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PEFA Methodology and Sub-National Governments: What Lessons for AFD?

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Foreword

PEFA methodology and sub-national governments¹ : What lessons for AFD?

The PEFA initiative

The PEFA (Public Expenditure and Financial Accountability) initiative, launched in December 2001, is the product of a partnership between the World Bank, the European Commission, the UK's Department for International Development (DFID), the Swiss State Secretariat for Economic Affairs (SECO), the French Ministry of Foreign and European Affairs (MAEE), Norway's Royal Ministry of Foreign Affairs and the International Monetary Fund (IMF). It is organized around a Steering Committee, composed of representatives of each of these institutions, which administers the program, and a Secretariat, which leads the initiative and implements the PEFA activities chosen by the Steering Committee.

The initiative's aim is to allow the countries and their technical and financial partners: *i)* to evaluate the performance of public finance management systems, and *ii)* to promote the implementation of reforms and capacity-building measures, in such a way that they:

- encourage the appropriation of reform programs by the country;
- reduce transaction costs;
- reinforce the harmonization of donor activities;
- permit monitoring of the evolution of the performance of public finance management over time;
- better consider development preoccupations and fiduciary aspects;
- lead to a better impact of reforms.

To reach these objectives, an evaluation methodology of the performance of public finance management was elaborated. In 2005, this work resulted in the writing and distribution of the "Public Financial Management Performance Measurement Framework."

This tool measures, over time, the performance of public finance measurement systems in countries which are in very different stages of development. It includes a series of high level indicators (31 indicators, 28 of which are related to public finance management and 3 of which concern donor practices) which measure and monitor the evolution in the performance of public finance management systems, procedures and institutions. It also contains a report on the performance of public finance management, integrating a reference framework synthesizing the evaluation of the performance of the public finance management as it results from the analysis of indicators.

Since its launch, nearly 250 evaluations, 70 concerning local governments, have been carried out in 134 countries.

Remarks and introductory precautions

1. The analysis proposed in the present document has certain limitations which must be pointed out.

The first concerns the great diversity in types of sub-national governments, and for a same denomination (municipalities, regions, provinces, Federal states, etc.), the diversity of applicable legal and regulatory principles in terms of public finance management termed "local."

The second concerns the spreading out of PEFA evaluation studies over time (from 2005 to 2010). The conclusions of this work could be modified if new evaluations were to be led verifying, for example, progress observed in domains where gaps had been noted.

The last point, related to the preceding one, concerns evaluation quality. Indeed, some were carried out during the implementation of the PEFA methodology.

Thus, certain assessments, or lack of assessments, could be subject to discussion.

Nonetheless, general trends appear, notably on the applicability of PEFA methodology to sub-national governments.

2. By November 2011, a total of 69 evaluations had been carried out at the sub-national level. The analysis concerns only the 56 evaluations performed by 2010 on these types of governments.
3. In the text, because of the wide diversity of governments evaluated, the term "sub-national government," closer in our view to the French model of decentralization, was chosen over that of "local authority." In any case, the analysis concerns sub-national governments on several continents, which requires a much broader approach.

Summary

The analysis of the application of the PEFA framework methodology to sub-national entities, developed here through the examination of 56 evaluation reports, and based on the practical experience of team-led projects at AFD, shows that it is globally adapted to decentralized governments.

Nonetheless, due to the institutional diversity of sub-national governments, the need to know the structure as well as the laws and rules governing decentralization and defining the responsibilities of sub-national entities is vital. Four observations result:

- the large diversity of governments, in terms of size, political and budgetary autonomy and capacity, requires a particularly detailed description of the institutional, legal and regulatory context of the government analyzed in the report produced at the outcome of the PEFA evaluation. Indeed, the role and the powers granted to the sub-national government will constitute the indispensable explanatory elements for the rating of the quantitative and qualitative indicators.
- in light of the different PEFA studies performed at the sub-national level, it appears that the adaptation of certain quantitative indicators of the PEFA methodology applied at this level distort the exercise. Therefore it is essential that the PEFA framework be completed, not modified, in order to apply to the financial performance of a local government.
- the application of the PEFA framework seems limited to governments with a real capacity to exercise their autonomy. That means that the government must

possess its own human and technical capacities to have real power over budgetary and financial management. In reality, this corresponds to the political and economic capitals at the heart of which the governing executive has the tools to plan its development, that is, plan its expenditures (equipment, current expenditures) on the basis of a realistic anticipation of its resources. The PEFA sub-national framework must be seen by the local government's technical and financial partners as a prerequisite step to the development and subsequent implementation of a capacity building program for budgetary and financial management whose impacts directly concern the local government but indirectly contribute to improving and strengthening the local public finance system.

- the adaptation of the PEFA framework to a local government widens the field of analysis. Indeed, the results are focused on the local government, but they also translate into the quality of that entity's financial relationship with the State (the forecasting of transfers and the quality of tax collection, for example). The PEFA framework is thus at the heart of the State-local government relationship. However, in the decentralization process, this relationship can be variable, notably in terms of the autonomy granted to sub-national governments. This reinforces the need to not modify the PEFA framework, for both the qualitative and quantitative indicators, in order to preserve a neutral, objective and sustainable tool measuring the quality of that relationship.

Introduction

Before determining whether the PEFA methodology is adapted to sub-national governments, the meaning of these terms should be discussed. Indeed, the sub-national level is composed of a great variety of entities: federated states inside a federal State, provinces, regions, districts, departments, municipalities, etc. Each of these entities has varying degrees of autonomy, and, depending on the legislation, entities bearing the same name can enjoy more or less broad powers in terms of public finance management.

The literature generally retains three (sometimes four) forms of decentralization:

- deconcentration, which consists of granting some competence to make certain decisions to agents who exercise their function in a determined territorial district while remaining subject to the hierarchical order of the central government. The inferior government levels (which can be simple administrative relays) are then *de facto* subordinated to the central government. Deconcentration generally aims to improve the operational effectiveness of central State actions within an administrative district;
- delegation, which designates the transfer of power and responsibility from the central State to often semi-autonomous entities in the domain of a well-defined responsibility. These entities which are incorporated and have an autonomous budget are generally accountable to the central State;
- finally, devolution, which is the most advanced form of decentralization, in the sense that it transfers competences and responsibilities to public officials who are elected by the citizens. Responsibilities and resources are transferred to the local powers (often territorial governments), which enjoy decisional autonomy in the way to use these resources in their domain of

competence and in the legally recognized administrative jurisdiction. Devolution goes hand in hand with political decentralization when the local powers must answer for their choices before elected assemblies, the effect of which is to encourage local democracy. Devolution is regularly merged with budgetary decentralization when it is accompanied by a clear division of financial relations and competences between levels of governments, which have the power to mobilize their financial resources (financial autonomy) while benefiting (for expenditures) from substantial budgetary autonomy.²

Similarly, federalism has several forms (Dafflon and Madiès, 2008):

- dual federalism is characterized by a clear separation of competences between government levels. In other words, the competences attributed to each level are exclusive. Dual federalism is very rare in practice;
- cooperative federalism is characterized by greater interdependence between government levels. Decisions are taken after a rather complex consultation process between territorial actors or public authorities: there is a close, ongoing decisional exchange between “the regions” and “the center.” A “vertical fragmentation” of competences results, with each government level making its contribution to the public policy which is established;
- competitive federalism is characterized by a competition between governments (local or regional) on the level of public policies;

² Adapted from Dafflon and Madiès (2008).

- executive federalism is characterized by the federal government retaining its responsibilities and competences for certain specific functions, but has them carried out by regional or local governments.

These different natures of decentralization and/or federalism will obviously have an impact on how public finances are managed.

These modes of constitutional or legal organization and of autonomy in the management of public policies make necessary – if one wishes to evaluate the performance of public finance management, an indispensable tool for the implementation of public strategies – an instrument adapted to all these circumstances.

The PEFA methodology was developed in 2005 to evaluate the public finance management performance of central States. With the acceleration of processes of decentralization (often encouraged by donors, who are conveyors of an enhancement of democracy), the question of applying PEFA methodology to sub-national governments naturally appeared as a relevant field of analysis, even indispensable in order to better understand and analyze the scope of the field of actors implicated in public management.

While some tests were carried out in 2005, it was in 2007 that evaluations began to be led at different levels of decentralization: federated states within a federal State (Brazil, India, Nigeria, Pakistan); city-provinces (Addis Ababa, district of Bogota); provinces (Ethiopia, Argentina); communities (Senegal: Dakar, Burkina Faso: Ouagadougou, Ghana);

cantons (Switzerland: Lucerne), etc. By October 2010, 56 evaluations of this type had been carried out.

Thus, it can be said that the implementation of the methodology has been a real success, yet several questions remain:

- even when applied with some adjustments for sub-national public governments, is the methodology adapted to them?
- what interests and benefits do they gain?
- what motivates their partners to accompany them through this process?
- what benefits and operational results can all stakeholders (governments and donors) gain from this commitment?

The PEFA framework has been applied several times at the sub-national level (69 evaluations as of November 2011, the present analysis concerning 56 of those), either in the context of the comprehensive PFM evaluation of a country (central and local administrations), or at the level of one or several governments. To achieve uniform usage which is adapted to the indicators, and to set up a proper basis to interpret the observations, it was decided to develop concrete and detailed directives to encourage the application of the framework to sub-national administrations.

While the evaluation framework for performance management is adapted to the level of central administrations,

1. Methodological considerations

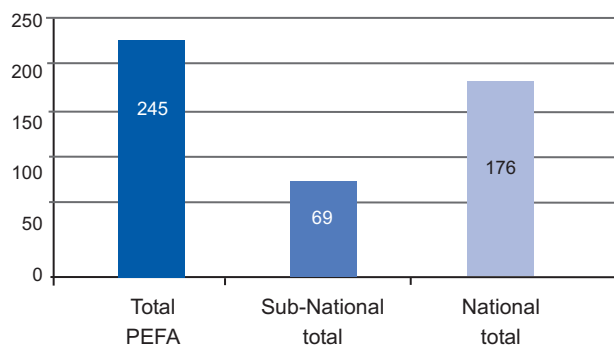
1.1. The PEFA Initiative

1.1.1. Some figures

The large majority of PEFA evaluations continue to be conducted at the central administration level. However, by November 2011, evaluations of 69 sub-national entities had

been carried out and others were in progress. Figures 1, 2 and 3 show the distribution of these evaluations.

Figure 1. Number of evaluations and distribution between central administrations and sub-national governments (November 2011 data)



Source: PEFA Secretariat; information reprocessed by the authors

Figure 2. Geographic distribution of the 56 sub-national government evaluations

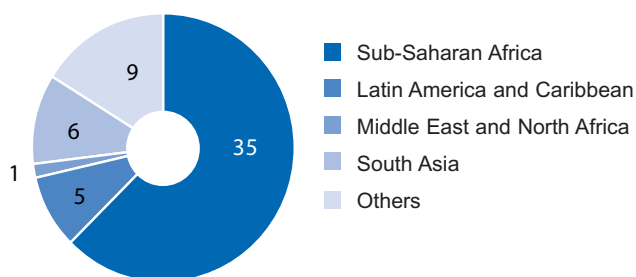
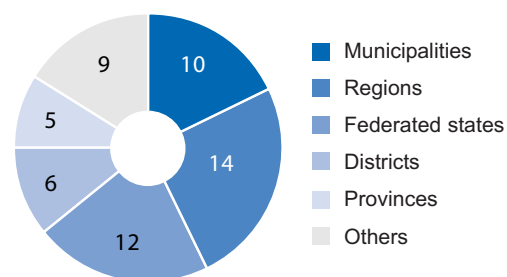


Figure 3. Distribution by type of sub-national government³



Source: PEFA Secretariat; information reprocessed by the authors

1.1.2. The PEFA methodology – reminders

The performance measurement framework of public finance management is an integrated monitoring framework rendering possible the supply of reliable data on the performance of public finance management (PFM) systems, procedures and institutions. When the evaluations led in application of this methodology are repeated⁴ (every three to five years), they also allow for an appreciation of this performance over time.

The PEFA PFM performance measurement framework is one of the elements in the reinforced approach which aims at supporting PFM reforms. The reinforced approach has three elements:

1. a country-led reform program, composed of a reform strategy and an action plan for public finance management;
2. a coordinated donor support program;
3. a common evaluation and monitoring framework, the measurement framework of the performance on public finance management.

The common evaluation and monitoring framework (generally called the PEFA framework) is composed of a series of high-level indicators to measure and follow up on the evolution of performance of PFM systems, procedures and institutions, as well as to report on PFM performance as it appears in the analysis of the indicators.

The PEFA framework identifies six essential dimensions of a transparent and organized PFM system:

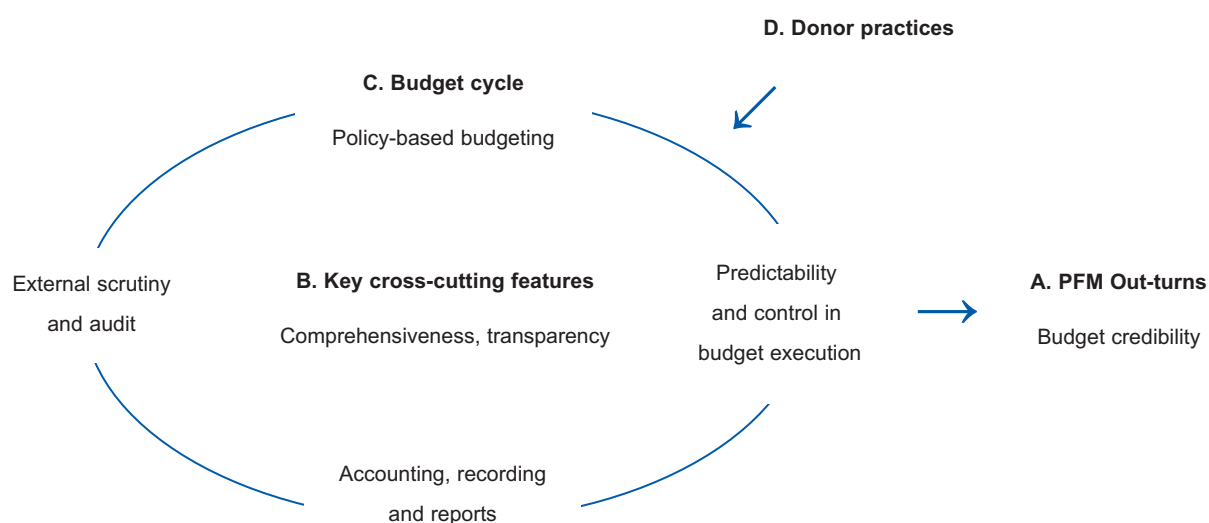
1. **credibility of the budget.** The budget is realistic and is executed as intended;
2. **comprehensiveness and transparency.** The budget and the oversight of fiscal risk are comprehensive, and fiscal and budget information is accessible to the public;
3. **policy-based budgeting.** The budget is prepared with due regard to public policies;
4. **predictability and control in budget execution.** The budget is implemented in an orderly and predictable manner, and there are arrangements for the exercise of control and stewardship in the use of public funds;
5. **accounting, recording and reporting.** Adequate records and information are produced, maintained and disseminated to meet decision-making control, management and reporting purposes;
6. **external scrutiny and audit.** Arrangements for the scrutiny of public finances and follow-up by relevant officials are in place.

The indicators

In view of the six essential dimensions, the series of high-level indicators measures the operating performance of the main elements of the PFM systems, procedures and

institutions, whether they concern the central administration, the legislature or the institutions responsible for auditing a country's public finances.

Schema 1. The six dimensions of a public finance management system⁵



Source: "Performance measurement framework" – Public Expenditure and Financial Accountability (PEFA Secretariat – 2005; revised January 2011, page 10)

The series of high-level indicators focuses on the key PFM elements, recognized as essential to the proper management of public finances in all countries.

The selected 28 indicators are split into three categories:

A. PFM system out-turns: the indicators used focus on the immediate results of the PFM system in terms of actual expenditures and revenues by comparing them to the original approved budget, as well as level of and changes in expenditure arrears.

B. Cross-cutting features of the PFM system: these indicators concern the comprehensiveness and transparency of the PFM system across the whole of the budget cycle.

C. Budget cycle: these indicators measure the performance of the key systems, processes and institutions within the budget cycle of the central government.

⁵ Can be consulted at this site: <http://siteresources.worldbank.org/PEFA/Resources/PMF-French-FinalSZ.pdf>

1. Methodological considerations

In addition to the indicators of country PFM performance, this framework also includes:

- D. Donor practices: these three indicators (D1, D2 and D3) concern elements of donor practices which impact the performance of country PFM systems.

Rating method

The rating system retained by the PEFA program is based on a four-point ordinal scale (A, B, C, D).⁶ In some cases, an arrow can be used. This arrow serves to indicate:

- (i) a performance evolution which does not appear in the rating, and/or
- (ii) a recent system change which surely constitutes an improvement but whose effects are imperceptible at the time of evaluation. This supplementary indication seems to be rarely used.

Performance is measured with regards to a calibration based on a “good internationally recognized practice” representing the score A. It is not necessarily equivalent to the international “best practice” and not necessarily an international standard determined by an international institution. The score D, in turn, represents a mediocre/unsatisfactory performance.

The performance report

The structure and the content of this report can be summarized as follows:

- a succinct evaluation (at the beginning) uses the analysis on the basis of the indicators to provide an overall evaluation of the PFM system with regards to the six essential dimensions in PFM performance;

- an introductory section presenting the context and preparation process of the report, stating the proportion of public expenditures covered by the report;
- a section analyzing questions specific to the country studied, necessary to understand the evaluation based on the indicators and the comprehensive evaluation of the PFM performance. It includes a brief reminder of the country’s economic situation, a description of budget results in terms of budgetary discipline and allocation of strategic resources, as well as a description of the legal and institutional PFM framework;
- the body of the report presenting the evaluation of the PFM performance, the processes and the institutions on the basis of the indicators, and describing reforms either ongoing or recently begun by the national authorities (in evaluating the institutional factors which will no doubt be a factor in the planning and implementation of the reforms).

The indicators and report produced at the time of their evaluation form a whole, and the ratings alone are insufficient to appreciate the PFM performance.

1.1.3. The uses of the PEFA framework

The measurement of fiduciary risk

PEFA evaluations, which among other things permit checking whether PFM systems are effective, can serve to measure the confidence (fiduciary risk) which can be placed in these systems. They thus provide the initial analysis elements to determine what form of intervention to retain.

1. Methodological considerations

In the French conception,⁷ applied fiduciary risk refers to the risk that:

- budgetary resources are not used in compliance with forecasts and in a transparent way;
- budgetary expenditures do not follow effective execution and oversight procedures;
- expenditure operations are not the object of regular and adequate accounting recording, and of transparent financial reporting;
- budgetary expenditures are not subject to appropriate outside auditing.

Indeed, the use of national procedures and systems (OECD, DAC, 2008)⁸ requires having sufficient confidence in the national budget and accounting procedures and, consequently, a good understanding of the performance of these systems and of fiduciary risk. As an example, budget support uses national public finance procedures (resource allocation, procurement, expenditure chain, accounting, control). The sphere of activity shifts from the direct management of funds towards the dialogue on public policies implemented by the country, and the analyses of the functionality of the systems, company reforms and the results obtained.

The measurement of fiduciary risk is intended to be a tool for analyzing national budgetary and accounting systems as well as a decision-making tool, in the realm of the processing and implementation of both comprehensive and sectoral budget support. It is also important, between two PEFA evaluations, to consider any favorable or unfavorable

evolutions occurring since the last rating in the final decision whether to resort to budget support, and thus to national budgetary and accounting systems.

Moreover, fiduciary risk constitutes but one of the elements in the intervention mode. Weak or moderate fiduciary risk does not automatically lead to aid in the form of budget support, and conversely, high or very high risk does not necessarily prevent recourse to such support; this decision depends upon the objectives of the aid and upon other eligibility conditions (quality of public policies, coordination, macroeconomic environment, etc.).

The decisions to use budget support, and/or control mechanisms on the use of funds may differ among donors. In a perspective of harmonization and coordination, the analysis of fiduciary risk and the resulting decisions concerning the use of national systems should nonetheless strive towards common practices.

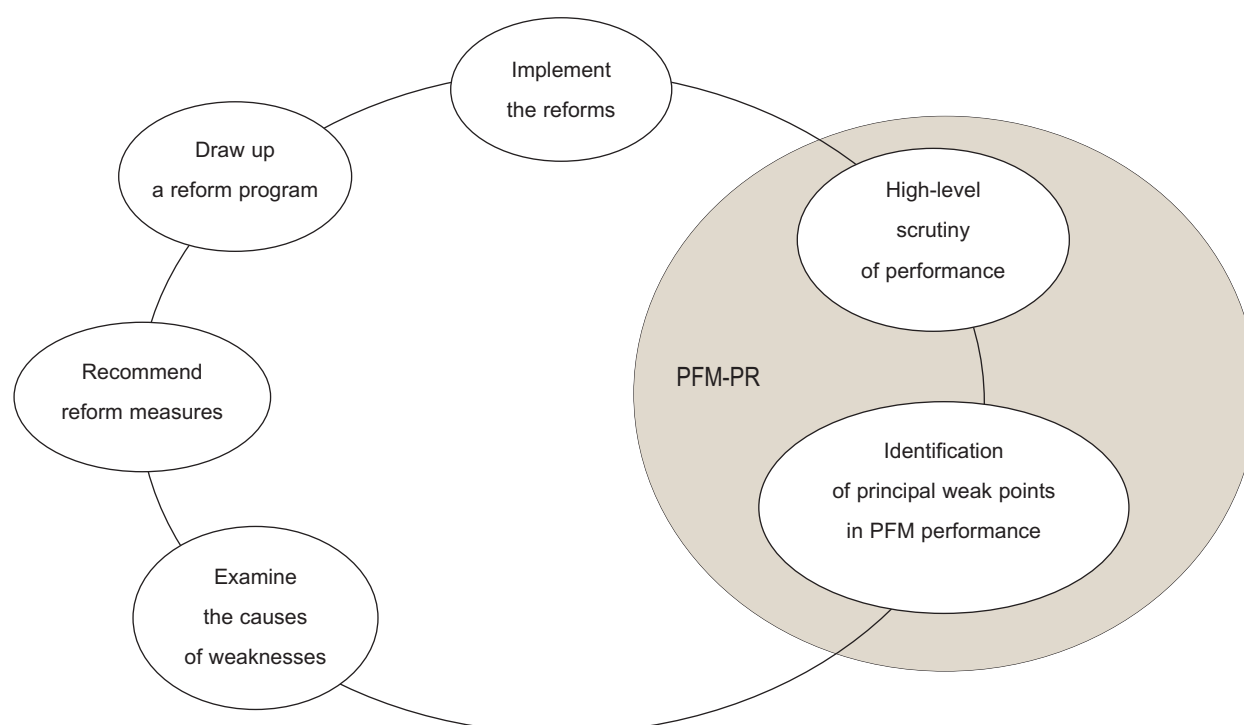
The use of the PEFA methodological framework in the development of a reform program

The PEFA program, as we mentioned above, is part of what is now called the reinforced approach to supporting the reform of PFM.

The development of a reform plan managed by the country itself and the means which donors are apt to offer countries to accompany such a plan constitute one of the essential uses of PEFA reports.

Indeed, a PEFA report gives no plan of action for implementing reforms, but is part of a cycle which can be diagrammed (see Schema 2).

Schema 2. Place of the PEFA PFM performance report (PFM-PR) in the reform cycle



Source: PEFA secretariat

This diagram shows that PFM performance reports are not ends in themselves, but are necessary tools for determining the strengths and weaknesses of a system, in order, where possible, to rectify the observed shortcomings. The reports produced are tools which must thus serve to elaborate concerted plans for public finance reform.

- The elaboration of a reform plan and its monitoring over time

The strengthening of a budget system must aim at improving its performance. The optimal combination of measures and instruments for reaching this aim rests on the consideration of several elements, notably capacities in human resources, the strengths and weaknesses of the budget system, the administrative culture and the institutional environment – quality of governmental coordination, executive-legislature relations, capacity of legislators to

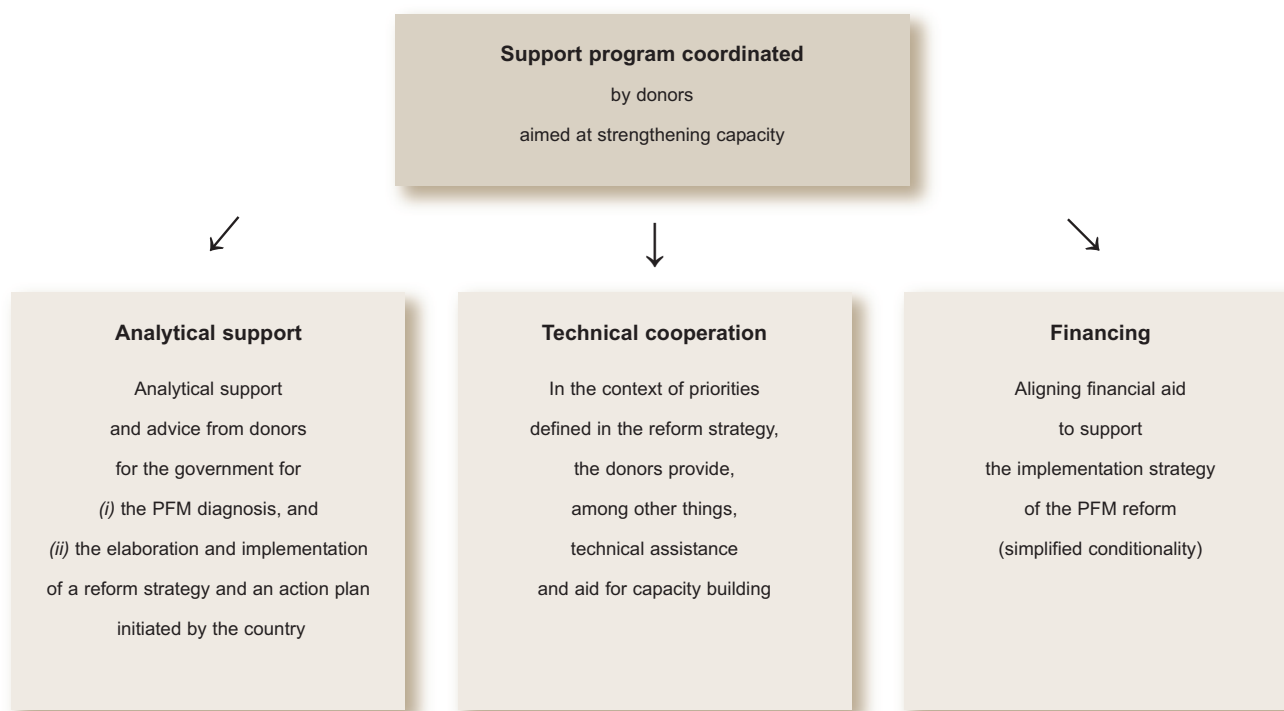
control the budget (Tommasi, 2009) – and the functioning of the political system.

- A coordinated support program. The adaptation of the support to the situation at hand

Thus the PEFA evaluation alone cannot suffice. Indeed, the diagnostic results must, if necessary, be taken into account in the support strategy which the donor community is apt to implement to strengthen local capacity.

⁹ Adapted from PEFA Secretariat presentations.

Schema 3. The coordinated support program



Source: PEFA Secretariat

The analytical support will occur upstream (diagnosis and development of a strategy and a reform plan) but also downstream and throughout the reform process. The ensuing advice must not, as it has sometimes been observed, replace the government's authority and the priorities that it wishes to define.

Thus, technical cooperation, in the context of the priorities set in the reform strategy, must allow for the provision of technical assistance to better understand the different reform phases to implement, for example, and to be both an immediate and long-term capacity building tool.

Analytical support, like capacity building, cannot occur without financing which is aligned with the PFM reform implementation strategy.

The final objective of this coordinated support is to give the concerned governments access to modes of financing which are more flexible than classic aid projects, and above all to allow them to better implement the public policies for which they are responsible.

1.2. The PEFA framework for sub-national entities

1.2.1. The PEFA indicators and their applicability to sub-national governments. The adjustments made to the initial methodology

The PEFA framework has been applied several times at the sub-national level (69 evaluations as of November 2011, the present analysis concerning 56 of those), either in the context of the comprehensive PFM evaluation of a country (central and local administrations), or at the level of one or several governments. To achieve uniform usage which is adapted to the indicators, and to set up a proper basis to interpret the observations, it was decided to develop concrete and detailed directives to encourage the application of the framework to sub-national administrations.

While the evaluation framework for performance management is adapted to the level of central administrations, the wide diversity of sub-national entities may be one of the reasons for the inapplicability of this framework. In the execution of evaluations based on the PEFA methodology, two factors must be taken into account: the definition of sub-national entities and the way their PFM is organized, notably the relations these entities have with the central State.

- Definition of sub-national entities. The IMF's Government Finance Statistics Manual

The guidelines set out by the PEFA program, drawn from the IMF's government finance statistics manual (2001), distinguish three levels of sub-national administration: national administration, State (federated), provincial or regional administrations, and local administrations.

1. Methodological considerations

Table 1. The adaptation of the indicators to sub-national entities

Indicators		Observations
PI-1	Aggregate expenditure out-turn compared to original approved budget	Can be applied with no revision
PI-2	Composition of expenditure out-turn compared to original approved budget	Can be applied with no revision
PI-3	Aggregate revenue out-turn compared to original approved budget	It is suggested that the portion of a sub-national government's share of revenues that is collected by the sub-national government be included in domestic revenue, but that the portion collected by the central government (and therefore due to sub-national governments) should be treated in the same way as central transfers.
PI-4	Stock and monitoring of expenditure payment arrears	Can be applied with no revision
PI-5	Classification of the budget	Can be applied at the sub-national level, but the minimum requirements should be changed slightly
P-6	Comprehensiveness of information included in budget documentation	Can be applied, but certain budget documentation may not be relevant for a sub-national government
PI-7	Extent of unreported government operations	Can be applied provided that if, in certain cases (if the sub-national government cannot borrow), the reference "projects financed thanks to loan support" is deleted
PI-8	Transparency of inter-governmental fiscal relations	Can be applied in a sub-national assessment but should refer to lower levels of government (where relevant) in that particular jurisdiction
PI-9	Oversight of aggregate fiscal risk from other public sector entities	The application of the first dimension of this particular indicator will depend on whether the sub-national government has responsibility for any autonomous government agency or public enterprise.
PI-10	Public access to key fiscal information	Can be applied with no revision. Integrate information on tax and fee collection.
PI-11	Orderliness and participation in the annual budget process	Can be applied with no revision
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	Can be applied with no revision
PI-13	Transparency of Taxpayer Obligations and Liabilities	This indicator will apply only to sub national governments that raise revenue through tax as opposed to user fees and charges. Application of these indicators would also not be relevant in the case of revenue sharing arrangements under which the central revenue authority collects taxes on behalf of sub-national governments.

1. Methodological considerations

Indicators		Observations
PI -14	Effectiveness of measures for taxpayer registration and tax assessment	This indicator will apply only to sub national governments that raise revenue through tax as opposed to user fees and charges. Application of these indicators would also not be relevant in the case of revenue sharing arrangements under which the central revenue authority collects taxes on behalf of sub-national governments.
PI -15	Effectiveness in collection of tax payments	This indicator will apply only to sub-national governments that raise revenue through tax as opposed to user fees and charges. Application of these indicators would also not be relevant in the case of revenue sharing arrangements under which the central revenue authority collects taxes on behalf of sub-national governments.
PI -16	Predictability in the availability of funds for commitment of expenditures	Can be applied with no revision
PI -17	Recording and management of cash balances, debt and guarantees	Can be applied with no revision. Any implications of having a single account for the whole of government on service delivery effectiveness at the SN level should be described.
PI -18	Effectiveness of payroll controls	Can be applied with no revision, but will depend upon the administrative responsibility for the payroll.
PI -19	Competition, value for money and controls in procurement	Can be applied with no revision. The application of the three dimensions of the indicator will depend on the scope of the procurement legislation and the type of procurement oversight/reporting mechanism that is in place.
PI -20	Effectiveness of internal controls for non-salary expenditure	Can be applied with no revision
PI -21	Effectiveness of internal audit	Can be applied with no revision
PI -22	Timeliness and regularity of accounts reconciliation	Can be applied with no revision
PI -23	Availability of information on resources received by service delivery units	Can be applied with no revision
PI -24	Quality and timeliness of in-year budget reports	Can be applied with no revision
PI -25	Quality and timeliness of annual financial statements	Can be applied with no revision
PI -26	Scope, nature and follow-up of external audit	Can be applied with no revision. In applying the indicator at the sub-national level, the first issue to address is which audit entity has responsibility for carrying out audits at the sub-national level.
PI -27	Legislative scrutiny of the annual budget law	Can be applied with no revision. In some countries, the minimum requirements for dimension (i) may not be relevant in the review of fiscal policies of local governments

1. Methodological considerations

Indicateurs		Observations
PI -28	Legislative scrutiny of external audit reports.	Can be applied with no revision. This indicator should be assessed against the activities of the sub-national legislature.
D-1	Predictability of direct budget support	Can be applied with no revision
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	Can be applied with no revision
D-3	Proportion of aid that is managed by use of national procedures	Can be applied with no revision

Source: "Guidelines for application of the PEFA Performance Measurement Framework at Sub National Government Level." PEFA Secretariat.

Moreover, these guidelines propose the creation of a new indicator reflecting the practices of the central administration: HLG-1 (Higher Level of Government). This indicator will measure the predictability of transfers from higher-level administration. It will check using three dimensions:

- i) annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the sub-national entity for inclusion in the latter's budget;
- ii) annual variance between actual and estimated transfers of earmarked grants;
- iii) in-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within one month of the start of the sub-national fiscal year).

This indicator, we will see, is not necessarily adapted to all categories of sub-national governments.

1.2.2. Some results from the application of the methodology to decentralized entities

Several rating difficulties noted

In some cases, no score could be attributed to an indicator. It should simply be noted why this is the case. In everyday practice, three types of scoring absence are common: NR (not rated), for insufficient information; NA (not applicable), for particular cases, notably shared responsibilities, for example, between central administration and decentralized entities; NU (not used), i.e. not evaluated, for reasons which would normally be clarified.¹² The report must explain the impossibility for scoring an indicator or its component.

A good way to ensure the adaptability of the indicators to sub-national situations is to check the frequency of use and its variation, according to the category of sub-national government.

¹² See annex 1. Method to follow for indicators without notes PEFA Secretariat (2011): <http://siteresources.worldbank.org/PEFA/Resources/NoScoreMethodologyforWebsiteFR.pdf>

1. Methodological considerations

Indeed, beyond the interest of this distribution, in order to measure the quality of local public finance management, the frequency of the rating of indicators “measured” NA, NR

or NU can show the adaptability of the PEFA indicators to a local context. Table 2 recapitulates the frequency of the ratings.

Table 2. Distribution of the ratings according to the indicators for 56 local level entities

Indicators*	A	B+	B	C+	C	D+	D	NA	NR	NU
PI-1	12	0	6	0	8	0	29	0	1	0
PI-2	8	0	6	0	6	0	33	0	3	0
PI-3	22	0	5	0	4	0	22	1	1	1
PI-4	10	5	3	6	2	5	10	7	8	0
PI-5	23	0	5	0	17	0	11	0	0	0
PI-6	19	0	17	0	13	0	7	0	0	0
PI-7	13	1	8	0	11	7	6	0	10	0
PI-8	10	8	9	9	3	3	3	3	7	1
PI-9	2	2	1	4	13	5	11	9	8	1
PI-10	5	1	20	0	21	0	9	0	0	0
PI-11	15	5	9	6	5	7	3	0	6	0
PI-12	1	2	4	5	10	14	19	0	1	0
PI-13	6	4	16	9	7	6	6	0	0	2
PI-14	3	1	6	2	15	17	6	1	3	2
PI-15	1	3	1	2	9	25	5	2	6	2
PI-16	16	6	1	5	1	6	16	0	5	0
PI-17	8	2	14	2	4	9	4	7	5	1
PI-18	11	11	2	13	6	9	2	0	2	0
PI-19	4	0	6	14	13	10	6	0	1	2
PI-20	12	3	2	9	8	17	4	1	0	0
PI-21	2	7	2	8	6	7	15	1	8	0
PI-22	7	10	18	8	6	1	3	0	2	1
PI-23	15	0	10	0	6	0	23	1	1	0
PI-24	9	5	3	15	4	8	12	0	0	0
PI-25	9	7	4	10	6	16	4	0	0	0
PI-26	1	4	4	10	2	20	7	0	8	0
PI-27	5	7	3	9	2	28	1	0	1	0
PI-28	3	7	3	11	2	9	16	1	4	0
D-1	4	0	0	1	1	3	6	19	6	16
D-2	4	2	0	1	1	1	14	11	6	16
D-3	5	0	2	0	8	0	9	11	6	15
HLG-1	2	0	0	0	7	2	5	0	0	40
Total	266	103	190	159	227	236	327	75	109	100

* Indicators detailed in Table 1.

Source: data compiled and reprocessed by the authors.

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In Table 2, it appears that for 40 of the 56 evaluated entities, the measurement of the indicator HLG-1 is NU, raising questions about its relevance, or perhaps, about the understanding of its definition.

To verify relevance, it must be collated with the types of evaluated governments. Tables 3, 4, 5 and 6 show a distribution of these same ratings by type of entity.¹³

Table 3. Distribution of ratings by type of entity (number)

Entities	A	B+	B	C+	C	D+	D	NA	NR	NU	Total
Municipalities	94	7	73	19	144	54	278	112	90	139	1 010
Regions	254	25	101	37	131	56	141	133	39	497	1 414
States	202	30	183	36	185	67	344	9	38	118	1 212
Districts	67	8	58	14	62	10	40	-	28	319	606
Provinces	86	10	116	27	103	20	93	-	12	38	505
Others	318	23	115	27	102	28	124	45	53	74	909

Note: the two numbers in boldface indicate the most significant and the most numerous cases of a rating.

Source: data compiled and reprocessed by the authors.

Table 4. Distribution of ratings by type of entity (percentage)

Entities	A	B+	B	C+	C	D+	D	NA	NR	NU	Total
Municipalities	9,31	0,69	7,23	1,88	14,26	5,35	27,52	11,09	8,91	13,76	100
Regions	17,96	1,77	7,14	2,62	9,26	3,96	9,97	9,41	2,76	35,15	100
States	16,67	2,48	15,10	2,97	15,26	5,53	28,38	0,74	3,14	9,74	100
Districts	11,06	1,32	9,57	2,31	10,23	1,65	6,60	0,00	4,62	52,64	100
Provinces	17,03	1,98	22,97	5,35	20,40	3,96	18,42	0,00	2,38	7,52	100
Others	34,98	2,53	12,65	2,97	11,22	3,08	13,64	4,95	5,83	8,14	100

Note: the two numbers in boldface indicate the most significant and the most numerous cases of a rating.

Source: data compiled and reprocessed by the authors.

This distribution makes it possible to check the adaptability of the performance indicators to different types of governments. It thus appears that regions and districts are the entities where the indicators seem the least relevant (with respectively 35.15 and 52.64% of NU indicators). The organization and operation of the finances of these structures must be checked, both from the perspective of the institutional organization of the countries concerned and

the degree of autonomy of the sub-national administrations, in order to analyze the reasons that the evaluators were unable to attribute a conclusive rating. Furthermore, the distribution of ratings by large dimensions of the PFM cycle (see Diagram 4. The six dimensions of a public finance management system) show the sectors where the rating is the most difficult to carry out. Table 5 provides this distribution.

¹³ This ranking of governments was established by the authors from the title and/or content of the reports analyzed.

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Table 5. Distribution of ratings by PFM dimension

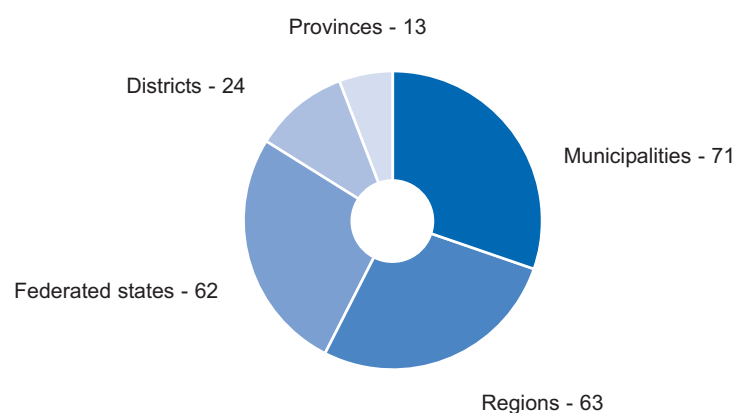
Dimensions	A	B+	B	C+	C	D+	D	NA	NR	NU
Budget credibility (PI-1 to 4)	52	5	20	6	20	5	94	8	13	1
Coverage and transparency (PI-5 to 10)	72	12	60	13	78	15	47	12	25	2
Budget cycle (PI-11 to 28)	130	84	108	138	119	211	157	14	53	50
Budgeting based on public policies (PI-11 and 12)	16	7	13	11	15	21	22	0	7	0
Predictability and monitoring of budget execution (PI-13 to 21)	63	37	50	64	69	106	64	12	30	9
Accounting, recording of information and financial reports (PI-22 to 25)	40	22	35	33	22	25	42	1	3	1
Oversight and external auditing (PI-26 to 28)	9	18	10	30	6	57	24	1	13	0
Donor practices (D-1 to 3)	13	2	2	2	10	4	29	41	18	47
Predictability of transfers from higher level government (HLG-1)	2	0	0	0	7	2	5	0	0	40

Source: data compiled and reprocessed by the authors.

Table 6. Distribution by indicator and type of government for non-rated indicators

	PI-1	PI-2	PI-3	PI-4	PI-7	PI-8	PI-9	PI-11	PI-12	PI-13	PI-14	PI-15	PI-16	PI-17	PI-18	PI-19	PI-20	PI-21	PI-22	PI-26	PI-28	D-1	D-2	D-3	HLG-1	
Municipalities NA				1			2								1						1	8	2	2		
Municipalities NR				2	5	5	5	5					5	5	1			5		5	1	2	2	2		
Municipalities NU																			1						3	
Regions NA				6			6				1		6				1	1					7	7	7	
Regions NR	1	1	1		1		1			3	3					1									7	
Regions NU											1												2			
States NA				1								1														
States NR				5	3	2	1	1	1			1						1	1				9	10	9	12
States NU				1												1										
Districts NA																										
Districts NR																							4	4	4	
Districts NU																							2	2	2	6
Provinces NA																										
Provinces NR				1														1		1		1			4	
Provinces NU							1			1	1	1		1												
Total	1	1	3	15	9	7	16	6	1	1	5	7	5	13	1	3	1	8	2	6	2	35	27	26	32	

Source: data compiled and reprocessed by the authors.

Figure 4. Distribution of non-ranked indicators by type of government

Source: data compiled and reprocessed by the authors.

Figure 4 shows that three of the five types of sub-national entities examined alone represent more than 84% of the sectors with non-rated indicators. For municipalities and regions where PFM methods can vary, this situation does not seem strange. However, this finding is more surprising for federated States where one would think the applied

regulatory corpus is normally similar to and coherent with that of the federal State of which they are a part.

Table 7 presents, in percentages, the indicators for which data is the most difficult to obtain.

Table 7. Percentage of unmeasured indicators

Indicators (as percentages)		Municipalities	Regions	Federated States	Districts	Provinces
PI-1	Aggregate expenditure out-turn compared to original approved budget	0,00	100,00	0,00	0,00	0,00
PI-2	Composition of expenditure out-turn compared to original approved budget	0,00	100,00	0,00	0,00	0,00
PI-3	Aggregate revenue out-turn compared to original approved budget	0,00	33,33	66,67	0,00	0,00
PI-4	Stock and monitoring of expenditure payment arrears	20,00	40,00	33,33	0,00	6,67
PI-7	Extent of unreported government operations	55,56	11,11	33,33	0,00	0,00
PI-8	Transparency of Inter-Governmental Fiscal Relations	71,43	0,00	28,57	0,00	0,00

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		Municipalities	Regions	Federated States	Districts	Provinces
PI-9	Oversight of aggregate fiscal risk from other public sector entities	43,75	43,75	6,25	0,00	6,25
PI-11	Orderliness and participation in the annual budget process	83,33	0,00	16,67	0,00	0,00
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	0,00	0,00	100,00	0,00	0,00
PI-13	Transparency of Taxpayer Obligations and Liabilities	0,00	0,00	0,00	0,00	100,00
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	0,00	80,00	0,00	0,00	20,00
PI-15	Effectiveness in collection of tax payments	0,00	57,14	28,57	0,00	14,29
PI-16	Predictability in the availability of funds for commitment of expenditures	100,00	0,00	0,00	0,00	0,00
PI-17	Recording and management of cash balances, debt and guarantees	46,15	46,15	0,00	0,00	7,69
PI-18	Effectiveness of payroll controls	100,00	0,00	0,00	0,00	0,00
PI-19	Competition, value for money and controls in procurement	0,00	66,67	33,33	0,00	0,00
PI-20	Effectiveness of internal controls for non-salary expenditure	0,00	100,00	0,00	0,00	0,00
PI-21	Effectiveness of internal audit	62,50	12,50	12,50	0,00	12,50
PI-22	Timeliness and regularity of accounts reconciliation	50,00	0,00	50,00	0,00	0,00
PI-26	Scope, nature and follow-up of external audit	83,33	0,00	0,00	0,00	16,67
PI-28	Legislative scrutiny of external audit reports.	100,00	0,00	0,00	0,00	0,00
D-1	Predictability of direct budget support	28,57	20,00	31,43	17,14	2,86
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	14,81	25,93	37,04	22,22	0,00
D-3	Proportion of aid that is managed by use of national procedures	15,38	26,92	34,62	23,08	0,00
HLG-1	Predictability of central government transfers	9,38	21,88	37,50	18,75	12,50

Note: the percentages in blue indicate the most significant and numerous occurrences of a rating.

Source: data compiled and reprocessed by the authors.

Table 8. Non-measured indicators (highest percentage)

Indicators (as percentages)		10 Municipalities	14 Regions	12 Federated States	6 Districts	5 Provinces
PI-1	Aggregate expenditure out-turn compared to original approved budget	0	7	0	0	0
PI-2	Composition of expenditure out-turn compared to original approved budget	0	7	0	0	0
PI-3	Aggregate revenue out-turn compared to original approved budget	0	7	17	0	0
PI-4	Stock and monitoring of expenditure payment arrears	30	43	42	0	20
PI-7	Extent of unreported government operations	50	7	25	0	0
PI-8	Transparency of Inter-Governmental Fiscal Relations	50	0	17	0	0
PI-9	Oversight of aggregate fiscal risk from other public sector entities	70	50	8	0	20
PI-11	Orderliness and participation in the annual budget process	50	0	8	0	0
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	0	0	8	0	0
PI-13	Transparency of Taxpayer Obligations and Liabilities	0	0	0	0	20
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	0	29	0	0	20
PI-15	Effectiveness in collection of tax payments	0	29	17	0	20
PI-16	Predictability in the availability of funds for commitment of expenditures	50	0	0	0	0
PI-17	Recording and management of cash balances, debt and guarantees	60	43	0	0	20
PI-18	Effectiveness of payroll controls	10	0	0	0	0
PI-19	Competition, value for money and controls in procurement	0	14	8	0	0
PI-20	Effectiveness of internal controls for non-salary expenditure	0	7	0	0	0
PI-21	Effectiveness of internal audit	50	7	8	0	20
PI-22	Timeliness and regularity of accounts reconciliation	10	0	8	0	0
PI-26	Scope, nature and follow-up of external audit	50	0	0	0	20
PI-28	Legislative scrutiny of external audit reports	20	0	0	0	0

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Indicators (as percentages)		10 Municipalities	14 Regions	12 Federated States	6 Districts	5 Provinces
D-1	Predictability of direct budget support	100	50	92	100	20
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	40	50	83	100	0
D-3	Proportion of aid that is managed by use of national procedures	40	50	75	100	0
HLG-1	Predictability of central government transfers	30	50	100	100	80

Note: the percentages in blue indicate the most significant and numerous occurrences of a rating.

Source: data compiled and reprocessed by the authors.

Of the five sub-national entity categories studied, the non-rated, non-evaluated or non-used indicators are detailed in Table 9.

Table 9. Frequency of unmeasured indicators by sub-national government

Indicators	Labeled	Municipalities	Regions	Federated States	Districts	Provinces	Frequency
Budget credibility							
PI-4	Stock and monitoring of expenditure payment arrears	x	x	x		x	4
Coverage and transparency							
PI-7	Extent of unreported government operations	x	x	x			3
PI-8	Transparency of Inter-Governmental Fiscal Relations	x	x	x			3
PI-9	Oversight of aggregate fiscal risk from other public sector entities	x	x	x		x	4
Budget cycle							
Predictability and control in budget execution							
PI-15	Effectiveness in collection of tax payments		x	x		x	3
PI-17	Recording and management of cash balances, debt and guarantees	x	x			x	3
PI-21	Effectiveness of internal audit	x	x	x		x	4

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Indicators	Labeled	Municipalities	Regions	Federated States	Districts	Provinces	Frequency
Donor practices							
D-1	Predictability of direct budget support	x	x	x	x	x	5
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	x	x	x	x		4
D-3	Proportion of aid that is managed by use of national procedures	x	x	x	x	x	5
Predictability of central government transfers							
HLG-1	Predictability of central government transfers	x	x	x	x	x	5

Note: this table does not account for frequency lower than 3.

Source: data compiled and reprocessed by the authors.

The analysis of these rating difficulties

Detailed analysis of the PEFA sub-national government evaluation reports provides two explanations for why the indicators are not rated:

- a neutralization of the indicator, ill-adapted due to the organization of the system and/or the form of the sub-national entity;
- an absence of tangible proof or a degraded system, itself constituting qualitative information.

More precisely, the reasons given in the reports for not applying the alphabetical rating essentially concern the indicators compiled in Table 9.

First and foremost, an examination of the indicators concerned shows that the indicators related to donor practices are, for the near totality of the governments analyzed, unmeasured (whatever the comment made). The same is true for the indicators concerning what, for simplicity's sake, we will here call *fiscality*. We will return to these two dimensions more precisely.

The examination of hard-to-evaluate indicators turns up the following reasons:

- PI-4 - Stock and monitoring of expenditure payment arrears

It is, aside from the indicators concerning donor practices, the indicator which is the most difficult to measure, principally due to the deficiency of existing information. Indeed, in some cases, there is no monitoring of arrears, meaning their level cannot be determined. In at least one case, this indicator is not used due to the vast regulatory corpus on budget procedures and/or procurement; and the consultants therefore decided that this indicator was unmeasurable. Sometimes inside of federal States, the federated States have widely contrasting situations, thus determining whether monitoring of arrears stock is performed or not.

Generally speaking, the indicator is often not rated due to the absence of convincing proof of the existence of arrears. Consequently it appears – and beyond the particular problem of possible delays in credit transfers from the central government – perfectly applicable to the local context.

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- PI-7 Extent of unreported government operations

Expenditures not recorded in the budget are often those entrusted to autonomous or semi-autonomous agencies, over which the sub-national government has authority and/or control. Such agencies would be, for example, hospitals, schools, industrial or commercial State-owned establishments, management delegated to private-sector entities, etc.

For 50% of municipalities, this indicator is not measured. The explanations in the reports examined cite a lack of information, making measurement impossible. The reports in question indicate that unreported operations are probably not significant.

Nonetheless, the indicator appears well-adapted, despite sizeable weaknesses in the management of this type of operation and in monitoring autonomous agencies under municipal control.

As for federated States – where for 33% of them indicator PI-7 is not measured – there is an absence of information from parastatal entities, making it impossible to measure the amounts corresponding to unreported operations. However, this essentially concerns States belonging to a same country. Other geographies generate perfectly acceptable scores. Here too the indicator seems adapted, but the absence of ratings reveals public finance management weaknesses which would need to be rectified.

- PI-8 Transparency of inter-governmental fiscal relations

This indicator measures the effectiveness of credit allocations, from the center (the sub-national governments) to the periphery (entities benefiting from transfers). It is not necessarily adapted in all cases. For francophone municipalities it is, but not necessarily for Anglophone municipalities of the same sort where, in some cases, no transfer from the center to the periphery occurs. It thus seems necessary to adapt it to the circumstances at hand.

For 17% of federated States, this indicator is not measured either, due to the non-implementation of these transfers.

The indicator appears adapted, but the rules are not applied.

- PI-9 Oversight of aggregate fiscal risk from other public sector entities

For this indicator, the oversight of aggregate fiscal risk from other public sector entities comes from the central oversight of decentralized entities. This fiscal risk oversight, which concerns sub-national entities, applies to autonomous and/or semi-autonomous structures whose debts the government is apt to guarantee. All depends on the existence of such entities. It would seem that the indicator is applicable, but must be adapted to the circumstances at hand.

- PI-15 Effectiveness in collection of tax payments

Indicators PI-13 and PI-15 measure the effectiveness of fiscal management methods. In francophone countries in particular, taxation is the responsibility of the central administration; decentralized governments (municipalities) have very little power in the matter. Nonetheless, in the retained sample (ten municipalities, of which two are francophone), there is no absence of rating. That does not necessarily mean that the indicators are adapted to sub-national governments. It seems that, in certain cases, the quality of central management was rated and not the performance of the governments concerned. These indicators can, in any case, be applicable to sub-national governments only on the condition that their taxation system is autonomous. In the present document we will not discuss the possible interest of promoting such autonomy.

This absence of rating, however, is found in 29% of the regions, 17% of federated States and 20% of provinces. The examples of these three entities are not sufficiently explicit to produce a well-founded analysis.

- PI-17 Recording and management of cash balances, debt and guarantees

In most of the studied reports, this indicator is not applicable. Evaluator explanations for this essentially concern

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the organization of the State and its entities, notably concerning debt authorizations for local government. This indicator will thus be used depending on the entity's situation. Nevertheless, the component can be measured in all cases.

- PI-21 Effectiveness of internal audit

For half of the municipalities in the sample, this indicator was not measured. Indeed, this internal verification is the responsibility of central government auditors, and consequently, local governments do not control the procedures. Still, this indicator, for whatever the geography, seems adapted to sub-national governments.

- D-1 Predictability of direct budget support
- D-2 Financial information provided by donors for budgeting and reporting on project and program aid
- D-3 Proportion of aid that is managed by use of national procedures

The three indicators which concern donor practices are not applicable in most cases, even if their relevance is real in certain geographies (see section 2, examples of Dakar and Ouagadougou).

Table 10 displays the figures of sub-national governments for which these indicators were not measured.

Table 10. Indicators concerning donor practices (in percent)

Indicators		10 Municipalities	14 Regions	12 Federated States	6 Districts	5 Provinces
D-1	Predictability of direct budget support	100	50	92	100	20
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	40	50	83	100	0
D-3	Proportion of aid that is managed by use of national procedures	40	50	75	100	0
Average		60	50	83	100	7

Source: data compiled and reprocessed by the authors.

In total, the indicators of 83% of federated States were not measured, but this is not significant because, in most cases, these indicators were not used. Thus it is impossible to know if they are adapted to these governments.

For municipalities, the absence of rating is above all due to the fact that donors do not intervene at these levels, or do so only in the form of projects generally unaccounted for in local government budgets.

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As for other governments, the information is not precise enough to base a relevant analysis. These indicators will therefore be used when conditions for measuring them are met.

- HLG-1 Predictability of central government transfers

As certain evaluations were conducted before the development of this indicator, it is still difficult to have a precise idea of their applicability. Nonetheless, it is understandable that this indicator cannot be applied to federated States, since their autonomy means they generally do not receive central State transfers. As for municipalities, whatever the geography, the data points up great difficulties in relations with the central State as main supplier of funds.

This quick study of available reports makes it possible to define some general outlines for the adaptation of PEFA indicators to sub-national governments. It was interesting to compare this analysis with that ordered by AFD following the evaluation conducted for the city of Dakar in 2009 (see section 1.2.2.2.).

1.2.3. The application of the PEFA methodology in two sub-national governments in West Africa

Thanks to the Sub National Technical Assistance program (SNTA) of the Public Private Infrastructure Advisory Facility (PPIAF), Trust Fund of the World Bank – supported by several bilateral donors (including AFD) and multi-lateral donors – PEFA studies were carried out in these two big cities of West Africa, Dakar and Ouagadougou. It should be noted that the financing of the PEFA studies by the PPIAF depended on the commitment of these two cities to contract a direct loan (without a State guarantee) on the local financial market, or from outside financial establishments, in the two years following the completion of the study.

In this context, these studies were integrated as steps in the direct loan processing procedure by AFD project teams. However, their sequencing occurred differently:

- for the city of Dakar, the PEFA study was carried out after the loan was accorded: the PEFA diagnosis made it possible to assist in developing an action plan to build financial management capacity in the local government;
- concerning the city of Ouagadougou, an initial loan had been accorded well before the execution of a PEFA study, making it possible to deepen the knowledge and evaluation of local public finances in the context of the processing of a new loan (accordance foreseen at the end of 2011).

Initial methodological thoughts on the Dakar experience ...

What do we learn from the study which AFD ordered on the adaptation of the PEFA methodology to sub-national governments?

Following the evaluation carried out for the city of Dakar, AFD ordered a study on the relevance of PEFA methodology applied to sub-national governments (Caprio and Chomentowski, 2009).

The terms of reference of this study foresaw examining:

- the global adaptation of the PEFA framework to a municipality, and particularly the interest and the limits of applying a PEFA evaluation to a municipality;
- the adaptation of PEFA indicators in the case of a local government: relevance of indicators, calculation methods, documents to use, possible new indicators;
- the modes and the limits in interpreting PEFA indicators for each category of actors (city, donor, others);
- the lessons from the evaluation experience in the Dakar case.

Concerning the adaptation of the methodology to the local context, the study points out that the method is based on benefits which can be summarized as follows:

- security of an international framework and calibrated indicators;

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- association with “high level” indicators, which implicitly summarize many situations and behaviors;
- a dynamic analysis framework, where the result of the first analysis is less important than its evolution over time;
- performance evaluation through each, and not just one, of the following aspects: “democratic” (transparency), “political” (elected officials), and “administrative” (civil servants);
- concentration, through the framework, on precise facts and not on opinions;
- questioning administrative rules which take root over time, or sometimes ill-adapted/outdated principles;
- possibility of reflection on management behavior.

Afterward, the report establishes a comparison between different types of analysis and presents the principal overlapping results of these exercises.

Table 11. Comparison between different types of analysis*

	PEFA	Rating	Analysis - Financial Audit	Self-evaluation	EU Urban Audit (*)
Objective	Public Spending Performance	Risk	Financial Situation	Finances and Risk	Quality of Life
Budget Credibility					
Coverage					
Transparency					
Security	indirect				
Internal Democracy					
External Democracy					
Quality of Elected Officials					
Quality of Civil Servants					
Quality of Organization	indirect				
Budget Effectiveness					
Forecasting	a little				
Urban Effectiveness					
Production services					
Efficiency/Productivity					
Economic Context					
Institutional Context	narrative				
Country Risk	narrative				
Financial Data					
Debt Data	indirect				

* European Union (EU)

Source: critical analysis of public finance management (PEFA) evaluation methodology applied to local governments (Caprio and Chomentowski, 2009).

The authors conclude, from this analysis comparing different types of evaluation, that the PEFA is restrained in terms of analysis:

- of risk (for example, for a lender);
- of management, and of quality of municipal team;
- of urban effectiveness;
- of the financial situation (or indirectly).

Finally, for the adaptation of the indicators to local contexts, the study cited:

- indicators 1 to 3, for which budget credibility cannot be based on achievement rates which are currently impossible to reach.

Table 12. Adaptation of PEFA indicators PI-1 to PI-3 to local contexts

Indicators		Methodological considerations
PI-1	Aggregate expenditure out-turn compared to original approved budget	<ul style="list-style-type: none"> - Indicator unappropriated and irrelevant - Indicator split into two parts (operation and investment) with the disparities (%) between primary budget expenditures and primary real expenditures more adapted to municipalities
PI-2	Composition of expenditure out-turn compared to original approved budget	<ul style="list-style-type: none"> - Same as PI-1
PI-3	Aggregate revenue out-turn compared to original approved budget	<ul style="list-style-type: none"> - Indicator unappropriated and irrelevant - Indicator split into two parts (direct municipal tax collection and central government tax collection on the municipality's behalf) with achievement rates more adapted to municipalities (for direct tax collection)

Source: critical analysis of public finance management (PEFA) evaluation methodology applied to local governments (Caprio and Chomentowski, 2009).

- indicator 5 – classification of budget and accounting terminology – must account for future Economic Community of West African States (ECOWAS) decisions in this domain. This indicator could possibly be adapted to insure that the communal accounting would be able to

isolate, on the one hand, the major urban functions (security, roads, schools, ...), and on the other hand, a correct and complete nature or economic classification (personnel, fuel, interest on debt, ...).

Table 13. Adaptation of PEFA PI-5 indicator to the local context

Indicators		Methodological considerations
PI-5	Budget classification	<ul style="list-style-type: none"> - Unappropriated and mostly irrelevant indicator It would be preferable to draw up a list of expense functions adapted to local governments

Source: critical analysis of public finance management (PEFA) evaluation methodology applied to local governments (Caprio and Chomentowski, 2009).

1. Methodological considerations

- indicators 13 to 15, which concern tax collection, generally managed by tax and treasury of the central administration in francophone countries. In this case, beforehand, the following should be determined:
 - the degree of autonomy of sub-national governments;
 - the method of tax management:
 - directly by an internal government department;
 - delegation of public services to a public department (tax department of the Treasury, whether obligatory or not), or to a private company;
- in a mixed system (partly direct, partly delegation of public services).

Consequently the indicators will have to be adapted in respect of these diverse solutions, and, for example, account for the respective roles of all actors.

Box 1. The specificities of sub-national governments

For local governments, institutional context, size, wealth and geographic location will be “internal” discriminating factors in the country:

- their scope of intervention will depend upon the institutional structuring (several government layers or not) and the competences attributed to each level (for example, in France: regions, departments, towns and intercommunal structures; in Germany, Länder, Kreis and towns; in Brazil: federated States and towns, etc.)
- the effects of size are fundamental in terms of both effectiveness of financial volume and management; these effects are well known (expenditures evolving like the logarithm of the population, insufficient staffing below a certain population, high threshold of effectiveness to finance certain investments); in francophone Africa, the intervention threshold of a PEFA could only be useful above 200,000 or even 500,000 inhabitants;
- the disparity of resources between sub-national governments in a same country is always great; resources are directly or indirectly linked to economic activity (license fees, real estate taxes and diverse other taxes); while we understand that the national PEFA may be very good independent of the size and wealth of a country, at the municipal level, we are in the context of a same country and it is therefore necessary to specify the situation of a government on a scale of resources; and the same in terms of size: there is a threshold below which managerial capacities cannot meet PEFA conditions;
- in geographical location, several factors are at play: for example, the fact that a city is the country or “economic” capital, without being an administrative capital, others are historical capitals; a coastal versus a landlocked location, are also of great importance.

One of the consequences of these disparities is that the volume of activity (as well as financial) will depend on the real exercise of competences.

Source: critical analysis of public finance management (PEFA) evaluation methodology applied to local governments (Caprio and Chomentowski, 2009).

1. Methodological considerations

... enlarged to the governments of Ghana and to Ouagadougou in Burkina Faso

Are these findings still valid after a new evaluation carried out in Ouagadougou and certain others carried out afterward, notably in Ghana and in Addis Ababa? Are they adapted to other types of decentralized governments?

The large diversity of sub-national governments makes it probable that each evaluation carried out in the applied

decentralization system will have to be adapted. A comparison between relatively similar governments in Ghana, Burkina Faso and Senegal will be an occasion to verify this.

For Ghana, Table 14 shows the unrated indicators and the reasons for the lack of a rating.

Table 14. The unrated indicators for Ghanaian sub-national entities

Indicators		Comments
PI-7	Extent of unreported government operations	There is insufficient information to measure this indicator. However, due to the limited government activity in municipalities, there are probably very few unreported operations.
PI-8	Transparency of inter-governmental fiscal relations	There is no transfer from municipalities to sub-entities.
PI-9	Oversight of aggregate fiscal risk from other public sectors	There are no entities under the control of municipalities.
PI-11	Orderliness and participation in the annual budget process	At the time of the evaluation, despite the existence of a budget calendar, numerous delays were observed. The budgetary circular is a central administration prerogative; this component is not rated. For many governments the budget estimations were unavailable, and consequently the component was not rated.
PI-16	Predictability in the availability of funds for commitment of expenditures	No evaluated entities carry out cash flow forecasting. The municipalities do not manage their finances as the ministries, departments and agencies could.
PI-17	Recording and management of cash balances, debt and guarantees	No evaluated entities had contracted loans or were indebted during the period under review. Most of the cash balances are calculated, adjusted (accounts for the certifying officer and accountant) and consolidated each month, but, for at least one entity, the declaration system is unreliable.
PI-21	Effectiveness of internal auditing	Internal auditing is done by the central government audit structure. Not all sub-national governments had not been audited and, for some, no information exists to rate the dimensions of this indicator.
PI-26	Scope, nature and follow-up on outside auditing	Outside auditing is handled by the central government audit structure.
D-1	Predictability of direct budget support	There is no direct budget support for the sub-national governments.

Source: data compiled and reprocessed by the authors.

1. Methodological considerations

It is noted that the rating difficulties in the Ghana report are different from the indicators apt to cause rating difficulties, cited in the report ordered by AFD.

What is the situation for the same indicators for two sub-national governments in West Africa?

Table 15. The example of the Dakar and Ouagadougou governments

Indicators	Ouagadougou	Dakar
PI-7	The level of unreported extrabudgetary expenditures is quite insignificant and less than 1% of total budget expenditures, at least since 2008. The information on receipts/expenditures for donor-financed projects is available. While it does not appear in the budget itself, it is precisely described in the budget annexes.	The level of unreported extrabudgetary expenditures accounts for more than 10% of total expenditures. The information on receipts/expenditures for donor-financed projects is entirely insufficient in the budget reports.
PI-8	The horizontal affectation of the near-totality of transfers (at least 90% in value) coming from the city is determined by transparent mechanisms which are based on accepted rules but not automatic. The decentralized administrations (district municipalities) receive reliable information on the transfers allocated to them before the beginning of the fiscal year. Budget information (ex ante and ex post), in accordance with the city's budget reports, counts for at least 90% in value of decentralized and consolidated expenditures in the form of annual reports in the 10 months following the close of the fiscal year.	The horizontal affectation of the near-totality of transfers (at least 90% in value) coming from the city is determined by transparent mechanisms and based on rules. The decentralized administrations receive reliable information on the transfers allocated to them, but too late to make large budget modifications. Some budget information (at least ex post), in accordance with city budget reports, counts for at least 60% in value of decentralized expenditures. While the information concerns a greater proportion of expenditures, its consolidation in the form of annual reports is delayed by more than 24 months, when it is indeed done.
PI-9	All the autonomous public agencies identified present budget reports at least every 6 months to the city hall, as well as verified annual accounts, and the city hall consolidates the supplied budget risk information into its accounts. The decentralized administrations (districts) are partially autonomous. Their financial data is controlled several times a year by the Ouagadougou city hall.	The autonomous public agencies have no annual oversight, or the assured oversight is largely incomplete. Component ii) is not rated because it is not possible to pass judgment: the decentralized administrations are totally autonomous and not required to supply data.
PI-11	A clearly defined preparation and budget vote calendar exists. The calendar is respected. The preparation period for services is short but they have quite enough time to prepare it. A budget circular is issued to top management. It is clear but contains almost no detailed facts and figures, and sets no applicable ceilings for each unit. The city council approved the budget before the start of the fiscal year.	A clearly defined preparation and budget vote calendar exists. The preparation period for services is short but they have quite enough time to prepare it. A budget circular is issued to top management. It does not set applicable ceilings to each unit. The city council approved the budget before the start of the fiscal year, except for one year (2007).

1. Methodological considerations

Indicators	Ouagadougou	Dakar
PI-16	Cash flow forecasts are prepared for the fiscal year and are updated every month based on actual fund inflows and outflows. The services have reliable information one to two months in advance. A significant budget adjustment during the fiscal period occurs once a year (supplementary budget), transparently and predictably.	Cash flow planning and monitoring are not done or are substantially wanting. The services have no reliable information on the effective availability of resources for the commitment of expenditures. Significant budget adjustments during the fiscal period are frequent but done rather transparently.
PI-17	Debt data is complete, up-to-date and is the object of reconciliation at least every year. The data is considered very good and reliable. All the cash balances are calculated daily and consolidated. Loans contracted by the city are approved by one competent entity alone, but the decision is not taken based on limit directives or clear criteria.	Debt data is incomplete and quite unreliable. The calculation of the consolidation of most cash flow balances is done at least weekly but unreported data escapes these procedures. Loans contracted by the city are approved by one competent entity alone, but the decision is not taken on the basis of limit directives or clear criteria.
PI-21	Internal oversight covers entities with high financial risk and is partially focused on systems (one-third of staff time). Overall, conformity to professional norms is rather good. Audit reports are distributed to the audited units and to the mayor's office (and his deputy). Monitoring is delayed due to the limited capacity of International Safety Management – accounting certification (ISM). Only high-risk questions are taken into consideration.	There is no internal audit focusing on the monitoring of systems. Audit reports are distributed to the audited entities and to the mayor's office. There is no systematic follow-up to the conclusions of the internal audit. However, these conclusions are not ignored; only the general outline is taken into consideration.
PI-26	External oversight of the city by the Court of Auditors is irregular. The last verification took place in 2004, concerning a verification of legality and compliance with legislation. There has been no performance verification. For the accounts of 2006 and 2008, the Court received the accounts before the legal deadline (not for the accounts of 2007). The last accounts verified by the Court (in 2009) are those from the years 2001 to 2005. The recommendations (injunctions) currently available concern the results of a provisional decree, which must still be finalized. For the time being, there has been no follow-up of the recommendations.	External oversight of the city by the Court of Auditors is very irregular. The last one took place in 1999 and concerned a verification of the legality of administrative matters. There has been no performance verification. The Court does not verify the administrative and management accounts received from the city and issues no judgment on these accounts. No recommendation is issued by the Court on the administrative and management accounts of the city of Dakar.
D-1	This indicator does not apply.	This indicator does not apply.

Source: data compiled and reprocessed by the authors.

1. Methodological considerations

In principle, in both cases (Dakar and Ouagadougou), the PEFA methodology indicators appear, unlike the Ghanaian case, to be well adapted, apart from the one related to the predictability of direct budget support (D-1), which seems impossible to rate, whatever the linguistic area.

Therefore it seems quite necessary to adapt the rating of the indicators to the situation encountered, notably those related to donor practices.

Before examining the operational lessons, what are the methodological lessons that can be drawn from this first analysis?

1. The PEFA framework appears sufficiently robust and complete to discern without modifications the PFM performance at the sub-national level.
2. Still, depending on the policies of decentralization implemented and the constraints that the central administration can impose on sub-national governments, not all the indicators are relevant (for example, indicators

PI-13 to PI-15, related to taxation, will not necessarily be applicable to francophone local governments, and the same holds true for indicators concerning external audits). It is nonetheless important to try to measure them, or at least to explain why they are not rated.

3. The nature and quality of sub-national government relations with the central government weigh on the performance of local governments. It is therefore necessary to precisely describe the relations between the different structures.
4. As regards to the indicators measuring donor practices, even if they sometimes appear ill-adapted, they must not be excluded from the analysis since they can measure the quality of the information exchanged between central administrations responsible for implementing the programs and for the sub-national governments concerned. This is notably the case for transferred competences which the government is able to implement with donor funds.

2. The operational lessons drawn from the experience with two sub-national governments (Ouagadougou and Dakar)

Because they were financed by a multi-donor Trust Fund of the World Bank, these two PEFA studies provided the different technical and financial development partners with a common qualitative analysis tool focused on local public finance systems. Until this time, each donor, according to their financial instruments and their mandates in their different intervention geographies, used their own analysis framework. AFD, thanks to its experience in financing French overseas local governments, and having financing instruments directly from West Africa at its disposal, had developed its own analysis methods. Nevertheless, while these tools helped AFD to appreciate the financial quality of a counterpart, they did not provide a sufficiently large and structured vision of the local public finance system. Similarly, the other bilateral or multilateral donors were not interested directly in sub-national government accounts because their financial instruments were essentially sovereign. The PEFA framework thus appeared as a common tool to better understand local public finances for certain donors and, for AFD, as a qualitative operational evaluation tool for the internal and external functioning of the local

government. Furthermore, its operational use, which will be developed in the following sections, contributes to strengthening the coordination of partner support to the benefit of the decentralized entities, and more largely, to the service of development for their populations.

From these two experiences, Dakar and Ouagadougou, several themes of reflection and analysis of operational lessons emerge:

- where should the contributions of a PEFA study be situated, with regards to other local public finance system evaluation tools?
- how should the results of a PEFA study be translated into operational terms in order to develop reform plans?
- can the local government PEFA framework help develop national support programs for financial decentralization?

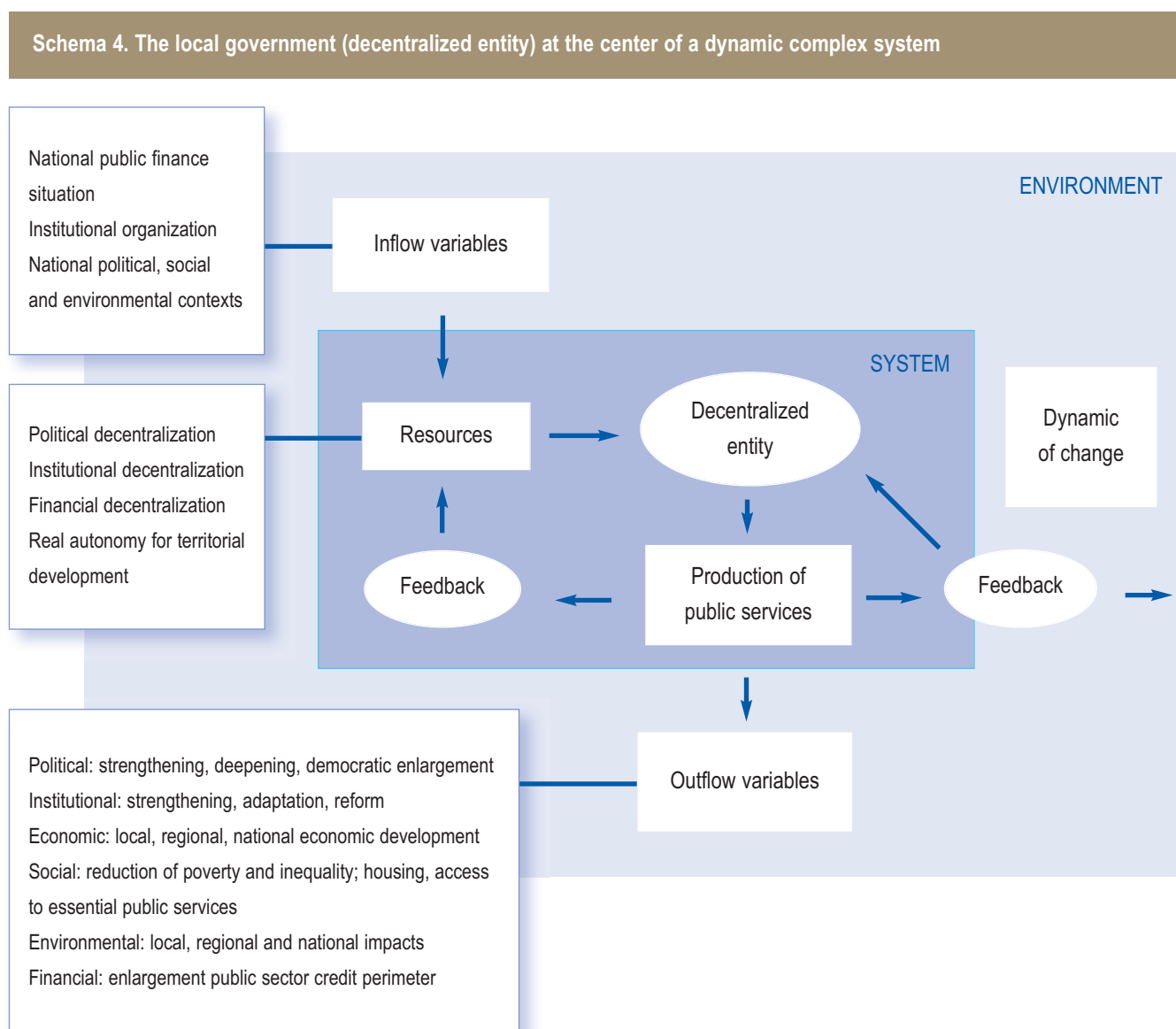
2.1. The qualitative contribution of a PEFA study in comparison with other evaluation tools for the local public finance system

In order to better grasp the institutional, economic, and financial environment of the local government, as well as the different interactions that it maintains with this environment, AFD is developing a systemic approach. The

local government is thus analyzed as an entity at the center of a system (the decentralization context), itself situated in a national environment.

2. The operational lessons drawn from the experience with two sub-national governments (Ouagadougou and Dakar)

This method of analysis is represented in Schema 4.



Source: data compiled and reprocessed by the authors.

The national environment (institutional, political, economic, social environmental and State financial contexts) thus produces a series of inflow variables to foster the decentralization context: these variables constitute, for the decentralized entity, institutional resources (the institutional decentralization schema, the fields of competence transferred), budgetary (the budget and accounting context) and financial resources (own or shared, to exercise transferred compe-

tences). The decentralized entity uses these resources to carry out its missions, i.e. the production of public services (material or immaterial goods). With this production activity, the decentralized entity generates “feedback” effects towards the system and its environment: the quantity and quality of public services produced does or does not validate the relevance of the decentralization context (the system) and leads to needs for change or adaptation of the envi-

2. The operational lessons drawn from the experience with two sub-national governments (Ouagadougou and Dakar)

ronment (national context). A “dynamic of change” is thus continually at work and must allow for the adjustment, gradually or through a rupture (reform), of the needs of the system with regards to the resources that the environment can secure for it.

Operationally, and here from the viewpoint of a donor with the capacity to lend directly to sub-national governments, this approach generally translates into an evaluation carried out on two themes:

- an analysis of the institutional and financial context of the decentralization, notably measuring the effective financing capacity of the transferred competences and evaluating the “financial autonomy” of the sub-national governments, i.e. their capacity to master the volume of their own receipts (local taxation, fees, tariffs) in order to meet the population’s essential needs;
- a financial analysis of the target counterparty, based on the determination and evaluation of four essential

dimensions: the broad financial balances (balance and savings rate, method of financing investments), debt capacity (the level and rate of indebtedness), the existing financial resources (cash and working capital) and financial commitments (debts to suppliers, financial claims and off-balance sheet commitments).

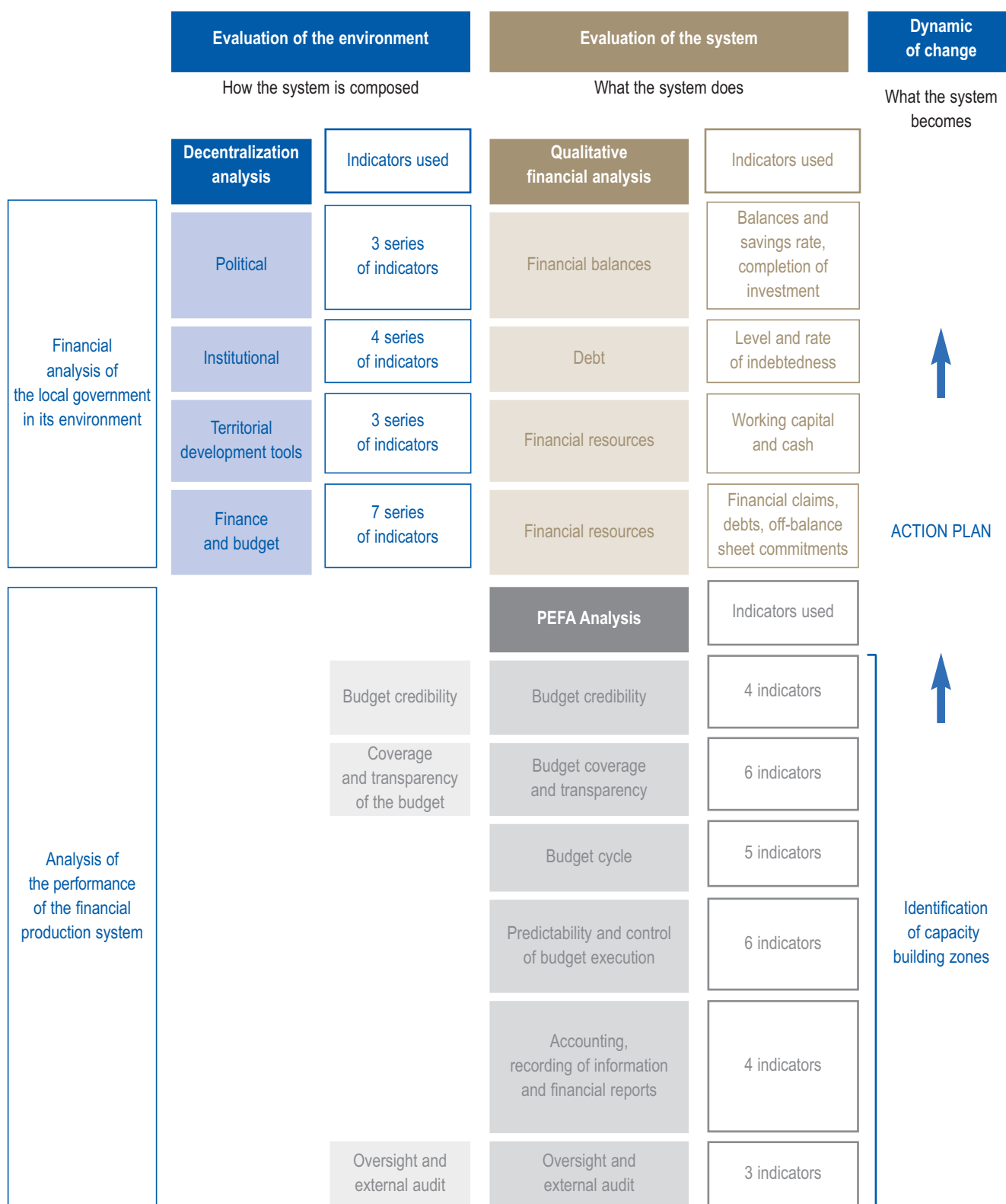
These two themes cover a major part of understanding the environment, the system (decentralization context) and the financial situation of the local government. However, they provide no – or very little – information on the operation of the system, *i.e.* the performance of the local public financial system and the quality of the management of the decentralized entity.

These gaps are, essentially, filled by the use of the PEFA framework applied to sub-national governments. Schema 5 presents a “map” of these tools, demonstrating the contributions of the first 28 indicators¹⁴ of the PEFA framework to the general understanding of the environment and system of the decentralized entity.

¹⁴ The 28 indicators of the six dimensions of the PEFA framework.

2. The operational lessons drawn from the experience with two sub-national governments (Ouagadougou and Dakar)

Schema 5. The overall financial evaluation perimeter of a decentralized government



Source: the authors.

2. The operational lessons drawn from the experience with two sub-national governments (Ouagadougou and Dakar)

The indicators can thus be classified into two categories: those explaining “*how the system [the context of financial decentralization] is composed*” and those measuring “*what the system does*.”

- “How the system is composed”:
 - two indicators (PI-5 to 6)¹⁵ of the dimension “Comprehensiveness and transparency” concern domains that the local government does not directly control, notably the budget and accounting nomenclature (defined by the Treasury and/or the Ministry of Decentralization, if it exists), the quantity and quality of information contained in the budget documents (the required information is imposed by budget regulations);
 - three indicators (PI-13 to 15)¹⁶ of the dimension “Predictability and control in budget execution” also concern a domain that the local government does not control, that of tax base census and local tax collection. The evaluation of these indicators spotlights the effectiveness of tax services in a key sector for the local government since tax receipts (direct, indirect, exclusive or shared) constitute, in a large majority of countries, the main part of resources for decentralized entities;
 - finally, at the heart of the “external scrutiny and audit” dimension, indicator PI-26¹⁷ measures regulatory quality and system control. By nature, this domain escapes the local government’s sphere of activity. In Diagram 5, this indicator could be part of the “feedback” effects of the environment on the system and the decentralized entity.
- “What the system does”:
 - the four indicators (PI-1 to 4)¹⁸ of the dimension “budget credibility” evaluate the “realism” of the

budget (balance between financial resources and financial needs for the production of local public services) and the quality of its execution (respect of elected officials’ choices and priorities in the distribution of each technical department’s funds);

- indicator PI-7¹⁹ of the “comprehensiveness and transparency” dimension allows for an analysis of a local government’s level of knowledge in activities entering its area of competences but whose budgetary and financial records are sometimes badly compiled. That is, for example, the case for the health sector (medical dispensaries) and that of education (school budgets);
- indicator PI-8²⁰ of the “comprehensiveness and transparency” dimension points up a municipality’s budgetary and financial relationship with sub-entities such as the villages of a district;
- indicators PI-9 and 10²¹ of the “budget coverage and transparency” dimension provide information on the orientation and control of “satellites” (local public establishments, interest in private companies in the form of off-balance sheet commitments such as debt guarantees) and the public character of budgets (to the benefit of the population and the local government’s economic and financial partners);

¹⁵ PI-5 : Classification of the budget; PI-6: Comprehensiveness of information included in budget documentation.

¹⁶ PI-13 : Transparency of taxpayer obligations and liabilities; PI-14: Effectiveness of measures or taxpayer registration and tax assessment; PI-15: Effectiveness in collection of tax payments.

¹⁷ PI-26 : Scope, nature and follow-up of external audit.

¹⁸ PI-1 : Aggregate expenditure out-turn compared to original approved budget; PI-2: Composition of expenditure out-turn compared to original approved budget; PI-3: Aggregate revenue out-turn compared to original approved budget; PI-4: Stock and monitoring of expenditure payment arrears.

¹⁹ PI-7 : Extent of unreported government operations.

²⁰ PI-8 : Transparency of inter-governmental fiscal relations.

²¹ PI-9 : Oversight of aggregate fiscal risk from other public sector entities ; PI-10 : Public access to main budget information.

2. The operational lessons drawn from the experience with two sub-national governments (Ouagadougou and Dakar)

- Indicators PI-11 and 12²² on the “Policy-Based Budgeting” dimension respectively supply a qualitative reading of the budget preparation process (“centralized,” without participation or consultation of departments, or “decentralized,” favoring an organized dialogue between departments and decision makers) and an evaluation of the capacity of the decentralized entity to project itself into the future, i.e. to translate, in budgetary and financial terms, its vision of the development of its territory (infrastructure creation and renovation, land use and management, human resources management, future resource modeling, etc.) over several years;
- Indicators PI-16 to 21²³ of the “Predictability and Control in Budget Execution” are at the heart of a local government’s internal financial management because they evaluate the local public spending cycle: Do they have budget funds to make commitments? Are there account monitoring tools available to make payments? What monitoring tools exist for commitments, both direct and indirect (guarantees)? What measurement and evaluation tools for personnel expenditures? What effectiveness of instruments or internal control devices for this expenditure chain?
- The four indicators (PI-22 to 25²⁴) of the “Accounting, Recording and Reporting” dimension measure the capacity of the local government to close annual financial activity cycles according to the form and calendar set by national law, which is an important indication – in the view of its institutional, economic and financial partners – of the quality of its management tools and the organization of the financial function. The attainment of these objectives (production of financial reports according to the forecast form and calendar) also allows the local government (elected officials and administration) to distinguish two time frames: past activity, subject to evaluation (balance between the final account of the budget authorizing officer and the final account of the Treasury accountant) and the production of balance sheets (description of the real activity of departments in view of the objectives contained in the budget presentation report, and future activity, which requires a capacity to “project” towards the future;
- Indicator PI-27²⁵ of the “External Scrutiny and Audit” dimension, which must be interpreted as the examination of the annual budget project (and the additional budgets of the same fiscal year) by the local government’s deliberating assembly: this indicator reproduces the quality of the deliberation process between the executive and the deliberating assembly, thus testifying to the capacity of appropriation and proposal of the latter at the heart of the decision making process;
- Indicator PI-28²⁶ of the same dimension reinforces this idea of information of the body deliberating on the quality of executive actions. Within these last two indicators is found the principal of separation of powers, applicable to the local government: the “executive power” entrusted in the mayor and his/her deputies (or their equivalents) supported by the administration, the “legislative power” (reduced to the areas of transferred competences) with the deliberating assembly, and the “judiciary”, a system outside of the local government but a permanent stakeholder in the dialogue between the first two powers.

²² PI-11: Orderliness and participation in the annual budget process; PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting.

2. The operational lessons drawn from the experience with two sub-national governments (Ouagadougou and Dakar)

The PEFA framework also includes, in the initial format for States, three complementary indicators dealing with “donor practices”:

- Indicator D-1: the predictability of direct budget support,
- Indicator D-2: financial information provided by donors for budgeting and reporting on project and program aid,
- Indicator D-3: proportion of aid that is managed by use of national procedures.

Applied to the context of a local government, these indicators are useful in certain cases, notably in the countries where the national finance support programs for sub-national governments are implemented with donor assistance. Indeed, the financial resources allocated by the State and donors to these programs often pass through state agencies²⁷ which carry out investments (infrastructure or public equipment creation or renovation), on behalf of

eligible sub-national governments and on their territory. While they have a direct impact on the balance sheet (the asset-liability presentation) of the sub-national government, these operations are not the translation of their budgets and are therefore not, formally, voted by their deliberative assembly, introducing two sources of difficulties: the absence of valuation of these created or renovated goods in the local government's assets and the incapacity of the latter to evaluate and thus foresee maintenance expenditures and the maintenance of this asset (indeed, in the best of cases, to foresee the depreciation on assets of certain categories of equipment).

Thus, these three indicators must not be dismissed: they make it possible to measure the nature and quality of the information exchanged by state agencies responsible for carrying out these national programs with the local governments concerned. Thus the authors propose that these indicators be systematically retained in the terms of reference of sub-national government PEFA studies.

2.2. The use of the PEFA diagnosis to stimulate improvement in municipal financial management

The public character of the rendering of a PEFA study is essential in the case of a local government. Indeed, the presentation of results, with comments from the consultants who carried out the study, and the establishment of a dialogue with all “stakeholders” in the process improves comprehension and allows for an appropriation of the results (local government, State services, Court of Auditors or equivalent) at several levels:

- It informs local elected officials on the objective difficulties for the local administration to control the process and tools of budgeting and financial management,
- It opens perspectives on the improvement of municipal management,
- It contributes to establishing a dialogue between State services (notably the Treasury) and local elected officials and administration,

- It motivates local elected officials to capitalize on the results.

Nevertheless, like any financial diagnosis report, the reading of a PEFA study is not easy for local elected officials and local administration managers whose level of training and experience in financial management are often lower than those at the national level. It is thus necessary to call upon consultants with strong pedagogical skills to present the results and explained the difficulties recorded. Moreover, it is equally important to ensure that the media have a good understanding of the procedure and the results to avoid political exploitation of the PEFA diagnosis.

Immediately after the public release of the PEFA study, in order to gain support from the will to improve expressed by

²⁷ Example of the Municipal Development Agency (ADM) in Senegal.



2. The operational lessons drawn from the experience with two sub-national governments (Ouagadougou and Dakar)

various actors, AFD favors holding smaller workshops based on an operational reading of the results (see the examples of Dakar and Ouagadougou, Diagrams 1 and 2) in order to “visualize” the government’s difficulties and to think about their resolution (immediate or progressive).

Diagrams 1 and 2 make a color presentation of the first 28 indicators of the PEFA diagnosis: dark gray for a ranking of A, gray for a ranking of B, light blue for a ranking of C and finally dark blue for a ranking of D. In the case where the indicator is not ranked, it appears in white.



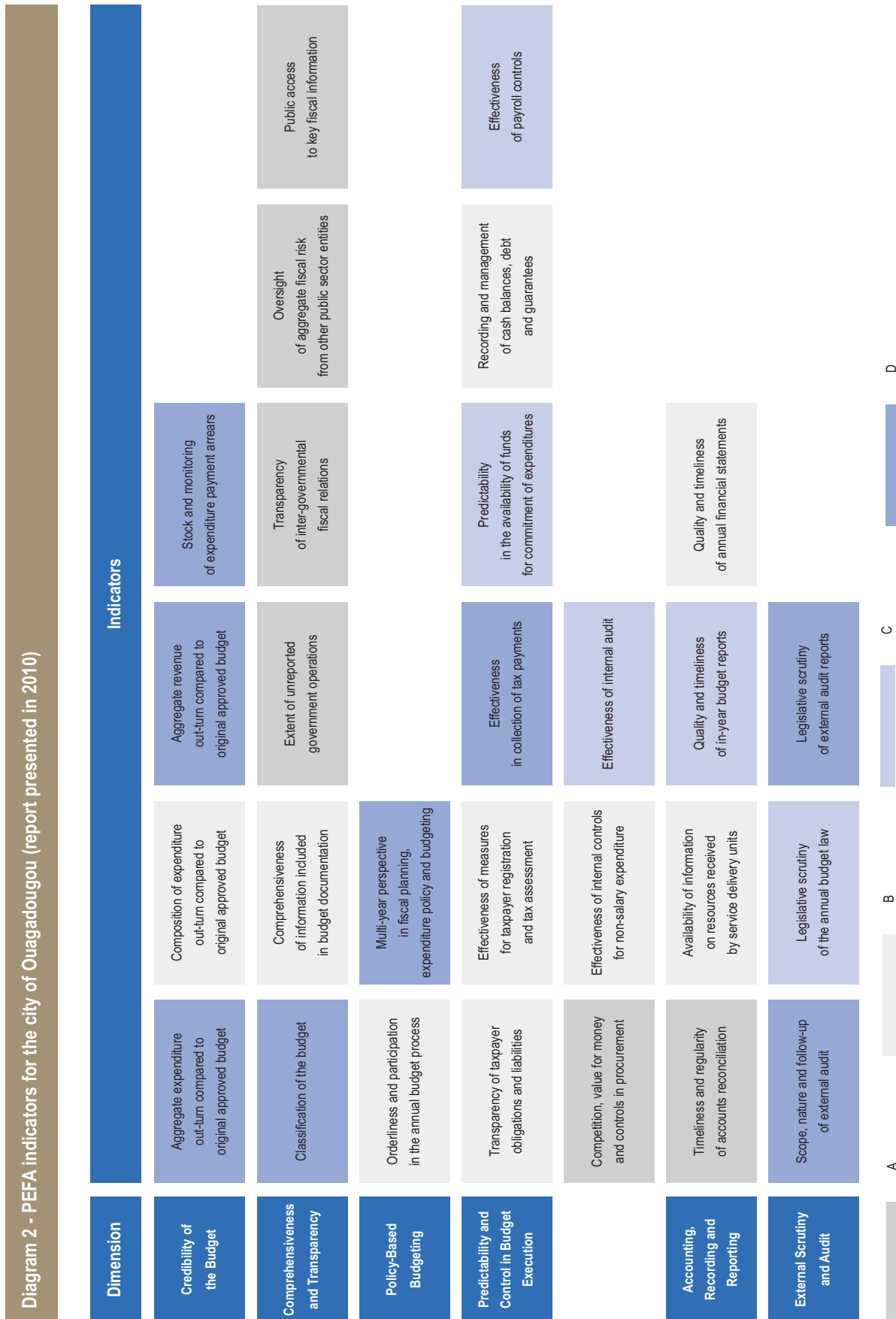
2. The operational lessons drawn from the experience with two sub-national governments (Ouagadougou and Dakar)

Diagram 1 - PEFA indicators for the city of Dakar (report presented in January 2009)

Dimension	Indicators				
Credibility of the Budget	Aggregate expenditure out-turn compared to original approved budget	Aggregate revenue out-turn compared to original approved budget	Stock and monitoring of expenditure payment arrears		
	Classification of the budget	Extent of unreported government operations	Transparency of inter-governmental fiscal relations	Oversight of aggregate fiscal risk from other public sector entities	Public access to key fiscal information
Comprehensiveness and Transparency	Orderliness and participation in the annual budget process	Comprehensiveness of information included in budget documentation			
	Policy-Based Budgeting	Multi-year perspective in fiscal planning, expenditure policy and budgeting			
Predictability and Control in Budget Execution	Transparency of taxpayer obligations and liabilities	Effectiveness of measures for taxpayer registration and tax assessment	Predictability in the availability of funds for commitment of expenditures	Recording and management of cash balances, debt and guarantees	Effectiveness of payroll controls
	Competition, value for money and controls in procurement	Effectiveness of internal controls for non-salary expenditure	Effectiveness in collection of tax payments		
Accounting, Recording and Reporting	Timeliness and regularity of accounts reconciliation	Availability of information on resources received by service delivery units	Quality and timeliness of annual financial statements		
	External Scrutiny and Audit	Legislative scrutiny of the annual budget law	Legislative scrutiny of external audit reports		
	A	B	C	D	

Source: the authors
 Note: the white box indicates an unrated indicator. The letters A, B, C and D represent PEFA ratings.

2. The operational lessons drawn from the experience with two sub-national governments (Ouagadougou and Dakar)



Source: the authors
 Note: the white box indicates an unrated indicator. The letters A, B, C and D represent PEFA ratings.

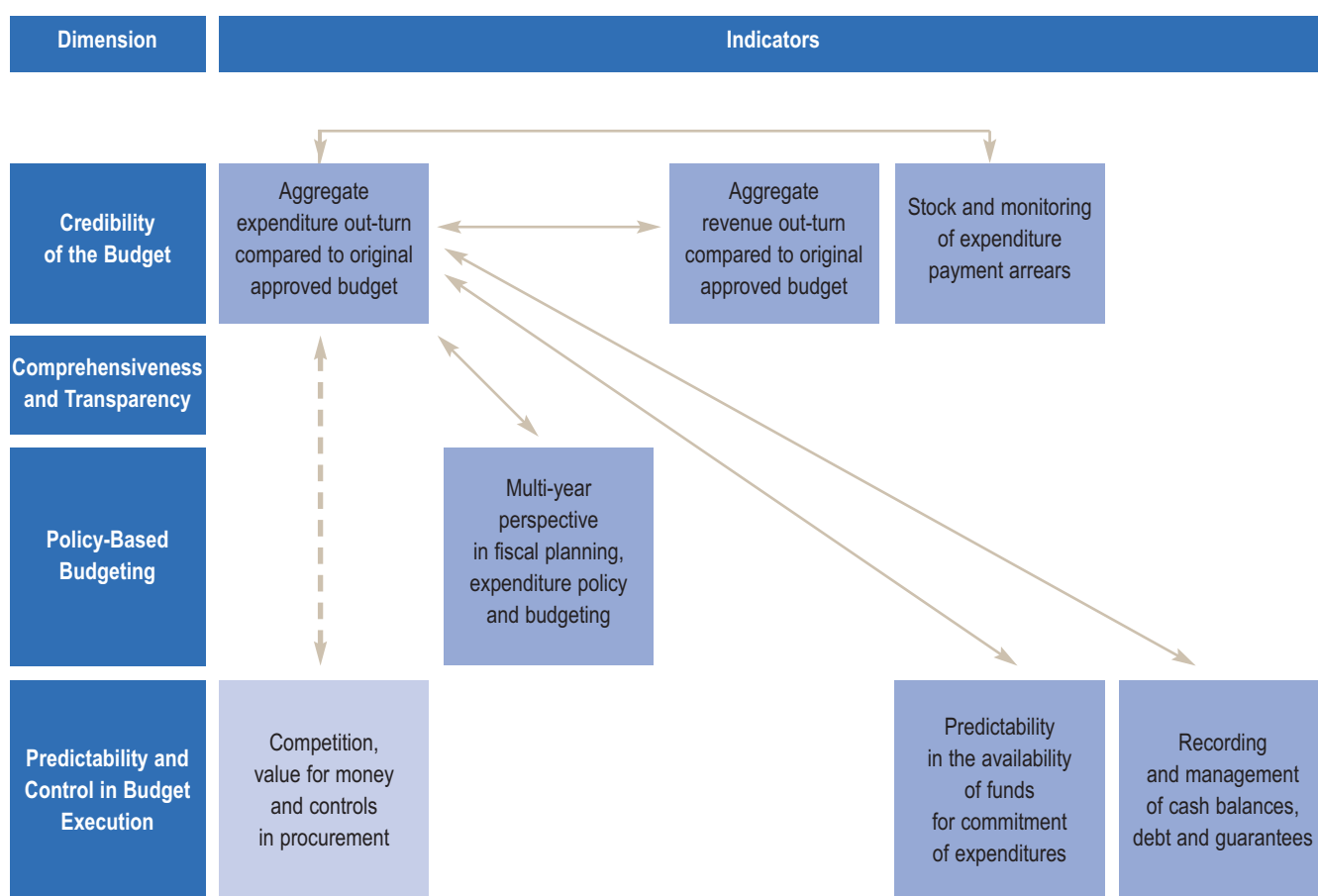
2. The operational lessons drawn from the experience with two sub-national governments (Ouagadougou and Dakar)

Diagrams 1 and 2 allow immediate identification of the areas to improve (in dark blue and light blue): the local elected officials and their administration can thus begin thinking about prioritizing the areas to improve and, in the best of cases, a schedule of reforms.

priation of the PEFA diagnosis by the stakeholders. Moreover, it enables better understanding of the links, indeed the interactions, between the indicators belonging to different dimensions in order to identify the area of reforms to put in place.

This type of presentation, while it simplifies the diagnosis, nonetheless contributes to a more comfortable appro-

Diagram 3. The post PEFA procedure of the city of Dakar: first series of reforms



Source: the authors.

2. The operational lessons drawn from the experience with two sub-national governments (Ouagadougou and Dakar)

From the observation of the weak capacity to predict revenue (and notably tax revenue) of the city of Dakar, the links appear clearly with a series of indicators:

- as soon as the budget is voted, city departments rapidly commit expenditures. This dynamic is all the stronger since the system of carrying over appropriations, through a multi-year spending program, is not truly implemented;
- the collection gap between total actual and foreseen revenues leads, logically, the accountant (the municipal tax collector) to adjust the volume of payments according to the city's accounts;
- the lack of financial communication between the accountant and the authorized expenditure authorities (the city) does not allow city departments to slow the expenditures commitments, rapidly leading to a backlog for the accountant, and progressively during the fiscal year, to a suspension of payments to the city's service providers.
- this situation, experienced as a brake on public procurement, encourages the government to use simpler market procedures to carry out its operations, leading to a decline of the indicator on use of competitive procedures (in light blue in the diagram).

To summarize, the city's weak revenue predictability initially leads to structurally recording much lower revenues than those forecast and later, during the fiscal year, forces it to compromise investment, current expenditures (notably

staff, maintenance contracts, maintenance of property assets ...), whose reductions are difficult to achieve.

Thus, from Diagram 3, local officials and their government sought to initially focus their efforts on the following areas:

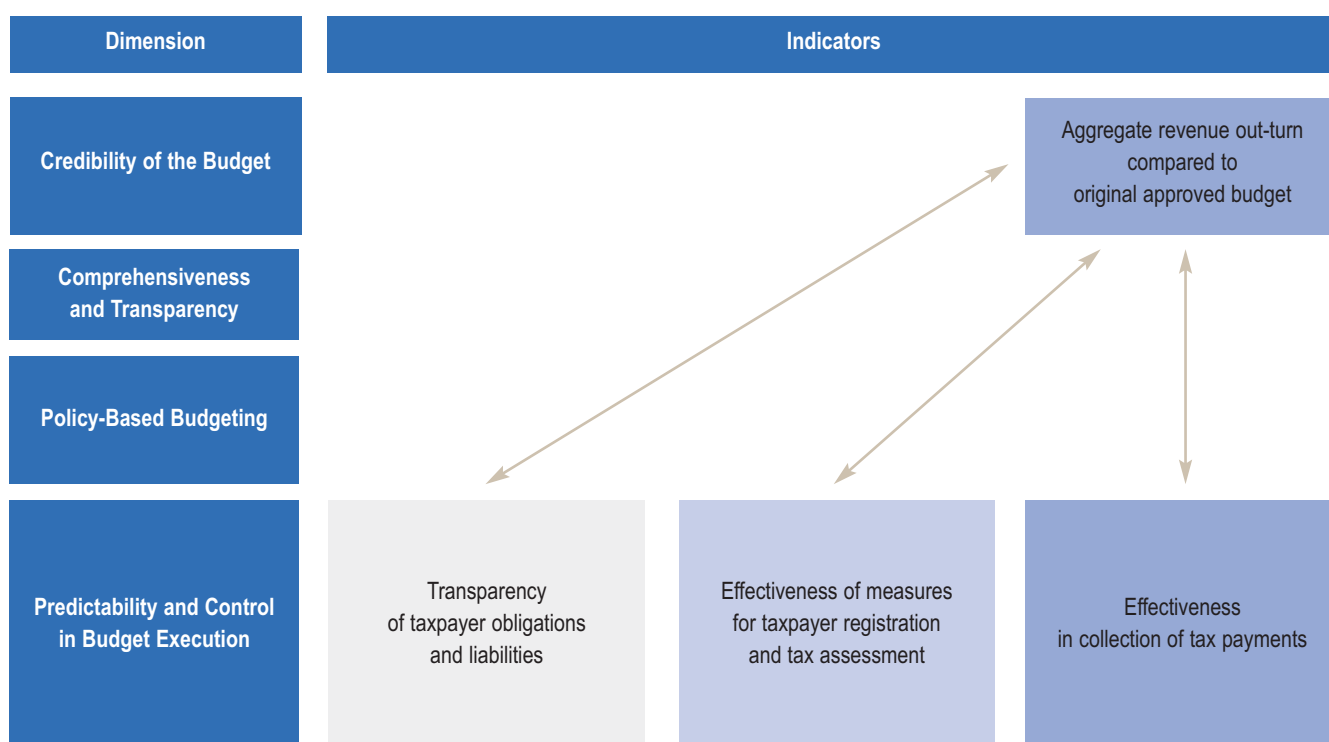
- the establishment and adoption of more realistic and sensible budgets in terms of revenue, reassuring departments on their ability to execute their allocated budgets. This element is a significant internal motivating force for the services;
- the formulation of a long-term investment program : investment operations are established and only the necessary credit is voted in the budget;
- the creation of a "municipal public finance monitoring committee," presided by the mayor, associating city financial departments and the tax collector (treasury officer), whose objective is to regularly provide updates on the financial situation in order to better anticipate cash-flow difficulties.

The measure of these efforts is evaluated with the backing of the PEFA indicators: the city and its development partners can thus annually evaluate the rating of the indicators concerned and quantify the progress made by the city.

Similarly, aided by the reading and interpretation of Diagram 4, a second phase of reforms will concern Dakar's revenue. These are largely composed of tax revenue whose collection is carried out by the tax office.

2. The operational lessons drawn from the experience with two sub-national governments (Ouagadougou and Dakar)

Diagram 4. The second series of reforms in Dakar's post PEFA approach



Source: the authors

The effectiveness of the improvement in tax collection thus requires implementing coordinated actions between the local government and the State, in accordance with the competence of the tax office. Diagram 4 will help open the discussion phase, with the goal of agreeing on a diagnosis and attributing responsibilities to improve the evaluation of these indicators over time. The city of Dakar has set about organizing a seminar with the theme of "Strategies and tools for optimal use of Dakar's resources," associating the Treasury, financial departments and the tax office. The seminar's expected results include the improvement of indicators PI-13, PI-14 and PI-15 of the PEFA framework (indicated in Diagram 4): the city of Dakar uses the indicators as tools to measure future progress.

The post-PEFA approach in Ouagadougou

Following an in-depth examination of the PEFA diagnosis, the city launched the implementation of a two-step capacity building project:

- "actions leading to improving PEFA indicators in the short term, without difficulty and with few or no supplementary means,
- actions requiring particular preparation and means to improve the indicators in the medium term."²⁸

²⁸ Elements stemming from the Capacity Building Project of the city in the methodology of measuring the financial performance in the municipal public finances (PEFA).

2. The operational lessons drawn from the experience with two sub-national governments (Ouagadougou and Dakar)

A plan of action was then adopted, listing goals and expected results. Each goal is monitored by one or several responsible structures (associating different city departments with the public revenue or tax department), with deadlines for each expected result (from 2011 to 2013), and an estimation of related costs (outside support, staff training, computer and office equipment, etc.).

In all, implementation of the plan is estimated to cost about 377 million CFA francs, of which 49 million will be paid by the city and 328 million by its technical and financial partners (including the World Bank and AFD).

2.3. The PEFA approach for a local government, a source of development, implementation and monitoring of a national support program for financial decentralization

As an example, the “capacity building” component of a national support program for financial decentralization could be based on four main goals:

- the improvement of financial autonomy²⁹ of sub-national governments, with three areas of analysis: an evaluation of State transfers, of local taxation, and the use of debt financing,
- the improvement of budgetary autonomy³⁰ of sub-national governments in the following domains: free use of State transfers, political autonomy in setting expense priorities, long-term management tools and outside budget support,
- the quality of the budget framework, analyzing both the framework and the budget process,
- the quality of budgetary and financial management in three areas: budget management, monitoring and audit of internal finances, and external auditing.

Reaching these four goals, composed of a series of analytical areas and sub-areas, can largely be measured by the PEFA framework indicators applied to sub-national governments. These can also measure the “reference situation” in using an appropriate classification system (A, B, C and D) then, during the implementation and monitoring of this component of the national program, constitute reference indicators.

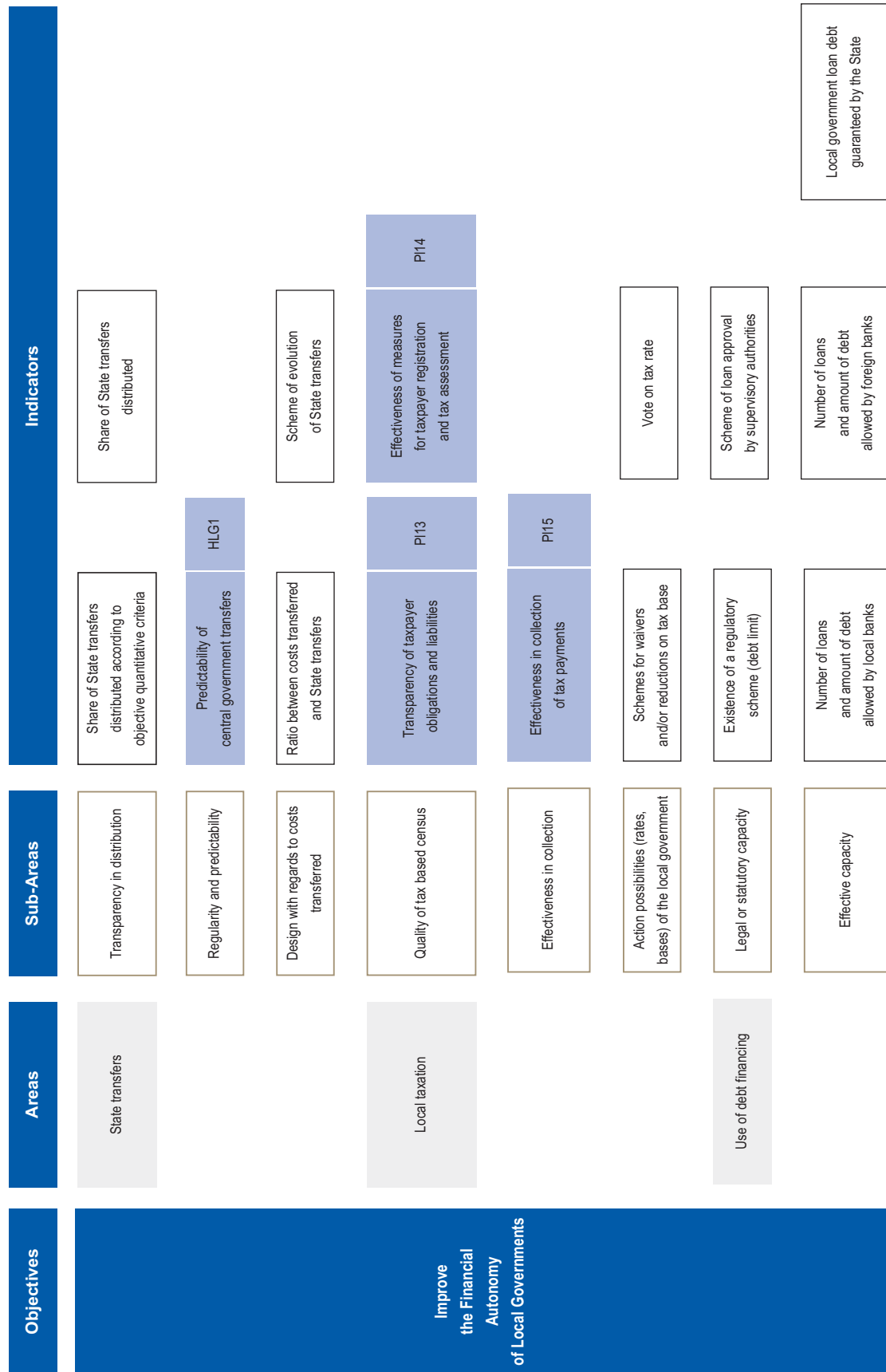
Diagrams 5 and 6 present the structure of this type of program. The totality of PEFA indicators are used (they appear in light blue, with an indication on their numbering, in accordance with the PEFA framework). As a complement (though far from being exhaustive), some indicators are proposed (white squares).

²⁹ Understood here as the decentralized entity's ability to control its resources.

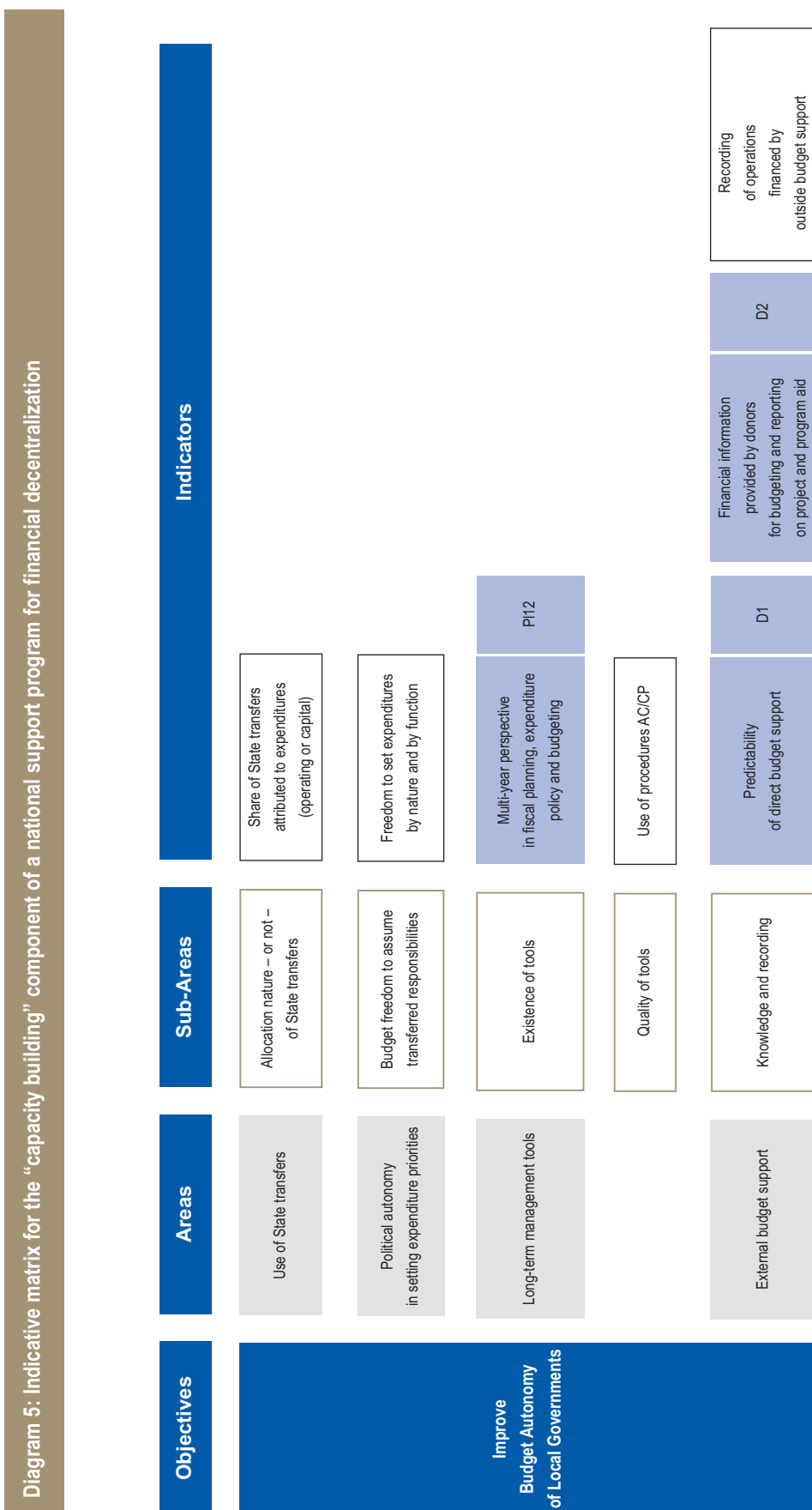
³⁰ Understood here as the decentralized entity's ability to control the nature and the finality (in public policy terms) of its expenditures, in the context of respecting a balanced budget (\sum revenues = \sum expenditures).

2. The operational lessons drawn from the experience with two sub-national governments (Ouagadougou and Dakar)

Diagram 5: Indicative matrix for the “capacity building” component of a national support program for financial decentralization



2. The operational lessons drawn from the experience with two sub-national governments (Ouagadougou and Dakar)



Source: the authors

2. The operational lessons drawn from the experience with two sub-national governments (Ouagadougou and Dakar)

Diagram 6: Indicative matrix for the “capacity building” component of a national support program for financial decentralization

Objectives	Areas	Sub-Areas	Indicators				
Quality of Budget Context	Budget context	Classification of budget	P15	P16	Public access to key fiscal information	PI10	D3
			Classification of budget	Comprehensiveness of information included in budget documentation			
	Budget process	Transparency of budget	P17	P18	Examination of the final accounts by the deliberative assembly	PI24	PI25
			Transparency of budget	Transparency of inter-governmental fiscal relations			
		Approval by deliberative assembly	P111	P127	Quality and timeliness of in-year budget reports	PI24	
		Approval by deliberative assembly	Orderliness and participation in the annual budget process	Legislative scrutiny of the annual budget law			Quality and timeliness of annual financial statements
		Compliance with deadlines	P122	P123			
		Compliance with deadlines	Timeliness and regularity of accounts reconciliation	Availability of information on resources received by service delivery units			

2. The operational lessons drawn from the experience with two sub-national governments (Ouagadougou and Dakar)

Diagram 6: Indicative matrix for the “capacity building” component of a national support program for financial decentralization

Objectives	Areas	Sub-Areas	Indicators			
Quality of Budgetary and Financial Management	Budgetary management	Budgetary execution	Aggregate expenditure out-turn compared to original approved budget P11	Composition of expenditure out-turn compared to original approved budget P12	Aggregate revenue out-turn compared to original approved budget P113	P14
	Internal financial monitoring and auditing	Cash management	Predictability of funds in the availability of funds for commitment of expenditures P16	Recording and management of cash balances, debt and guarantees P17	Effectiveness of payroll controls P18	Stock and monitoring of expenditure payment arrears P14
			Competition, value for money and controls in procurement P19	Effectiveness of internal controls for non-salary expenditure P20	Effectiveness of internal audit P21	Oversight of aggregate fiscal risk from other public sector entities P19
	External financial auditing		External auditing and verification P26	Legislative scrutiny of external audit reports P28		

Source: the authors.

3. Synthesis

The PEFA framework applied to sub-national governments is a tool rich in operational opportunities. It allows for the development of an adapted reform plan for the improvement of the financial management of a local government in particular, or to devise a national support program for financial decentralization in a given country.

More than a complementary tool for a classical approach to financial analysis and evaluation of the decentralization process, the PEFA framework “energizes” these different methods and will logically contribute, in the future, to supplying a common analysis grid to national and local governments as well as to technical and financial partners.

3.1. The PEFA methodological framework is broadly adapted to sub-national governments

In view of the samples examined, an initial conclusion appears: the PEFA methodological framework is broadly adapted to sub-national governments. However, because of the institutional diversity of the local governments examined, it is essential to well know the superstructure and to precisely describe the legal and regulatory organization adopted and practiced in each of the local governments examined.

It is indeed unrealistic to attempt to rate a certain number of indicators described without carrying out a detailed analysis of the organization of these governments. The degree of financial autonomy (see indicators PI13 to 15 relative to taxation for francophone local governments) of the latter, for example, is a fundamental subject if we want to understand and explain the reasons for a rating or the lack of one. The same holds true for the budgetary and accounting organization which can be decisive for rating indicators PI-1 and PI-2 concerning budget credibility, for example.

The first observation is that the rating and the description of the institutional environment are inseparable; they cannot be understood and used alone. A detailed analysis of this environment should thus become the rule in the reports carried out for sub-national governments. The PEFA secretariat should integrate this aspect into its activities of monitoring production quality.

The second observation, directly linked to the first, bears on the need to justify the absence of ratings. A few brief

phrases cannot adequately explain comments such as NA, NU or NR. When used, this type of assessment must be clarified. The initial description of the institutional environment also plays a fundamental role as it bolsters the explanation given for any absence of rating.

The third and final observation is that the absence of a rating does not necessarily imply, in the case of sub-national governments, a “bad” performance, but may point out the non operational nature of an indicator in a particular institutional environment.

These observations lead to concluding with three essential remarks:

- the need to describe and well know the organization of the sub-national structures analyzed;
- the organizational differences are not due to a bad performance or to the non application of “good international practices”;
- the requirement that the evaluators adapt, with no “cultural” bias but no compromise either, to the situation at hand.

With regards to the different PEFA sub-governmental studies, the need may arise to adapt the ratings thresholds for quantitative indicators (notably for the execution of

expenditures, revenues, the volume of arrears, etc.), an adaptation which could occur either on a regional or a continental basis. However, it is highly probable that the search for “smaller common denominators” between sub-national governments of different countries, on a regional or global scale, will lead to retaining the existing quantitative indicators in the PEFA national framework. Indeed, the ideal scenario for a successful financial decentralization would mean that the PEFA quantitative indicator ratings for a local government would at least be the equivalent of those of the State. The adaptation of certain PEFA sub-national quantitative indicators would, in our opinion, result in distorting the exercise: thus it seems essential that the PEFA framework not be modified

but rather supplemented in order to apply to the financial performance of a local government.

The application of the PEFA framework seems to be limited to local governments with a real capacity to exercise their autonomy. In practical terms, that means that the local government must have its own human and technical capacities to have real management power over its budget and finances. In reality, this favors political and economic capitals, where municipal executives have the tools to plan development, i.e. to plan for their expenditures (equipment, operating expenditures) on the basis of a realistic anticipation of resources.

3.2 The PEFA framework cannot be a tool for comparing decentralized entities

Comparing local governments among themselves is an understandable temptation, for both donors wishing to strengthen their public finance management systems and for local elected officials and their financial managers who wish to develop or improve the attractiveness of their municipality.

Does the application of the PEFA methodology permit such a comparison? The PEFA program advises against it. From our point of view, this approach is fair and justified for several reasons. Firstly, and it is particularly true for sub-national governments, the diversity of constitutional, legal and regulatory environments makes term for term sub-national government comparisons difficult. It would suffice to make “all other things equal” to envisage such a comparison. Is it possible, for example, to compare internal auditing systems which for some municipalities are controlled by the State, with others for which control is local and with still others sharing the roles between the State and the municipality? Can municipalities which must manage public companies be compared with others which do not have this requirement or possibility? In this case, would the risk assessment be the same?

Among themselves, entities of the same legal and regulatory environment could possibly be compared (States, municipalities, etc.), but beforehand, the similarity of political and economic environments would have to be verified (stability, absence of exogenous crises, etc.). Indeed, the news regularly demonstrates that institutional and economic contexts can be very unstable.

That leads to the second possible reason, that of the existence of sufficient and competent capacities within the administrations. External crises, weak administration and lack of training are elements which play a considerable role in assuring the sound management of public finances.

Finally a third but not least reason is linked to the temporality of the evaluation. Can evaluations which haven't taken place at the same time, thus giving a “state of the art,” be compared? Here too nothing is less sure, such are the evolutions, even slow, which can mean the difference between two public finance management systems. Not to mention that what constitutes a good practice at a given time can become obsolete two or three years later.

In all regards, comparisons do not seem possible. And the rare experiments which have been conducted can in no

way be useful tools to classify countries or local governments.

3.3 The PEFA report must be enriched with an introduction to the context of decentralization and account for the notion of actual expenditures

The preceding developments make it possible to observe that PEFA evaluation framework, notwithstanding certain indicators (HLG-1, for example), was by and large adapted to the different types of sub-national governments. Still, the great diversity of these governments, as much in terms of size, political autonomy and budget as in capacity, implies that the report produced following the evaluation must be especially detailed in its description of the institutional, legal and regulatory context in which the government under study is evolving. Indeed, the role and the powers passed on to the sub-national government will be indispensable explanatory elements for the rating of quantitative and qualitative indicators.

The description of the context of the decentralization

Thus, it would be important, in an introductory chapter to the report,³¹ to examine and describe the following (not necessarily exhaustive) domains:

- political:
 - legitimacy and political autonomy of the decentralized entities: What are the modes of election / designation for (i) the sub-national executive, (ii) the deliberative assembly? What is the nature of the democratic oversight of the executive power? What are the regulatory powers assigned to the decentralized entity?
 - participative character of the budget and management: What is the level of participation of the population in the preparation of the budget? What information on budgetary execution is available to the population?
- institutional:
 - institutional organization of the decentralization: what is the structure of the decentralization? What is the legal character of the process of decentralization (written in the constitution, in an organic law, etc.)? Is the description of the distribution of competences by category of decentralized entity sufficiently clear? What is the nature of supervision of the legality of actions taken by the decentralized authorities?
 - description of the public policies implemented in the territories: between the local and central government levels, between the different local levels, within the same category of local levels;
 - description of the human resources of the decentralized entities: autonomy in recruiting local agents; status of local agents; qualification of agents;
 - quality of the process of devolution of competences: organization and planning of the process; level of appropriation by the decentralized entities.
- knowledge of the environment and the use of local development tools:
 - knowledge of the actors and the socio-economic activities (population, economic fabric, etc.); urban planning tools.

³¹ The core of the PEFA report measuring the performance of budgetary management of the concerned local government.

The notion of effective expenditures

The definition used in the PEFA national framework implies the entirety of State expenditures, in a context where, most often, the share of operating expenditures is far greater than that of investment expenditures. However, in the case of a local government with a wide range of urban competences, the share of investment expenditures (equipment expenditures corresponding to acquisitions and works) is generally high and their rate of execution is sometimes very dependent on obtaining outside resources (subsidies from the State or other institutional actors, internal and external borrowing, aid from international cooperation) and the

collection of its own funds, a large portion of which is from State services (local taxation, transfers, sharing of tax revenue). Also, the rate of execution of investment expenditures is, in most cases observed in different regions of the world, relatively weak, with respect to the rate of execution of operating expenditures. This situation in effect penalizes the measuring of indicators concerning the rate of expenditure execution. It is thus proposed to distinguish, in the evaluation comments for indicator PI-1, between operating expenditures and investment expenditures, without modifying the existing rating system, in order to show the type of expenditure (operating or equipment expenditure) which explains the final rating for this indicator.

3.4 The PEFA sub-national is at the heart of the State / local government relationship

The format of the PEFA study today applies to States. It specifically concerns the quality of the system of public finances of a State. Also, its results are centered on the performance of one actor.

The political appropriation of the PEFA sub-national tool

The implementation of this type of study for African sub-national governments took on, and still takes on, an innovative character.³² At first, this approach requires the support of all stakeholders, i.e. the local government concerned (notably the municipal majority and the opposition), the Treasury, the Ministry of the Interior, the Court of Auditors and the organizations or establishments with a support or financing role with the local government. Yet this support is not necessarily easily obtained, a PEFA study being a tool "revealing" the weaknesses of a public finance system. Indeed, several indicators of the PEFA framework applied to sub-national governments are not in the scope of municipal action: for example, indicators PI-13,³³ 14³⁴ and 15³⁵ measuring more the quality of the actions of tax services than that of the local government. Also, a poor reading of these indicators can give the municipality real

arguments to demand the modification or the strengthening of State services. Similarly, the evaluation of indicator PI-26³⁶ brings to light, in the eyes of its partners and its population, the quality of external auditing of the financial actions of the local government, thus helping to strengthen, or to the contrary, to modify the confidence of economic and financial partners towards the decentralized entity.

However, in the cases of Dakar and Ouagadougou, the national authorities accepted to carry out these PEFA diagnoses after a simple presentation of the method and operations involved with this type of study. This favorable response alone testifies to the common will to improve the local public finance system in West Africa, and of the awareness that the beginnings of a dynamic of change could more easily be undertaken at the local level.

The adaptation of the PEFA framework to a local government widens the field of analysis

While the results are focused on the local government actor, they also translate the quality of the financial relationship of the latter with the State (predictability of transfers and the quality of tax collection, for example). The PEFA framework is thus at the heart of the State/local government relationship. However, in the decentralization process, this relationship can be variable, notably in terms of the autonomy granted to sub-national governments. This reinforces the need to not modify the PEFA framework, both the qualitative and quantitative indicators, in order to retain a neutral, objective and sustainable tool for measuring the quality of the relationship.

Here we have one of the principal stakes developed in this working paper: the sub-national PEFA framework is not a tool for rating local governments, but first and foremost a tool to measure progress in the financial performance of a local government.

The sub-national PEFA framework, initial step in the development and implementation of a capacity building program

The workshop format for the presentation of a PEFA study, which associates all State services (Interior, Finance, Tax) as well as outside supervision, encourages the sharing of analyses and results, also making it possible to more quickly conclude on the development of a capacity building program. It is around this shared diagnosis between the local government and the State that technical and financial partners must harmonize and coordinate their support in order to accompany this process of improvement of public finance management over the long term. The stakes are high: in the next few years, this process of change will certainly allow sub-national governments located in the least privileged areas to appear as quality institutional actors, capable of responding to the urban challenges of the XXIst century.



Appendix 1: Method to follow for indicators without ratings

Currently, when an indicator is not rated in a PEFA evaluation report, evaluators justify this absence of rating in a variety of ways. The reference framework gives no indication on how to treat the absence of rating on an indicator. The September 2008 update does not directly address this subject either.

The “non rated” methodology presented below offers a more detailed treatment of the situation of non rated indicators, thus reinforcing the clarity and coherence of the terminology and the justification.

Until now, when an indicator has not been rated, either the evaluators do not mention the indicator or its component in the explanatory text or the table presented in the report, or they leave empty the box where the note would have appeared, or they note “NA” or “NR.” The presentation brochure of the Framework gives no indication as to how to handle the absence of a rating for an indicator, nor do the Clarifications (updated in September 2008). However, this point is important, since the absence of a rating results from different reasons which must subsequently be interpreted. If the absence of a rating due to insufficient information obtained can be considered an evaluation in itself – perhaps even more unfavorable than a “D” rating – the non-applicability of an indicator results from the PFM characteristic of the country considered, whereas the deliberate omission of several indicators reveals problems connected with the evaluation process which may not be duly justifiable. The methodology to use in the case of non rating is explained below.

NR Not Rated

When adequate information for rating an indicator or one of its components is unavailable, “NR” is noted. The following indicators and components are treated differently: PI-4 component ii, PI-7 component ii, PI-19 components i and ii, to the extent that the Framework indicates that ratings must be assigned in these different cases, when the available

information is insufficient. It is suggested to note NR in the event it proves impossible to measure an indicator to rate (and its components, if necessary). Among the reasons for not assigning a rating are, for example: difficult access to data; a badly designed schedule at the time of planning by the institution in charge or the evaluation team; or the impossibility to meet representatives of authorities in possession of the information needed to score the indicator.

NA Not Applicable

When an indicator or one of its components is not relevant in the evaluated country, “NA” is assigned. This situation occurs most often in small States with a small central administration and not operating at the level of sub-national administrations, at least as far as PFM is concerned. Thus, indicator PI-8 and its components are noted NA, as is the component ii of indicator PI-9. Another example is that of countries with no internal auditing function. In this case, a rating of “D” is assigned to the component i of indicator PI-21, but the two other components are rated “NA.” An overall rating is nonetheless assigned to the indicator, in this case “D.”

NU Not Used

When it is deliberately decided to not evaluate an indicator or one of its components, “NU” is assigned. Sometimes an indicator is not “used” following the decision of a donor to dismiss it (often the case for the three indicators concerning donors), or upon the request of country authorities that no rating be assigned to an indicator. That can also occur if only a sample of indicators is considered in the context of an annual update. It is also possible that the PEFA rating method is not sufficiently assimilated by the evaluation team. For example, at the beginning of the Framework rollout period, some evaluation teams decided to not assign ratings to indicator components or, at least to not disclose them in the report.





List of Acronyms and Abbreviations

DFID	Department for International Development (United Kingdom)
ECOWAS	Economic Community of West African States
EU	European Union
HLG	Higher Level of Government
IMF	International Monetary Fund
ISM	International Safety Management
MAEE	Ministère des Affaires étrangères et européennes - France (Ministry of Foreign and European Affairs)
NA	Not applicable
NR	Not rated
NU	Not used
OECD	Organisation for Economic Co-operation and Development
OECD-DAC	Organisation for Economic Co-operation and Development – Development Assistance Committee
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PFM-PR	Public Finance Management-Performance Report
PPIAF	Public Private Infrastructure Advisory Facility
SECO	State Secretariat for Economic Affairs (Switzerland)
SN	Sub-National
SNTA	Sub-National Technical Assistance



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