget entities started preparing their budget submissions based on previous year's ceilings, taking into account inflation. In March/April, final individual ceilings approved by Cabinet were made available to the budget entities **(Score: B)**.

(iii) The legislature usually approves the budget within two months of the start of the FY, but a delay of 3 months occurred for the FY 2004/05 budget, as a new government came to power **(Score: D)**.

2007 Assessment (PI-11)

(i) An updated calendar is not always provided and adhered to. For 2007/08 the Budget Call Circular was issued on 6th March with deadline of 31st March for submission of estimates, i.e. 3 weeks for budget preparation **(Score: C)**.

(ii) Clear and comprehensive guidelines are provided to ministries in the Budget Circular with formats and spreadsheets for budget preparation. The circular does not include ceilings, but these are approved by Cabinet and circulated to budget entities before the submission of the estimates to the Ministry of Finance **(Score: B)**.

(iii) The Budget has been presented to Parliament before the beginning of the fiscal year, in all years since 2004 when the current government came to power **(Score: A)**.

Indicator/Dimension	Score 2005	Score 2007	Is the ratings change justified? Explanation? (to be completed by the group)
(i) Existence of and adherence to a fixed budget calendar	C	C	
(ii) Guidance on the preparation of budget submissions	B	B	
(iii) Timely budget approval by the legislature	D	A	
Overall score =	D+	B	

PI-14 Effectiveness of measures for taxpayer registration and tax assessment

2005 Assessment (PI-14)

(i) There is a Taxpayer Identification Number (TIN) but the structure of the Revenue Authority (RA) by tax type rather than function makes linkages between different taxes difficult and linkages to other registration/licensing functions, e.g. business or residence permit, is weak **(Score C)**.

(ii) Penalties for non-compliance exist but are not considered to be effective in many cases, as penalties for tax evasion are not considered sufficiently tough and there is scope for evading both tax and penalty (tax collection is cited as one of the main corruption areas) **(Score D)**.

(iii) The Revenue Authority has tax audit sections but the effectiveness of their work and thus the RA's ability to collect taxes from all its citizens has been constrained by political interference **(Score D)**.

2007 Assessment (PI-14)

(i) Taxpayers remain registered in separate databases for individual taxes. However, the links between individual databases remain 'tentative' and further improvements can be made **(Score C)**.

(ii) In the case of income tax non-compliance, existing penalties for tax evasion remain particularly stringent (including a 3-year prison sentence). Therefore, it has proved difficult for the RA to seek enforcement through the courts. In the case of VAT penalties, compound interest rates are applied for late payment or non-submission of VAT returns or for fraud. The courts could also impose a penalty of 3 times the amount due. Nevertheless, the courts have often been unwilling to apply these penalties – especially in the case of those appearing to suffer from economic hardship, which again indicates that existing penalties are not as effective as they might be **(Score C)**.

(iii) The RA has established a separate unit for audit and investigations work. However, it is still too early to say whether these efforts to further enhance capacity will prove effective **(Score C)**.

Indicator/Dimension	Score 2005	Score 2007	Is the rating change justified? Explanation? (to be completed by the group)
(i) Controls in taxpayer registration system	C	C	
(ii) Effectiveness of penalties for non-compliance with registration and tax declaration	D	C	
(iii) Planning and monitoring of tax audit programs	D	C	
Overall score =	D	C	