THE EUROPEAN UNION'S EDF PROGRAMME

# PEFA FRAMEWORK ENHANCEMENT FOR BETTER MEASUREMENT OF COUNTRY PFM SYSTEMS

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Analytical Note 5: Coverage of the Public Sector in PEFA Assessments

Prepared by Frans Erik RONSHOLT

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# List of Abbreviations

| | |
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| AFD | aggregate fiscal discipline |
| AFS | annual financial statement |
| AGA | autonomous government agency |
| AN | analytical note |
| BCG | budgetary central government |
| CG | central government |
| EBF | extra-budgetary fund |
| EBO | extra-budgetary operation |
| EBU | extra-budgetary unit |
| EPEC | European PPP Experience Centre |
| ESD | efficiency in service delivery |
| EU | European Union |
| FAD | Fiscal Affairs Department of the IMF |
| GDP | gross domestic product |
| GFS | Government Financial Statistics |
| IMF | International Monetary Fund |
| MDA | ministries, department and (semi-autonomous) agencies of government |
| OECD | Organisation for Economic Cooperation and Development |
| PC | public corporation |
| PEFA | Public Expenditure and Financial Accountability |
| PEWG | Public Expenditure Working Group |
| PFM | public financial management |
| PFM-PR | Public Financial Management Performance Report |
| PI | performance indicator |
| PPP | private-public partnerships |
| QFA | quasi-fiscal activities |
| SDU | service delivery unit |
| SOE | state-owned enterprises |
| SNG | sub-national government |
| SSF | social security fund |
| SWF | sovereign wealth fund |
| SAR | strategic allocation of resources |

# 1. EXECUTIVE SUMMARY

This note attempts to address three issues:

- Optimal coverage of the public sector, based on the objectives of a PEFA assessment and the trade-offs between importance, data availability and resource inputs in the implementation of an assessment.
- Consistency in coverage of the public sector across the performance indicators;
- Guidance on the description of the public sector in a PFM-PR to be sufficiently detailed for readers to understand what the assessment covers, what it does not cover and the relative importance of the sector components covered by each indicator;

The main recommendation is that a PEFA assessment be focused on the entire central government (CG) operations as originally intended, and that other parts of the public sector be covered only to the extent that CG should and does collect information on sub-national government and public corporations for coordination of aggregate fiscal discipline and strategic resource allocation at high level.

Whilst the entire CG should be the subject of the assessment and coverage be consistent across all narrative sections/indicators in the PFM-PR, consideration has to be given to significant practical obstacles in rating a few indicators.

On this basis the proposals in this note comprise three main components:

- A more detailed description of the structure and fiscal operations of the public sector in general and fiscal flows and stocks within central government in particular;
- Strengthened coverage of CG oversight of fiscal risks from sub-national government and public corporations;
- Expansion of institutional coverage of approximately 10 performance indicators from budgetary central government to entire central government in order to ensure consistency of assessment coverage across countries and sector coverage across performance indicators.

These recommendations will have implications for the resources needed to implement a PEFA assessment. However, the resource implications may be moderate and smaller than one might expect from looking at the recommendations in isolation.

Additional information is proposed for the background description of public sector structure and fiscal operations of the consolidated central government. Much of the background data already now required, draw on the same sources and overlaps with the proposed additional content. The additional content may typically require 1-2 additional assessor days for data collection, processing and reporting.

As regards the expanded indicator coverage, one should recall that for any assessment a sample of MDAs outside the central finance agencies needs to be visited for triangulation of information as well as understanding of performance of systems related to achieving technical efficiency. Such a sample is required no matter how large or small a part of CG operations are covered by the budgetary central government institutional unit (BCG) and its individual ministries, departments and agencies. The difference is that in a country with a large share of CG operations taking place outside the BCG institutional unit, the sample has to include a significant element of extra-budgetary units and social security funds in order to truly represent the entire CG. The overall sample to represent CG needs not be much larger where extra-budgetary units and social security funds are to be included.

# 2. INTRODUCTION

## 2.1. Background

The PEFA workshop held at the World Bank in September 2012 identified eight Environmental Changes to the PEFA Framework of which one was: "The boundary between the Government sector and the Public Sector may need to be redefined for the purpose of an assessment".

The issue concerns identification of what entities constitute 'public corporations' and 'government units' respectively, and the fiscal relations between the two parts of the public sector. Analytical Note 1[1] looked briefly at this issue. It found that whereas the principles of how the boundary is fixed in the PEFA Framework should be quite clear, experience has shown that (i) the PEFA Framework may not adequately cover the PFM systems that should manage the relationships between government and public corporations and (ii) some practical problems have been a challenge to many assessors, such as:.

- the often inadequate description in Section 1 which results in lack of understanding of the extent of public corporations in terms of number of entities and economic importance as well as the financial flows between the government and the public corporations;
- lack of readily available data to determine if an entity is a government unit or a public corporation;
- how to treat public-private partnerships;
- the very variable coverage of extra-budgetary operations provided in Performance Reports for indicator PI-7i – which often excludes quasi-fiscal operations;
- the rather crude requirements listed for scoring of PI-9i.

The Analytical Note concluded that there is need for improved guidance as well as more specific data and scoring requirements to be inserted in the PEFA Framework, and recommended further work to be carried out in this respect.

Proposals prepared by the PEWG Task Team's and presented to the PEFA Steering Committee in June 2013, highlighted additional concerns about the definition of the general government sector and its components and how these components are to be covered by a PEFA assessment.

## 2.2. Purpose of the Note

The current note seeks to address these issues and goes a step further than the proposal in the Analytical Note 1 in terms of 'optimizing' the coverage of an assessment to the extent feasible. The terms of reference (TOR) for the current note (ref. Annex A) highlights that the coverage of off-budget activities – including sovereign wealth funds (SWF) and public-private partnerships (PPP) - is unclear, and that activities of autonomous government agencies (AGAs) – including social security funds and service delivery units – are not covered consistently across the performance indicators. As a result of countries having different institutional arrangements[2] it has been noted that there are country cases where a PEFA assessment covers less than 50% of public expenditure[3].

[1] EU/IBF I 2013

[2] It should be noted that coverage will also be affected by the assessors' interpretation of PEFA Framework, its guidance, and the GFSM terminology as well as the ability to adequately classify public sector institutions.

[3] For an example, see PEFA assessment 2010 for Costa Rica where expenditure by budgetary central government constitutes just under 50% of total central government expenditure.

This note therefore attempts to address three issues:

- Optimal coverage of the public sector, based on the objectives of a PEFA assessment and the trade-offs between importance, data availability and resource inputs in the implementation of an assessment.
- Consistency in coverage of the public sector across the performance indicators.
- Guidance on the description of the public sector in a PFM-PR to be sufficiently detailed for readers to understand what the assessment covers, what it does not cover and the relative importance of the sector components covered by each indicator.

### 2.3. What does PEFA assess and why?

According to the PEFA Framework "*A good PFM system is essential for the implementation of policies and the achievement of developmental objectives by supporting aggregate fiscal discipline, strategic allocation of resources and efficient service delivery*." The purpose of PEFA assessments is to broadly measure the quality of the government's PFM systems at a high level and, therefore, the systems' ability to support the government in achieving these three budgetary outcomes:

- Aggregate fiscal discipline
- Strategic allocation of resources
- Efficiency in service delivery

A PEFA assessment is then typically utilized as an input to

- inform formulation or review of the government's PFM reform program
- monitor changes in PFM system output or performance over time as a result of reform program implementation
- inform external development agencies' decisions on the nature and modalities of financial and technical support to the government[4].

The contribution of a PEFA assessment to those processes is at a relatively high level, primarily in setting reform priorities, gauging the trends in performance, as well as deciding on budget support operations and on priorities in offering technical support for PFM reforms. Additional inputs are needed for most decisions, and specialized assessment tools facilitate decisions at more detailed level.

To serve its purposes, the PEFA Framework contains 28 government performance indicators[5], which reflect PFM systems that impact on each of the three budgetary outcomes. Whilst most of the 28 indicators includes features that may impact on all three budgetary outcomes[6], the majority of the

[4] Whilst the remainder of this note focuses on PFM systems' ability to assist in delivering the three budgetary outcomes, some PEFA SC members consulted indicated that some limitations of PEFA as input to fiduciary risk assessment is also a concern to be addressed. This is important to consider as part of the Framework revision. In terms of coverage of the public sector, it is primarily an issue related to transfers from CG to sub-national governments and the accountability for the use of such transfers if earmarked. Issues of systems coverage realted to fiduciary risk within the CG should be considered by the four Task Teams.

[5] The three donor indicators are not discussed in this note as they concern donors rather than the coverage of components of the public sector.

[6] Particularly because individual dimensions of an indicator may not be focused equally on each of the budgetary outcomes.

indicators is predominantly focused on one or two of the budgetary outcomes each. Annex C provides an indication of the main focus of each of the indicators. The need for information from each of the indicators depends on which of the budgetary outcomes the users are concerned with. If the focus e.g. is aggregate fiscal discipline, the priority is to bring revenue in as planned (PI-3) and keeping overall spending in line with the budget (PI-1 and PI-4). But if fiscal discipline has already been achieved, the focus may shift to the efficiency and effectiveness in collecting revenue (PI-13, 14 and 15) or the efficient use of resources allocated to MDAs (e.g. PI-18 and 19).

The institutional focus similarly changes with shifts in priorities among the budgetary outcomes. Achieving aggregate fiscal discipline and strategic allocation of resources are objectives being pursued primarily at the level of the finance ministry and require that the finance ministry has systems to obtain the necessary information for control and decision making in that respect. Achieving efficiency in service delivery shifts the perspective to the functions at the sector MDAs.

# 3. STRUCTURE AND ENTITIES OF THE PUBLIC SECTOR

## 3.1. The Public Sector as defined in GFS

The PEFA Framework refers to the definitions of the public sector and its components of the IMF's Government Financial Statistics (GFS) system – specifically the GFS Manual of 2001. However, the GFS Manual is undergoing an update which is quite advanced[7]. This update will be the appropriate future reference to international standards in defining the public sector for the PEFA Framework. It is therefore the terminology, definitions and guidance of the updated version that is mainly referred to in this note.

The components of the public sector as defined by GFS is illustrated in Annex D. '**General government**' combines 'central', 'state' and 'local' government. For each of these three levels, the government consists of three sets of institutional units (legally constituted units/persons):

- **budgetary government units** – financed mainly by the legislative budget and often organized as a single institutional unit that encompasses the judicial authorities and legislative bodies of government;
- **extra-budgetary units (EBU)** – funded mainly from sources outside the legislative budget and established as separate legal entities;
- **social security funds (SSF)** - operating social security schemes, organized and managed as well as holding its assets and liabilities separately from other government units, and engaging in financial transactions in their own right.

In addition, the government – at each of the central, state or local level – may control a number of **public corporations (PC)** – financial or non-financial – which are financed mainly by selling produced goods and services at economically significant prices, even if they may also exist to serve as instruments of public policy.

The **public sector** comprises the general government sub-sector plus the public corporations sub-sector.

Finally, the government interacts financially with **private sector** institutions and households through a variety of legally established obligations, entitlements and individually entered contracts.

Both public corporations and private sector institutions may implement **quasi-fiscal operations** i.e. fiscal policy measures, which are funded indirectly rather than through direct transfers to or from the budget.

The above is a very brief summary of the main features of the public sector and its government sub-sector. The determination of whether a particular organization belongs to one category or another depends on detailed criteria set out in the GFS Manual. Any country that reports its statistics to GFS should have made the appropriate classification of units. The PEFA Framework aims at assessing the financial management systems established to manage the central[8] government's part of or interaction with this complex of units and operations.

[7] An exposure draft was issued in November 2012 with comments closing March 2013. Final draft of the main chapters/annexes were publicized in July 2013 (ref. IMF 2013 II). IMF expects the final update to be publicized before end of 2013.

[8] Or that of any sub-national level government being the subject of a separate PEFA assessment when applying the requisite PEFA guidance in that respect

## 3.2. Special Classification Issues

Some types of institutional entities have caused particular difficulties for PFM assessors and have resulted in different approaches to classification – and therefore in inconsistent assessment of the systems in PFM Performance Reports. The result is incomplete coverage in some cases, inconsistency across countries and even inconsistency between assessments over time in the same country. As some of the entities in question have very significant turn-over and/or hold large assets, incorrect coverage can have important implications for the assessment findings. The PEFA Secretariat may wish to issue specific guidance on how to deal with those entities in a PEFA assessment. The GFS Manual provides specific guidance on most of these classification questions. Classification issues and related coverage of the relevant institutional entities are discussed in Annex F including social security funds, sovereign wealth funds, public-private partnerships and service delivery units.

# 4. CURRENT APPROACH AND GUIDANCE IN THE PEFA FRAMEWORK

## 4.1. Basic Approach to PEFA Coverage

The coverage of the public sector - and in particular the government sub-sector - by a PEFA assessment is clarified on pages 2-3 of the PEFA Framework as follows:

*"The focus of the PFM performance indicator set is the public financial management at central government level, including the related institutions of oversight. Central government comprises a central group of ministries and departments (and in some cases deconcentrated units such as provincial administrations), that make up a single institutional unit. In many countries, other units are operating under the authority of the central government with a separate legal entity and substantial autonomy in its operations (in this document referred to as autonomous government agencies) and also constitute a part of central government operations. Such units would be used for the purpose of implementing central government policy and may include non-profit institutions, which are controlled and mainly financed by central government. Operations of other levels of general government and of public enterprises are considered in the PFM performance indicator set only to the extent they impact the performance of the national PFM system and its linkages to national fiscal policy, formulated and monitored by central government."* The Framework refers to the GFS Manual 2001 for detailed guidance on the definition of the public sector and its components.

The focus of a PEFA assessment is the PFM system of the central government, in principle the entire central government i.e. including EBUs and SSFs. Currently the PEFA Framework refers to EBUs and SSFs as Autonomous Government Agencies or AGAs.

Links of the central government to other parts of the public sector – sub-national government i.e. state and local (SNG) and public corporations (PC) - currently referred to in the PEFA Framework as 'public enterprises' - are covered by indicators PI-8 and PI-9 as well as descriptions in PFM-PR sections 1 and 2. However, assessment of the performance of the internal PFM systems of SNGs and PCs do not form part of a typical PEFA assessment, but may be subject to separate assessments. PFM systems assessment of SNGs may utilize the PEFA Framework – and the special guidance issued to that effect – whereas assessment of financial management systems of PCs will need to use a different instrument due to the very different nature of PCs from those of government entities. Corporate governance assessments for PCs have been undertaken in several countries using tools developed by OECD and the World Bank.

## 4.2. Guidance for Section 1 of the PFM-PR

In order to understand what this means for the assessment of a particular country, any PFM Performance Report (PFM-PR) is supposed to describe the public sector and its components in section 1 of the PFM-PR in accordance with the guidance provided on Page 57 of the Framework, which is shown here in Box 1.

**Box 1   PEFA Framework – Scope of the Assessment**

- ***The scope of the assessment as provided by the PFM-PR**:* Public financial management at the level of central government (including ministries, departments, autonomous agencies and deconcentrated entities) may cover only a limited amount of public expenditures that take place in a country, depending of the devolution of responsibilities to sub-national governments and public enterprises. Therefore, the report identifies the share of public expenditures that is made by central government. The importance of autonomous agencies in central government operations is specified due to their operations being outside the budget management and accounting system of the central government unit. In addition, the report provides information on the relative shares of public expenditures made by other entities.

| Institutions | Number of entities | % of total public expenditures |
|---|---|---|
| Central government* | | |
| Autonomous government agencies | | |
| Sub-national governments | | |

***** Includes ministries, departments and deconcentrated entities.

The general experience from review of assessments – through the series of Monitoring Reports prepared by the PEFA Secretariat – is that the description of the public sector in most PFM-PRs is very limited and does not adequately clarify how much of the public sector – or even of the government sub-sector - is covered by the assessment and the relative magnitude of the sector's various components. This was first highlighted in the Report on Early Experience from Application of the Framework[9] and repeated in the subsequent Monitoring Report 2007[10] as follows:

*"Description in the Introduction (section 1) of the structure of the public sector is rarely sufficient to understand the accountability arrangements and relationship to the central government budget. Description of sub-national governance and accountability arrangements i.e. the distinction between decentralized and deconcentrated sub-national government, is often unclear. The same is the case with the nature and importance (e.g. turnover) of autonomous government agencies. This has important implications for where and how SN government and AGAs are incorporated into the indicator based assessment and for the relative weight of indicators when bringing the indicator assessment results together in the summary assessment."*

The Monitoring Report 2009[11] again highlighted the issue as follows:

*"A common omission in the Introduction is a comprehensive description of the structure of the public sector in terms of number of entities, relative importance and fiscal relations e.g. in a table. This omission negatively affects the understanding of what parts of general government the assessment covers and the relative importance of some indicators, notably PI-8 and PI-9."*

[9] PEFA Secretariat 2006 paragraph 57
[10] PEFA Secretariat 2008 paragraph 88
[11] PEFA Secretariat 2010 page 26

Nevertheless, this issue has continued to be a concern and the PEFA Workshop in September 2012 identified ‘the Boundary between the Government Sub-sector and the entire Public Sector’ as one of the Environmental Changes that the revision of the PEFA Framework should address.

Part of the problem is that many governments do not maintain unified lists of the public sector’s institutional units including classification of which ones belong to budgetary central government (BCG), which ones are AGAs (EBUs and SSFs) and which ones are public corporations. In particular, problems have occurred with pension funds which are often among the largest public assets and with public-private enterprises (PPPs) which take a variety of forms and therefore do not necessarily all belong to the same institutional sub-sector.

Another part of the problem is that the guidance in the PEFA Framework is not adequate to ensure that sufficient and consistent information is provided in the reports and that the relative importance of an institutional sub-sector is understood. Deficiencies include e.g. the table in the guidance distinguishes ‘central government’ from AGAs, does not distinguish different tiers of SNGs, excludes public corporations and only makes reference to expenditure for each group without considering revenue, fiscal transfers[12] and assets/liabilities.

### 4.3. Guidance on Coverage for each Performance Indicator

Whilst it was clear from the onset in 2005 that a standard PEFA assessment should in principle cover the entire central government, questions arose as to what this would mean in relation to each of the performance indicators. The main problem was how to cover AGAs (now EBUs and SSFs in the revised GFS Manual). The AGAs (or extra-budgetary funds) are specifically referred to as covered by indicators PI-7(i), PI-9(i), PI-26 and PI-28, with more ambiguous reference in PI-4, PI-17 and PI-22, but they are not referred to in other indicators. As assessors are usually pressed for time to implement the assessment, there has been little appetite for collecting and analyzing data from additional institutional units if this was not absolutely necessary to complete the assessment. Whilst much information on BCG would be obtainable from central sources such as the finance ministry, data on AGAs would often require additional efforts.

Consequently, the PEFA Secretariat developed some guidance during 2006-2007, included in the document[13] ‘Guidance on Evidence and Sources’. This guidance was in 2012 incorporated into the ‘PEFA Fieldguide’[14].

The table in Annex B provides a list of the 28 performance indicators for the government[15] and their 71 indicator dimensions. The institutional coverage – as specified in the PEFA Fieldguide - is shown for each indicator dimension, as well as the gap in coverage of the entire central government (CG). Other issues of indicator coverage are listed in a separate column.

An analysis of the information in the table leads to the following findings:

- Of the 71 indicator dimensions, the guidance suggests that only 28 dimensions cover the entire CG, whereas 39 dimensions cover only the more limited reach of budgetary central government (BCG). Typically this means that 39 indicator dimensions exclude assessment of financial operations of the AGAs.

[12] The PEFA Fieldguide 2012 improved on aspect by including a column for transfers.
[13] PEFA Secretariat 2007
[14] PEFA Secretariat 2012
[15] The three donor practice indicators are excluded as they are not relevant to coverage of central government.

- Coverage by the same 39 indicator dimensions of extra-budgetary operations managed by MDAs (i.e. operations that are outside the central government's unified budget approval and execution system) is not clear, as budgetary central government is not specified as covering either the budgeted operations only or the entire institutional unit of BCG.

- The institutional coverage for PI-8 (in particular dimensions (i) and (ii)) is not clearly defined as it could cover transfers from the entire CG or from only BCG.

- The coverage by PI-23 attempts to go beyond service delivery units that fall under the CG i.e. coverage exceeds CG.

Whilst the guidance on indicator coverage is consistent for most sub-sets of the indicators[16], annex B also indicates a few inconsistencies:

- The coverage of debt sustainability analysis in PI-12(ii) is listed as BCG, whereas the coverage of government debt reporting in PI-17(i) is listed as all of CG.

- The coverage of strategic sector plans in PI-12(iii) is listed as BCG, although a strategic sector plan should include the activities and financing by all major players in the sector, whether they are MDAs, AGAs and Public Corporations, or NGOs and other private sector entities.

- Under budget execution, the coverage of payroll management in PI-18 and procurement in PI-19 includes all of CG, whereas the coverage of internal control, internal audit, account reconciliation and expenditure arrears monitoring (in PI-20, 21, 22 and 4(ii)) is listed as BCG.

- The coverage of consolidated, annual financial statements in PI-25 is listed as BCG, but PI-25 at the same time refers to IPSAS which requires that annual financial statements consolidate BCG with AGAs and Public Corporations.

### 4.4. How is the difference between CG and BCG reflected in a PEFA assessment?

Indicator PI-7(i) 'the level of extra-budgetary expenditure which is unreported' is in principle the key to understanding the difference between CG and BCG. The indicator is supposed to consider all of the extra-budgetary operations (EBO) and measure - in quantitative terms – those operations that are not reflected in the CG's core fiscal reports ex-ante and ex-post – in whatever format that may take place. Apart from the recognized difficulties with quantifying what is not reported in centralized core documents, PI-7(i) is rather imperfect at fulfilling its purpose with its current formulation, for a number of reasons:

- It is focused on 'expenditure' rather than operations that may include both 'revenue' and 'expenditure'. Whereas extra-budgetary revenue and expenditure may equate in the long term, there may be major differences within an annual or even a medium-term perspective, particularly where a build-up of financial assets is foreseen e.g. in natural resource, social welfare or pension

[16] E.g. all indicators focused on the unified central government budget (PI-1, 2, 3, 5, 6, 11, 16, 24, 25 and 27) as well as indicators focused on tax administration (PI-13, 14 and 15).

funds[17]. A fund during its early years after establishment may therefore be much more important as percentage of revenue than as percentage of expenditure.

- It neither distinguishes between different categories of extra-budgetary operations such as fiscal and quasi-fiscal, nor does it distinguish between different categories of institutions that implement them such as (a) MDAs under the institutional unit of BCG, (b) AGAs i.e. EBUs and SSFs, (c) public corporations and (d) private sector entities.

- Hardly any information is required on how and with what detail extra-budgetary operations are reflected in the key fiscal documentation and therefore the extent to which reporting on EBUs, SSFs and MDA-managed EBOs provides an effective tool for overview of central government operations at the budget approval, in-year monitoring and final accounts stages.

Two other indicators that contribute to understanding the links between CG and other parts of the public sector: PI-8 and PI-9. Also here, difficulties are encountered in fulfilling the purpose of the indicators:

- The guidance for PI-8(i) and PI-8(ii) does not specify if only transfers from BCG to SNG should be considered for the assessment or if transfers from AGAs (EBUs and SSFs) directly to SNG should be included. E.g. road, education or health funds may make transfers to subsidize SNG operated primary services or an extra-budgetary natural resource fund may distribute part of its revenue directly to SNGs.

- In PI-9(i) the central MDA oversight of both AGAs (which are CG units) and Public Corporations are lumped together. Whilst this may be convenient for assessors in countries where a clear line between AGAs and PCs has not been drawn (e.g. by referring to them all as ‘parastatals’), it diminishes the value of the assessment because the requirements of the oversight function for the two categories may need to be quite different[18]. At the same time focusing on risk from this combination of entities only does not serve the purpose of comprehensively assessing fiscal risks to CG.

- The relative importance of AGAs (EBUs and SSFs), Public Corporations and SNGs will not be known unless section 1 provides detailed information on the magnitude of fiscal flows (including transfers between the groups) and balance sheets which is rarely if ever the case. Without understanding the relative importance of these institutions to the CG, it is not possible to accord these indicators an appropriate weight when undertaking the cross-indicator analysis for the formulation of the ‘Summary Assessment’ section.

An important issue is, however, how reported extra-budgetary operations are to be incorporated in the performance indicators that specifically focus on the preparation, approval and execution of the annual legislative budget i.e. mainly indicators PI-1, PI-2, PI-3, PI-5, PI-6, PI-11, PI-16, PI-24, PI-25 and PI-27. If the EBOs are completely reported both ex-ante and ex-post, PI-7 will be rated ‘A’, but the fiscal data for these operations will under current interpretation not be included in the quantitative outturn calculations for PI-1, 2, 3 and 4 and will not be included in qualitative assessment of the other five indicators listed. All of these aspects of EBOs may affect the value of the ‘A’ rated reporting in PI-7 and therefore the ability to create a consolidated view of achieving the budgetary outcomes.

[17] Not counting the risk of some extra-budgetary revenue being siphoned off and never turning into government expenditure.

[18] Other PIs distinguish between AGAs and PCs, e.g. PI-26 which includes AGAs in the coverage of the external audit function, whereas PCs are not included.

# 5. Options for Coverage by PEFA Assessments

## 5.1. Coverage of the Public Sector

A fundamental issue in coverage is whether PEFA assessments should continue to focus on central government operations including its interaction with and oversight of its fiscal risk from other public sector entities as is currently the case; or whether PEFA assessments should aim at integrating those other public sector entities in the standard PEFA assessment.

In order to evaluate the impact of the public sector on the national economy in terms of the three budgetary outcomes, the emerging thinking among international institutions is that a consolidated view of the entire public sector is required – or at least of general government[19]. In terms of assessing PFM systems, coverage of the entire public sector would be very ambitious and only a few countries are currently even close to having complete information on the public sector in accounts and fiscal statistics. An expansion of a PEFA assessment to cover the entire public sector would be unrealistic.

Technically the coverage of all of SNG would be possible without much change to the content of the assessment tool itself as the PEFA Framework is already being used to assess PFM systems performance for selected levels of entities of SNG in many countries. The question is if such an expansion would be feasible from the perspective of resource availability for implementation. Most countries that have applied the PEFA Framework at SNG level have done so in stages and for selected entities only. A few cases (such as Uganda, Ghana and Ethiopia) have attempted to cover CG and most of the SNG sub-sector in one assessment operation to obtain a view of overall General Government systems. The additional resources to implement that approach are very significant. The Secretariat's Monitoring Report 2009 indicates that an assessment for one sizeable SNG entity is only marginally lower than the cost of a central government assessment. Including a number of SNG entities in a representative sample for an assessment of General Government (as was the case in Uganda, Ghana and Ethiopia where in all cases only 1st tier SNGs were included) may easily double the resources needed for a PEFA assessment – and be far higher for large countries with complex SNG structures. Depending on the intended use of the assessment, there may be cases where this is desirable, feasible[20] and considered worth the additional costs[21], but in most countries the additional resources would not be justified.

Coverage of the public corporations sub-sector is more complicated. The content of the PEFA Framework does not apply to commercially oriented institutions that produce and sell their goods and services in a market[22]. Detailed coverage of PCs requires a different tool[23]. It is quite possible to apply a tool for

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[19] Ref. e.g. draft IMF Fiscal Transparency Code (IMF 2013 I)where consolidated fiscal reporting on general government is considered god practice, and consolidated fiscal reporting on all of the public sector is considered advanced practice.

[20] It also requires that the selected SNG entities are willing to support the assessment, which can be an issue for very financially independent and autonomous SNG entities.

[21] E.g. where large amounts of budget support are provided and a significant share passed on as grants to SNG entities; or where PFM reform is centrally formulated and monitored for all of general government.

[22] An attempt to adapt the PEFA Framework for assessing PFM performance in commercial parastatals in Tanzania in 2007 highlighted the difficulties of such an approach and the non-suitability of the PEFA Framework for assessment of institutional units producing goods and services for sale in the market.

[23] Ref. e.g. OECD 2005

assessment of the PC sub-sector in conjunction with a PEFA assessment, just as other drill-down tools have occasionally been combined with PEFA assessments in one combined process of partially shared resources. Despite some economies of scale, however, the cost of this approach is not likely to be much less than the sum of the costs of doing each assessment separately. The resource requirements, therefore, are significant, and the approach combines two separately developed tools, rather than representing the application of a PEFA Framework with expanded coverage.

An alternative to these approaches is to expand the assessment of what information on SNG and PCs the CG should and actual does collect and analyse, in order to coordinate fiscal policy and ensure budgetary outcomes at the most aggregated level – especially for general government. Such an approach would be feasible without fundamental changes to the content of the Framework, as some aspects are already included e.g. in PI-8(iii) and PI-9. However, those indicators would have to be restructured and reworded – particularly the scoring requirements[24]. It would also be necessary to review the remaining indicators in order to decide the need for changes[25]. Additional resources needed for implementing PEFA assessments with this expanded scope would probably be required, though certainly much less than indicated for the approaches above. This approach should take care to coordinate the definition of good practices with the updated Fiscal Transparency Code[26], whilst consideration should be given to overlap and complementarity with the Fiscal Transparency Code.

## 5.2. Coverage of Central Government

As concerns PEFA's coverage of central government, it should be determined if PEFA covers the entire CG in all aspects of the assessment or a more limited definition of central government. The definition of the '*budget'* in the term 'the main budgetary outcomes' may be the key to understand what a PEFA-based PFM assessment is meant to reveal. The PEFA Framework consistently refers to central government as defined by GFS as the focus of the assessment i.e. it is not supposed to be limited to budgetary central government. This is consistent with the experience that data on BCG alone – in many countries - does not reveal a sufficiently complete and accurate picture of fiscal positions and issues, as large areas of financial operations under government responsibility may take place through EBUs, SSFs and PCs. Moreover, fiscal outcomes for BCG in a country may be affected over time by shifting operations between the BCG institutional unit and EBUs, or may not adhere to consistent classification of corporations – thus undermining comparison of assessments over time. It is therefore the consolidated budgetary outcomes of all units and operations of central government we ought to be concerned with.

Four options have been identified on how the PEFA Framework could address this coverage of the central government sub-sector:

- Option A – a purist approach to cover the entire central government with all its institutional units by all indicators.

[24] An example would be an explicit assessment of the authority of SNGs and PCs to borrow and the CGs monitoring of SNG and PC debt. This aspect would potentially require changes to PI-9 on monitoring fiscal risks from SNGs and PCs as well as PI-12(ii) debt sustainability analysis, PI-17(i) debt reporting and PI-17(ii) authority/coordination of contracting loans and issuing guarantees.

[25] An issue concerns the CG/Treasury's relations with the central bank (usually classified as financial public corporation), which despite its pivotal role as link between the government and the financial sector – typically the government's main banker and authority on monetary policy - is not included in the PEFA Framework at present.

[26] Ref. IM 2013 I

- Option B – cover the operations of budgetary central government only throughout the indicators, combined with an assessment of how much of the entire CG operations are represented by BCG.

- Option C – a hybrid in which a trade-off is made between difficulties and resource needs in data collection and analysis on the one hand and the importance of having a complete picture including EBU and SSF operations on the other hand.

- Option D – change the scope of the assessment to what information the finance ministry should and actually does collect and analyse for the purpose of managing the entire CG sub-sector and its delivery of the three budgetary outcomes.

For any of these options the coverage of SNG and PCs would be the same, namely that it is only the interaction between CG and SNG/PCs that are being assessed, whilst assessments of the internal systems of SNGs and PCs would be subject to separate assessment as explained in section 5.1 above.

### 5.3. Discussion of Options for Central Government Coverage

*Option A* represents the ideal coverage in terms of judging if central government as a whole has got the tools to help it deliver the three budgetary outcomes. It would also be the most resource and time demanding approach in implementation, as it would require that assessors collect information on all aspects of the indicator set from a sample of the most important EBUs and SSFs. Consolidation of quantitative data would pose a serious challenge where such consolidated data is not readily available from fiscal reports or statistical systems.

*Option B* represents a significant reduction in scope compared to the current approach and to option A – at least in countries where EBUs and SSFs represent a significant share of government operations. In such countries Option B could potentially result in resource savings for implementation. However, the approach would not offer much insight in the overall achievement of the three budgetary outcomes for central government as a whole. In fact, the value of the assessment would become correlated to the share of CG covered by the BCG. Rating 'the share of CG covered by BCG' in an indicator would not be questionable since there are no established, good practices on how large such a share should be and this coverage indicator would be of a very different nature than the other indicators as it would in a way rate the usefulness of the entire assessment.

*Option C* corresponds in principle to the current approach as it represents a compromise between Options A and B in terms of both coverage and resource demands for implementation. Because it is a compromise based on individual trade-offs on a series of subjects, it is also more difficult to define exactly where the limits of coverage should be set. If this approach is retained, it would still require a number of minor changes to the coverage of selected indicators in order to resolve the issues highlighted in section 4.3 above.

*Option D* would in many countries have a much more limited scope than option A. It would essentially change the main objective of the PEFA Framework from 'assessing if *the government* has the tools to achieve the three budgetary outcomes' to 'assessing if *the finance ministry* has the tools to achieve the three budgetary outcomes' including an assessment of the quality of data. This would change the nature of the data collection process to focus mainly on information available and analysis undertaken at the finance ministry – with visits to other institutions made only for the purpose of judging the quality (comprehensiveness and accuracy) of the data received by the finance ministry. Whilst this would clearly limit the data collection effort needed for assessment implementation, it would also change the nature of the assessment to a focus on the aspects of management that are the responsibilities of the finance ministry - primarily aggregate fiscal discipline (short, medium and long-term) and strategic allocation of resources. The aspects of financial management that would get less attention under this approach would be the executive's accountability to other branches of government (the legislature and the judiciary) as well as the efforts to achieve technical efficiency in service delivery as regards revenue collection, expenditure and assets management, which is mainly the responsibility of sector MDAs and EBUs - even if the finance ministry or another central agency maintains an oversight role. It is not impossible to incorporate some aspects of external accountability and the finance ministry's monitoring of technical efficiency in the approach, but it is likely to require fundamental changes to many of the indicators – particularly those concerned with technical efficiency.

An important issue with full coverage of all CG units (option A) relates to indicators that require accurate quantitative information, first and foremost indicators PI-1, PI-2 and PI-3[27]. Even if complete budget and actual amounts would be obtainable for all CG units, a quantitative consolidation for assessing overall budget outturns for the entire CG would be a serious challenge for the assessors due to the need to adjust for inter-unit transactions as well as possible differences in accounting standards/policies and fiscal years. Data reported to GFS should be able to assist, but will for most countries be incomplete - particularly coverage of EBUs and SSFs – and even where complete data exists on all institutional units, it will rarely be available for both the original budget (ex-ante) and actuals (ex-post). Rather limited differences in accuracy for ex-ante and ex-post data could combine to significant inaccuracy on the difference between the two sets of figures and thus have major implications for the indicator ratings.

The resource issues for option A as regards the remaining indicators are rather limited compared to the current approach (option C). Any PEFA assessment requires that the assessors visit a sample of important MDAs in order to understand how systems function at that level and to triangulate with information from the finance ministry or other central finance agencies. In a country where there is little difference between CG and BCG, there will be little need to include any EBUs and SSFs in the sample of institutions visited. In countries where CG operations significantly exceed the scope of BCG, a number of major EBUs and SSFs must be included in the sample under an option A approach and on some subjects under option C. But this is also where the benefits from studying the operations in EBUs and SSFs will be more important in order to get a full picture of the government's tools to deliver the budgetary outcomes in aggregate. In this case, moreover, the number of units from BCG to include in the sample of institutions could be correspondingly reduced as the operations of those units are of less relative importance.

Considering these two points, the difference between option A and an improved consistency in coverage under option C is expected to be quite limited both in scope and resource needs for implementation. Option C would in effect become a pragmatic version of option A – removing the most difficult data issues assessors would face under a pure option A and saving the corresponding resource input.

Option D on the contrary represents a quite different approach. There is no doubt that some resource savings could be made in implementation of this approach, as the need for data collection/interviews of institutions outside the finance ministry would be reduced compared to options A and C – not only amongst EBUs and SSFs but also among the MDAs that form part of the BCG institutional unit. However, the nature of a PEFA assessment would also change to some extent, even if many indicators would remain largely the same. A number of indicators would change nature to assessing what information the finance ministry is collecting rather than what takes place at the MDAs, EBUs and SSFs. This would

[27] Indicators PI-4 and PI-15 also require quantitative fiscal data, but these indicators are less sensitive to accuracy as calculations of differences are made between figures from the same time series and therefore typically obtained from the same source/records.

affect comparability of assessments undertaken under the old and the revised Framework, because the subject of those indicators would change – rather than simply the details of how the subject is assessed. An added complication is that the role and responsibilities of the finance ministry are not identical in all countries. The information a finance ministry should collect in a country with a very centralized management and control system may differ significantly from the information the finance ministry should collect in a country with a high degree of delegated responsibility and accountability to MDAs – particularly for issues concerning technical efficiency in public service delivery. Moreover, the finance ministry in some countries covers most of the functions included in the term 'central finance agencies'[28] - which combined pursue the delivery of fiscal discipline and strategic allocation – whereas in other countries these functions are divided between different ministries and independent departments (e.g. including a planning ministry, a prime minister's or president's office etc). For assessments of PFM systems at SNG level, an institutional reference to the finance ministry or equivalent might also lead to problems of interpretation. A simple reference to *the finance ministry* as the institutional focus of option B, therefore, would not be sufficient, and a more broad definition of the perspective of the assessment would be required (e.g. the agencies responsible for fiscal policy formulation and implementation).

[28] E.g. as defined by Richard Allen 2010

# 6. RECOMMENDATIONS

## 6.1. Recommendation regarding Main Options

The discussion in section 5.1 suggests that expansion of PEFA coverage beyond the originally intended scope of the entire CG would complicate the PEFA Framework tool and lead to significant additional resource requirements for implementation. The only feasible option here appears to be marginal improvements in the assessment of the information CG collects from SNG and PC entities for the purpose of coordinating and managing aggregate fiscal discipline and strategic allocation of resources.

On the basis of the discussion in section 5.3 of coverage of institutions and operations within the CG sector, it is recommended that option C be pursued. This choice entails no fundamental change to the nature of the PEFA Framework. It requires, however, that a number of changes be made to both the description of the public sector and its components in Section 1 of PFM-PR and to the institutional and budgetary coverage of some of the performance indicators.

The changes required to implement those two changes in scope to the Framework are discussed further below.

## 6.2. Recommended Changes to Description of the Public Sector

*The description of the structure of the public sector and the government sub-sector should be expanded.* The statistical break-down should be better aligned with GFS and provide more details. Both revenue and expenditure for each sub-sector should be shown, as should the value of assets and liabilities, to the extent that the information exists[29]. If available, transactions between institutional entities of the government should be shown to provide a consolidated fiscal overview of central government (at least transfers should be included). An example of a data table is included in annex E table E.2. The expanded information could conveniently be incorporated into section 2, as the fiscal data on central government overlaps with data on fiscal performance already required in a PFM-PR. Moreover, the structure of the public sector also belongs more naturally to the 'Country Background Information' in Section 2 than to the description of the characteristics of the assessment itself in Section 1.

It is not the intention that the assessors should estimate this information themselves, but it is important that the data already available be collected and presented in order to provide the overview. This may include data from the government's regular fiscal reports, from the country's reporting to GFS, or from national accounts and other national statistical systems.

In many countries the information will be incomplete and the gradual improvement of the fiscal statistics towards providing a full picture of all government revenue, expenditure, assets and liabilities for fiscal analysis would represent improvement in the PFM systems. The degree of coverage of the fiscal data could therefore itself be subject to performance assessment and rating. Accounting standards used – indicator PI-25 – should clearly reflect such progression as concerns the central government units individually and in a consolidated view. Consolidation of fiscal statistics on CG and SNG is already assessed in PI-8(iii). The extent to which the government has a full and detailed view of its interests in and control of public corporations and private sector firms could be included in a revised PI-9[30].

[29] Particularly a challenge for non-financial assets.
[30] E.g. starting with a simple list of all controlled corporations classified according to GFS sectors.

*The sample of MDAs for data collection and interviews, as well as the method of selecting the sample, should be disclosed.* It goes without saying that a PEFA assessment team will need to collect information from and conduct interviews with officials from all of the central finance agencies. In addition, the team will need to collect data from and conduct interviews with representatives from a number of other institutional units of the central government. Those units need to be selected on a sample basis in order to obtain a fair representation of institutions within the set resource constraints. Moreover, the marginal value of adding further units to the sample when the most important have been covered will quickly diminish. The sample of units may differ among the individual indicators as the operations in some government units are more important for certain performance indicators than for others. All assessment teams undertake data collection and interviews on the basis of such a sample, but the content of the sample and the basis for selection is rarely disclosed. It is recommended that the introduction to the PFM-PR (section 1) provides an explanation of the government units included in the sample selected by the assessors. This should be a standard requirement in the guidance to the PEFA Framework – preferably as part of the existing sub-section 'The methodology for preparation of the report' under Section 1.

The sample should include MDAs that are part of the single BCG institutional unit as well as EBUs and SSFs and be based on relative importance for each of the performance indicators. With more comprehensive description of the public sector and the requirement to disclose the methodology used for sampling, it is hoped that the assessment will be strengthened in terms of being representative of the entire government PFM systems and in providing better guidance to users of the assessment on the relative importance of individual indicator findings.

### 6.3. Potential Changes to the Coverage of PEFA Indicators

The PEFA Framework is very clear on the principle that the assessment intends to cover the entire central government as defined by the GFS Manual. Coverage of the entire central government should therefore be the default position for any performance indicator and its dimensions. Any deviation from this position needs to be justified on the basis of importance of topic, typical data availability and resource requirements for assessment implementation. These issues are discussed in the table below for each indicator or group of related indicators. Indicators that currently cover the entire central government are not discussed in the table.

| Indicators | Potential for Change of Coverage | Recommendation |
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| PI-1, 2, 3 | ▪ For an evaluation of the ability of the government to implement its planned resource mobilization and utilization as planned, it would be a substantial improvement if these three budget out-turn indicators covered the entire CG rather than the more limited BCG.<br>▪ The three indicators currently require that data is collected, reconciled and compared on the initial annual budget (as approved by the legislature) and the final annual accounts or budget execution report. In many countries this requires substantial work for a number of reasons: (i) budgets and accounts may not be presented in the same format; (ii) budgets as approved (contrary to estimates presented for approval) may not be readily available; both budget estimates; (iii) actuals may be available in different formats/tabulations (iv) some EBOs may be included in either budget proposal documentation or in budget execution report or annual financial statements. In addition, adjustments have to be made for donor funded project expenditure and debt service payments for PI-1 and PI-2.<br>▪ Expanding coverage to include EBOs will substantially complicate an already difficult task, particularly as concerns PI-2. EBOs to be added to | Given the difficulties of obtaining and reconciling the additional data needed for full CG coverage, it is recommended that the coverage remain as is i.e. BCG only.<br><br>Supplementary information on aggregate budget out-turn (PI-1 and PI-3) for a few very important EBUs is recommended in countries with large amounts of EBOs.Such |

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| | the calculation would include those implemented by MDAs as well as those implemented by AGAs. Typically, budget and actuals may have to be collected for each operation separately as a central source may not be available. Furthermore, these EBO fiscal reports would have to be consolidated with the central budget (and possibly other EBOs) in order to remove inter-agency transfers (excluding public enterprises). Unless all important EBOs are included, an expanded coverage would not have a clear advantage over the present coverage of the unified central government budget.<br>▪ Availability of GFS data would significantly help assessors, but it requires that the data is up-to-date, covers the last three consecutive fiscal years, complete for central government and available both as pre-year forecast and actuals. The GFS data also needs to be at least as reliable as the fiscal reports currently used for the indicators. Such data may be available only for relatively few countries – mostly OECD members – so would assist assessors in only a minority of countries where PEFA assessments are carried out.<br>▪ The resource inputs by assessors to collect and compile the data on EBOs would be significant in many countries, particularly in countries where the difference between CG and BCG really matters. Several assessor days may be needed to search for and reconcile the needed data without guarantee that a full picture would emerge. | information should be included in the analysis of the Summary Assessment. |
| PI-4 | Assessment of overall expenditure arrears for the entire CG would prove a significant improvement on the current coverage of BCG only. Contrary to budget credibility indicators PI-1, 2 and 3, indicator PI-4 does not require the same degree of data completeness. To get a reasonably complete picture of expenditure arrears from EBOs, assessors may need to obtain data from a few very significant EBUs (or EBOs managed by MDAs), particularly those that are more likely to create expenditure arrears such as infrastructure funds. Such information gathering would fit in with collection of data for other indicators from a sample of EBUs. In particular, the EBUs that are considered 'reported' by PI-7(i) should be covered. The data would naturally include the total turnover of the respective EBUs so that the arrears percentage may be calculated. An expansion of coverage from BCG to CG is therefore unlikely to require any significant additional resources. | Given the distinct benefits and limited additional resource inputs, it is recommended to expand coverage from BCG to CG. |
| PI-5 | The indicator is focused on the classification of the budget as regards the structure for budget approval and execution reporting. The current coverage of BCG by the indicator is consistent with BCG coverage of other indicators that are directly concerned with the unified central government budget, such as PI-1, 2, 3, 6, 16, 24 and 27. Expansion of coverage to the entire CG would require significant additional work, and the benefits would be limited to assessment of the pre-conditions for producing consolidated whole-of-government accounts, which is already a subject of PI-25. | Maintain coverage to include BCG only |
| PI-6 | The indicator is specifically focused on the unified BCG budget and its contents. Collecting, analyzing and aggregating information on separate budget documents approved separately for EBUs and SSFs would add substantial work for the assessors and dilute the core content of the indicator. However, indicator PI-7(i) assesses the extent to which EBOs are reported in annual budget estimates/budget documents. The EBUs and SSFs that are considered so 'reported' according to PI-7 should be included with BCG in the basis for rating this indicator. | The indicator should cover BCG plus all EBUs and SSFs considered 'reported' according to PI-7 |
| PI-7(i) | Whilst the coverage already includes all of CG as well as quasi-fiscal operations by public corporations and private sector firms, it would be useful if assessors were required to present the information for different kinds of extra-budgetary operations with a break-down for each group of institutional units as illustrated in Annex E table E.3. | No change in institutional coverage (but proposed change to presentation of evidence by public sub-sector). |
| PI-7(ii) | The institutional coverage should be the same as for PI-7(i) and ideally the two dimensions of the indicator should be merged. | Expand coverage to the entire CG. |
| PI-8(i), (ii) | Sub-national government may receive substantial transfers from extra-budgetary funds for its provision of services (road maintenance, health or education services) or as part of general revenue (e.g. from natural resource funds). The timeliness and reliability of such information for SNG may in some | It should be specified that indicator dimensions (i) and (ii) cover all interactions of the entire |

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| | countries be as important as transfers from BCG. For dimensions (i) and (ii), therefore, the indicator should cover transfers from all entities of CG to lower level government i.e. including transfers from EBUs and SSFs. | CG with the 1st tier of sub-national government |
| PI-8(iii) | Consolidation of fiscal statistics for the entire general government (as stated in the rating criteria) requires that data from all institutional units of CG be consolidated with data from all levels of SNG. Due to the importance of EBUs and SSFs in some countries, a useful consolidated picture will only be generated if all such units and levels are covered. It could be considered to change the gradation of the rating scale to reflect progression towards coverage of all units, not only at the SNG level (several tiers) but also at CG level. Such a change would probably mean that the dimension should be moved elsewhere in the Framework. | The indicator dimension should cover all levels of SNG as well as all entities of CG. |
| PI-9 | ▪ The indicator is focused on fiscal risk for the central government from other public sector entities. PI-9(i) looks at central government's oversight and fiscal risk identification in relation to PEs and AGAs. PI-9(ii) looks at central government's monitoring of and identification of risks from sub-national government.<br>▪ This approach to monitoring and fiscal risks by institutional groups may not be the most appropriate because: (1) AGAs are already part of central government, so are in principle not included in 'other public entities'; (2) fiscal risks from BCG operations are not covered; (3) monitoring and fiscal risks from EBOs managed by MDAs are not covered; (4) CG inter-relations with SNGs are covered by PI-8 where fiscal monitoring and fiscal risk identification may more logically be included; (5) monitoring of and identification of fiscal risks from PPPs are not referred to and may in practice not be captured, even if in principle PPPs should be included in the operations under points (1) to (4) as appropriate.<br>▪ At present the indicator attempts to cover (i) identification and monitoring of fiscal risks to central government, as well as (ii) central government fiscal monitoring of the operations of PEs, AGAs and SNGs. However, none of the two aspects appear adequately covered. | A restructuring of the indicator should be considered to either (a) focus on identification and monitoring of fiscal risks to central government irrespective of source of the risk, or (b) focus on central government's fiscal monitoring of the operations of public corporations. Each of these approaches would have merit, but the latter approach may be preferable as this is the only indicator which is focused on the link between the government sub-sector and the public corporations sub-sector. |
| PI-10 | The indicator only concerns publication of documents, the production of which is covered by other indicators. The coverage of PI-10, therefore, will be determined by the coverage of those other indicators, in principle the entire CG. Expanded coverage would therefore be particularly important to emphasize as regards the key fiscal reports (ex-ante and ex-post) for EBUs and SSFs which are considered as 'reported' by indicator PI-7(i). | The indicator coverage will be determined by the coverage of the documents publicized as set out in the related other indicators. |
| PI-11 | This indicator is focused on the BCG budget and is focused on the processes that lead to the completion of the annual budget estimates document(s) for BCG. However, indicator PI-7 assesses the extent to which EBOs are reported in annual budget estimates/budget documents. The performance in the budgeting process by EBUs and SSFs that are considered so 'reported' according to PI-7 should be included with BCG in the basis for rating this indicator. | The indicator should cover the BCG budget, including operations of EBUs and SSFs that in PI-7 are assessed as reported in annual budget estimates. |
| PI-12 | Multi-year budget frameworks should be comprehensive and include extra-budgetary funds[31], strategic sector plans should include the activities and financing required/provided by all participants in the respective sector in order to serve its purpose, and the selection process for major investments should include EBFs in order to be comprehensive and effective in resource allocation for growth. As regards Debt Sustainability Analysis in dim (ii) the coverage should similarly include all entities of CG. In practice debt issue and management is highly centralized, but in the exceptional cases where EBUs and SSFs issue their own debt instruments, such instruments should be | Expand coverage to include the entire CG |

[31] See e.g. World Bank 2011 page 31, which says: "Off-budget spending also creates a challenge for MTEFs since it routinely falls outside normal budget scrutiny, especially in countries with substantial natural resource revenues. However, spending agencies often pursue important policy objectives through extra-budgetary funds, often using earmarked revenue to pay for it, and this fact should be taken into account in determining medium-term budget allocations."

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| | included in the analysis. | |
| PI-16 | The indicator is concerned with the finance ministry's (or treasury's) cash flow planning and issue of timely information to MDAs that allow them to undertake their hiring, procurement and other expenditure planning with adequate certainty. It is therefore the planning function of cash releases to sector institutions which is assessed. The indicator does not assess the further cash flow and commitment planning within each MDA. EBUs and SSFs are in this respect similar to MDAs. They typically have their own earmarked revenue sources (many MDAs also have retained non-tax revenue) and often transfers or subsidies from BCG. EBUs and SSFs therefore do not typically involve cash releases to other sectors – except where funds are transferred to lower level of government as the executing agency for the EBU or SSF (to be assessed by PI-8 ref. above). It would therefore not be appropriate to expand coverage to the internal cash management systems of EBUs and SSFs. | Maintain coverage to include BCG resources only |
| PI-17(ii) | This dimension is focused on consolidation of government cash balances through a Treasury Single Account arrangement. The aim is to include all cash balances comprehensively[32], including accounts operated by EBUs. The coverage of the indicator therefore should be similar in its coverage of EBUs and SSFs. | Expand coverage to include the entire CG |
| PI-20 | The coverage of indicators PI-18, PI-19, PI-20 and PI-21 should be similar. Leaving out EBUs and SSFs from the institutional sample for assessment information would seriously detract from the value of the assessment in countries where a large share of government operations is undertaken by such units. | Expand coverage to entire CG |
| PI-21 | As for PI-20 above | Expand coverage to entire CG |
| PI-22 | The indicator already requires for an 'A' rating of dim(i) that bank account reconciliation takes place timely for all central government bank accounts, whereas a 'B' rating may be achieved if all Treasury managed bank accounts (but not necessarily separate accounts for EBOs) are reconciled timely. So the indicator actually covers the entire CG but rates the performance on the basis of institutional coverage of the reconciliation process. | The indicator already covers the entire CG and should remain so. |
| PI-23 | The indicator suggests that the central government should collect and process information on resources actually received by front line service delivery units *irrespective* of which level of government is responsible for the operation and funding of the units. In other words, the central government is required by the indicator to keep detailed information on operations it has essentially no responsibility for. The logic should be that the central government collects and processes such information only for service delivery units it operates or significantly finances through earmarked subsidies. That may in many cases not be primary schools and primary health care which are often the responsibility of lower level government. | The indicator should cover the entire CG but only the service delivery units for which CG is operationally responsible or is substantially financing through earmarked subsidies. |
| PI-24 | Indicator PI-7(i) assesses the extent to which EBOs are reported in budget execution reports. The EBUs and SSFs that are considered 'reported' according to PI-7 should be the basis for rating this indicator. | The indicator should cover BCG plus all EBUs and SSFs considered 'reported' according to PI-7 |
| PI-25 | Indicator PI-7(i) assesses the extent to which EBOs are reported in budget execution reports. The EBUs and SSFs that are considered 'reported' according to PI-7 should be the basis for rating this indicator. | The indicator should cover BCG plus all EBUs and SSFs considered 'reported' according to PI-7 |
| PI-27 | The budgets of AGAs may in some cases require legislative approval but in many cases the approvals follow other institutional arrangements (autonomous boards) – and other time tables. Expanding the indicator to cover approval of a set of deconcentrated and loosely connected budgets would not only require additional resource inputs for assessors but also lead to a more complex | Maintain coverage to include the annual BCG budget submission only, but add the extent of legislative authorization |

[32] See e.g. IMF 2011 page 3

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| | indicator which will be more difficult to interpret in relation to PFM reform formulation and monitoring. The comprehensiveness and coordination between institutional units will be assessed in PI-7 and (as recommended above) in PI-11. However, it would be important to assess to what extent the extra-budgetary operations of both MDAs, EBUs and SSFs are authorized by the legislature through organic legislation. | of all EBOs. |

## 6.4. Summary of Recommendations and their Implications

The main recommendation is that a PEFA assessment be focused on the entire CG operations as originally intended, and that other parts of the public sector be covered only to the extent that CG should and does collect information on SNG and PCs for coordination of aggregate fiscal discipline and strategic resource allocation at high level.

Whilst the entire CG should be the subject of the assessment, and coverage be consistent across all narrative sections/indicators in the PFM-PR, consideration has to be given to significant practical obstacles in rating a few indicators.

On this basis the proposals in this note comprise two main components:

- A more detailed description of the structure and fiscal operations of the public sector;
- Strengthened coverage of CG oversight of sub-national government and public corporations;
- Expansion of institutional coverage of approximately 10 performance indicators, even if some of those indicators the expansion concerns only one or two of the indicator dimensions.

These recommendations will have *implications for the resources needed to implement a PEFA assessment*. However, the resource implications may be smaller than one might expect from looking at the recommendations in isolation.

Additional information is proposed for the background description of public sector structure and fiscal operations of the consolidated central government. Much of the background data already now required, draw on the same sources and overlaps with the proposed additional content. The additional content may typically require 1-2 additional assessor days for data collection, processing and reporting.

As regards the expanded indicator coverage, one should recall that for any assessment a sample of MDAs outside the central finance agencies need to be visited for triangulation of information as well as understanding of performance of systems related to achieving technical efficiency. Such a sample is required no matter how large or small a part of CG operations are covered by the BCG institutional unit and its individual MDA entities. The difference is that in a country with a large share of CG operations taking place outside the BCG institutional unit, the sample has to include a significant element of EBUs and SSFs in order to truly represent the entire CG. Whilst working with a sample of BCG entities is likely to be easier, since systems are likely to be more uniform, the overall sample to represent CG need not be larger where EBUs and SSFs are to be included.

As regards *use of the PEFA Framework for separate assessment of selected SNG levels or entities*, it is not expected that the proposals would change the potential for such use. Nevertheless, the guidance on use of the PEFA Framework at this level would have to be revisited following the completion of the Framework revision. Indicators that assess a government’s collection and analysis of information from lower level SNGs and PCs for coordination and management of fiscal discipline and strategic allocation of resources are the ones most likely affected by change in scope, as the extent of such coordination and management roles tend to diminish at lower levels of government with less autonomy.

# 7. The Way Forward

The PEWG met on September 9th and 10th and discussed among other things the draft of the present note (dated 3rd August 2013).

The PEWG agreed that the default position for all indicators is that they should cover Central Government (as defined in the IMF's GFS), but that where Task Teams believe this to be impractical, they must advise the PEWG of the alternative coverage they propose, so that a final decision can be made at the scheduled meeting in December. In any case, the minimum coverage should be BCG.

In principle the decision by the PEWG corresponds to option A in this note. Leaving the final recommendation for coverage of each indicator open to the respective Task Teams, however, in practice corresponds to the recommended option C in the note.

The Task Teams may therefore wish to consider the proposed coverage for each indicator under option C, as set out in the table in section 6.3 of the note, and in particular give attention to the issues identified in section 4.3.

# ANNEX A. TERMS OF REFERENCE

## PEFA Public Expenditure Working Group
## ToR for a research paper on the scope of the PEFA Framework

Version 2 – 8 July 2013

### Introduction

As part of the exercise currently underway to revise the PEFA Performance Management Framework, the PEFA Partners have established four Task Teams to work on particular groups of Performance Indicators and have commissioned several background or research papers on specific aspects of Public Financial Management.

On the basis of the work completed to date, several issues have been raised concerning the scope of a PEFA assessment, and hence it has been agreed that further research is required to address these questions.

### Background

Since it was launched in 2005, the PEFA Framework has been applied on over 330 occasions in more than 140 countries. The focus of assessments as defined in the PEFA guidance is on the budgetary operations at central government level and it is required that each assessment report identifies the share of public expenditures made by the central government. However, because of differing institutional – and often constitutional – arrangements, an assessment may cover almost all public expenditures in some cases, but as little as 30% in others.

The importance of "off-budget" activities has been highlighted, including the need to bring devices such as 'Sovereign Wealth Funds' and 'Public Private Partnerships' under scrutiny by the fiscal shocks of the recent economic and financial crisis and as highlighted in several of the initiatives to enhance transparency and accountability.

In addition, there are variations across the PEFA indicator set: many indicators are restricted to "budgetary central government", while others go beyond this, in stages to include Autonomous Government Agencies, Central Government according to GFS (which includes for example, Social Security Funds), 'service delivery units', etc.

### Required

For the reasons set out above, the PEFA Partners wish to initiate research into the consequences of extending the scope of the assessment methodology beyond the definitions and boundaries currently defined in the January 2011 PEFA guidance and as specified in the 'Fieldguide', produced by the Secretariat in 2012.

The output from this research will be an analysis of the options to extend the scope of coverage to 'Central Government according to GFS' ***either*** throughout the Framework, ***or*** to particular indicators. This will include consideration – dimension by dimension – of the implications both for the additional resources that would be required to undertake an expanded assessment and also for comparability over time.

**Timescale**

In order to feed into the work program and ongoing aspects of the revision process, this exercise must be completed by Friday 23rd August 2013. A first version of the paper is expected by 2nd August.

It is estimated that this work will require a maximum of 20 person-days, including time for revision of the Note.

The consultant will work closely with the Chairperson of the Public Expenditure Working Group (as a link to the Task Team Conveners), will interact directly with the Head of the PEFA Secretariat and will also report to the funding partner of this assignment. He is expected to consult with PEFA Steering Committee Members.

# ANNEX B. CURRENT COVERAGE OF PERFORMANCE INDICATORS AND GAPS

| | Indicator/Dimension | Coverage as per Fieldguide | Gap in CG institutional coverage |
|---|---|---|---|
| | **A. PFM-OUT-TURNS: Credibility of the budget** | | |
| **PI-1** | **Aggregate expenditure out-turn compared to original approved budget** | BCG | Expenditure by AGAs (other than transfers from BCG) |
| **PI-2** | **Composition of expenditure out-turn compared to original approved budget** | | |
| | (i) Extent of the variance in expenditure composition during the last three years, excluding contingency items. | BCG | Expenditure by AGAs (other than transfers from BCG) |
| | (ii) The average amount of expenditure actually charged to the contingency vote over the last three years. | BCG | Expenditure by AGAs (other than transfers from BCG) |
| **PI-3** | **Aggregate revenue out-turn compared to original approved budget** | BCG | Revenue collected and retained by AGAs |
| **PI-4** | **Stock and monitoring of expenditure payment arrears** | | |
| | (i) Stock of expenditure payment arrears (as a % of actual total expenditure for the corresponding fiscal year) & any recent change in the stock. | BCG | Arrears by AGAs |
| | (ii) Availability of data for monitoring the stock of expenditure payment arrears | BCG | Arrears by AGAs |
| | **B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency** | | |
| **PI-5** | **Classification of the budget** | BCG | AGAs |
| **PI-6** | **Comprehensiveness of information included in budget documentation** | BCG | None – fiscal aggregates for AGAs to be included as per PI-7(i) |
| **PI-7** | **Extent of unreported government operations** | | |
| | (i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports. | CG<br>including AGAs | None |
| | (ii) Income/expenditure information on donor-funded projects which is included in fiscal reports. | BCG | AGAs |
| **PI-8** | **Transparency of inter-governmental fiscal relations** | | |
| | (i) Transparent and rules based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from central government (both budgeted and actual allocations). | 1st tier sub-national level of government | Not clear if transfers from other than BCG are covered |

| | Indicator/Dimension | Coverage as per Fieldguide | Gap in CG institutional coverage |
|---|---|---|---|
| | (ii) Timeliness of reliable information to SN governments on their allocations from central government for the coming year; | 1st tier sub-national level of government | Not clear if transfers from other than BCG are covered |
| | (iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories. | 1st tier sub-national level of government | None (as regards CG)<br>Inconsistency: 'General government' includes lower tiers of SNG |
| **PI-9** | **Oversight of aggregate fiscal risk from other public sector entities.** | | |
| | (i) Extent of central government monitoring of AGAs and PEs. | CG + public enterprises | None |
| | (ii) Extent of central government monitoring of SN government's fiscal position | 1st tier sub-national level of government | None |
| **PI-10** | **Public access to key fiscal information** | BCG | None – as AGA coverage by fiscal reports is assessed in PI-7(i) |
| | **C. BUDGET CYCLE** | | |
| | **C(i) Policy based Budgeting** | | |
| **PI-11** | **Orderliness and participation in the annual budget process** | | |
| | (i) Existence of and adherence to a fixed budget calendar; | BCG | AGAs |
| | (ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent); | BCG | AGAs |
| | (iii) Timely budget approval by the legislature or similarly mandated body (within the last three years); | BCG | AGAs |
| **PI-12** | **Multi-year perspective in fiscal planning, expenditure policy and budgeting** | | |
| | (i) Preparation of multi -year fiscal forecasts and functional allocations | BCG | AGAs |
| | (ii) Scope and frequency of debt sustainability analysis | BCG | AGAs |
| | (iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure; | BCG | AGAs<br>Inconsistency: All key sector institutions are supposed to be incorporated in sector strategies |
| | (iv) Linkages between investment budgets and forward expenditure estimates. | BCG | AGAs |
| | **C(ii) Predictability and Control in Budget Execution** | | |

| | Indicator/Dimension | Coverage as per Fieldguide | Gap in CG institutional coverage |
|---|---|---|---|
| **PI-13** | **Transparency of taxpayer obligations and liabilities** | | |
| | (i) Clarity and comprehensiveness of tax liabilities | Major tax revenue arising from all CG activities | None |
| | (ii) Taxpayer access to information on tax liabilities and administrative procedures. | Major tax revenue arising from all CG activities | None |
| | (iii) Existence and functioning of a tax appeals mechanism. | Major tax revenue arising from all CG activities | None |
| **PI-14** | **Effectiveness of measures for taxpayer registration and tax assessment** | | |
| | (i) Controls in the taxpayer registration system. | Major tax revenue arising from all CG activities | None |
| | (ii) Effectiveness of penalties for non-compliance with registration and declaration obligations | Major tax revenue arising from all CG activities | None |
| | (iii) Planning and monitoring of tax audit and fraud investigation programs. | Major tax revenue arising from all CG activities | None |
| **PI-15** | **Effectiveness in collection of tax payments** | | |
| | (i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years). | Major tax revenue arising from all CG activities | None |
| | (ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration. | Major tax revenue arising from all CG activities | None |
| | (iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury. | Major tax revenue arising from all CG activities | None |
| **PI-16** | **Predictability in the availability of funds for commitment of expenditures** | | |
| | (i) Extent to which cash flows are forecast and monitored. | BCG | AGAs other than their receipt of transfers from CG |
| | (ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitments | BCG | AGAs other than their receipt of transfers from CG |
| | (iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs. | BCG | AGAs other than their receipt of transfers from CG |

| | Indicator/Dimension | Coverage as per Fieldguide | Gap in CG institutional coverage |
|---|---|---|---|
| **PI-17** | **Recording and management of cash balances, debt and guarantees** | | |
| | (i) Quality of debt data recording and reporting | Debt and guarantees issued by CG excluding temporary overdrafts and supplier credit | None |
| | (ii) Extent of consolidation of the government's cash balances | All bank balances managed by Treasury and MDAs | Not clear if MDAs are meant to include AGAs |
| | (iii) Systems for contracting loans and issuance of guarantees. | Loans and guarantees issued by CG | None |
| **PI-18** | **Effectiveness of payroll controls** | | |
| | (i) Degree of integration and reconciliation between personnel records and payroll data. | All payrolls of CG including MDAs and AGAs | None |
| | (ii) Timeliness of changes to personnel records and the payroll | All payrolls of CG including MDAs and AGAs | None |
| | (iii) Internal controls of changes to personnel records and the payroll. | All payrolls of CG including MDAs and AGAs | None |
| | (iv) Existence of payroll audits to identify control weaknesses and/or ghost workers. | All payrolls of CG including MDAs and AGAs | None |
| **PI-19** | **Competition, value for money and controls in procurement** | | |
| | (i) Evidence on the use of open competition for award of contracts | All procurement for CG using national procedures, including all MDAs and AGAs | None |
| | (ii) Extent of justification for use of less competitive procurement methods. | All procurement for CG using national procedures, including all MDAs and AGAs | None |
| | (iii) Public access to complete, reliable and timely procurement information | All procurement for CG using national procedures, including all MDAs and AGAs | None |
| | (iv) Existence of an independent administrative procurement complaints system. | All procurement for CG using national procedures, including all MDAs and AGAs | None |
| **PI-20** | **Effectiveness of internal controls for non-salary expenditure** | | |

| | Indicator/Dimension | Coverage as per Fieldguide | Gap in CG institutional coverage |
|---|---|---|---|
| | (i) Effectiveness of expenditure commitment controls. | BCG | AGAs |
| | (ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures | BCG | AGAs |
| | (iii) Degree of compliance with rules for processing and recording transactions | BCG | AGAs |
| **PI-21** | **Effectiveness of internal audit** | | |
| | (i) Coverage and quality of the internal audit function. | BCG | AGAs |
| | (ii) Frequency and distribution of reports | BCG | AGAs |
| | (iii) Extent of management response to internal audit findings. | BCG | AGAs |
| | **C(iii) Accounting, Recording and Reporting** | | |
| **PI-22** | **Timeliness and regularity of accounts reconciliation** | | |
| | (i) Regularity of bank reconciliations | BCG | AGAs |
| | (ii) Regularity of reconciliation and clearance of suspense accounts and advances. | BCG | AGAs |
| **PI-23** | **Availability of information on resources received by service delivery units** | Front line service delivery units (whether falling under central or sub-national government) | 'Negative' gap - Coverage goes beyond CG |
| **PI-24** | **Quality and timeliness of in-year budget reports** | | |
| | (i) Scope of reports in terms of coverage and compatibility with budget estimates | BCG | AGAs |
| | (ii) Timeliness of the issue of reports | BCG | AGAs |
| | (iii) Quality of information | BCG | AGAs |
| **PI-25** | **Quality and timeliness of annual financial statements** | | |
| | (i) Completeness of the financial statements | BCG | AGAs<br>Inconsistency with IPSAS as concerns the institutional coverage of 'consolidated' AFS |
| | (ii) Timeliness of submission of the financial statements | BCG | AGAs |
| | (iii) Accounting standards used | BCG | AGAs |
| | **C(iv) External Scrutiny and Audit** | | |

| | Indicator/Dimension | Coverage as per Fieldguide | Gap in CG institutional coverage |
|---|---|---|---|
| **PI-26** | **Scope, nature and follow-up of external audit** | | |
| | (i) Scope/nature of audit performed (incl. adherence to auditing standards). | CG including all MDAs and AGAs | None |
| | (ii) Timeliness of submission of audit reports to legislature. | CG including all MDAs and AGAs | None |
| | (iii) Evidence of follow up on audit recommendations. | CG including all MDAs and AGAs | None |
| **PI-27** | **Legislative scrutiny of the annual budget law** | | |
| | (i) Scope of the legislature's scrutiny. | BCG | AGAs |
| | (ii) Extent to which the legislature's procedures are well-established and respected. | BCG | AGAs |
| | (iii) Adequacy of time for the legislature to provide a response to budget proposals | BCG | AGAs |
| | (iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature. | BCG | AGAs |
| **PI-28** | **Legislative scrutiny of external audit reports** | | |
| | (i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years) | CG including all MDAs and AGAs | None |
| | (ii) Extent of hearings on key findings undertaken by the legislature. | CG including all MDAs and AGAs | None |
| | (iii) Issuance of recommended actions by the legislature and implementation by the executive. | CG including all MDAs and AGAs | None |

# ANNEX C. PEFA INDICATORS AND BUDGETARY OUTCOMES

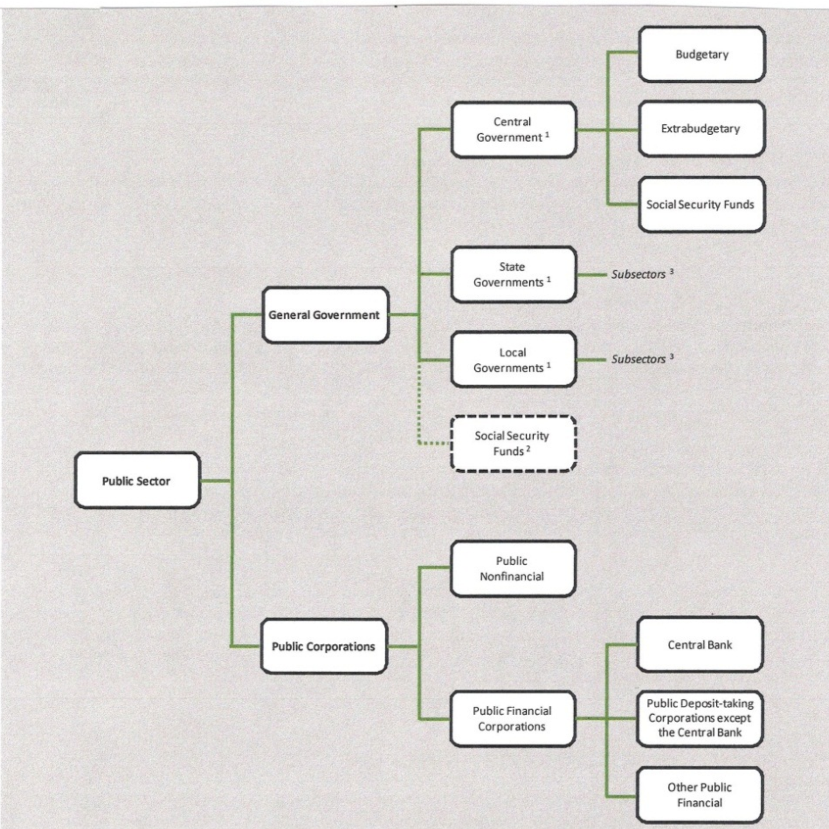
**Indication of predominant budgetary outcome focus of each PEFA indicator**

| | Indicator/Dimension | AFD | SAR | ESD |
|---|---|---|---|---|
| PI-1 | Aggregate expenditure out-turn compared to original approved budget | X | | |
| PI-2 | Composition of expenditure out-turn compared to original approved budget | | X | |
| PI-3 | Aggregate revenue out-turn compared to original approved budget | X | | |
| PI-4 | Stock and monitoring of expenditure payment arrears | X | | |
| PI-5 | Classification of the budget | | X | |
| PI-6 | Comprehensiveness of information included in budget documentation | X | X | |
| PI-7 | Extent of unreported government operations | X | X | |
| PI-8 | Transparency of inter-governmental fiscal relations | | X | |
| PI-9 | Oversight of aggregate fiscal risk from other public sector entities. | X | | |
| PI-10 | Public access to key fiscal information | X | X | X |
| PI-11 | Orderliness and participation in the annual budget process | X | X | X |
| PI-12 | Multi-year perspective in fiscal planning, expenditure policy and budgeting | X | X | |
| PI-13 | Transparency of taxpayer obligations and liabilities | | | X |
| PI-14 | Effectiveness of measures for taxpayer registration and tax assessment | | | X |
| PI-15 | Effectiveness in collection of tax payments | | | X |
| PI-16 | Predictability in the availability of funds for commitment of expenditures | | X | X |
| PI-17 | Recording and management of cash balances, debt and guarantees | X | | |
| PI-18 | Effectiveness of payroll controls | | | X |
| PI-19 | Competition, value for money and controls in procurement | | | X |
| PI-20 | Effectiveness of internal controls for non-salary expenditure | X | | X |
| PI-21 | Effectiveness of internal audit | | | X |
| PI-22 | Timeliness and regularity of accounts reconciliation | | | X |
| PI-23 | Availability of information on resources received by service delivery units | | | X |
| PI-24 | Quality and timeliness of in-year budget reports | X | X | |
| PI-25 | Quality and timeliness of annual financial statements | | | X |
| PI-26 | Scope, nature and follow-up of external audit | X | | X |
| PI-27 | Legislative scrutiny of the annual budget law | X | X | |
| PI-28 | Legislative scrutiny of external audit reports | X | | X |

Source: Author's judgment. Several attempts have been made to create similar tables such as Quist 2009 and Tommasi 2013 as well as training material by the PEFA Secretariat 2007. Other objectives or characteristics have been added in each of these cases such as 'financial compliance' (Tommasi), 'integrity of fiscal information' (PEFA Secretariat) and focus for countries at different reform stages (Quist). Therefore, none of the tables are immediately comparable. Input to a table of this nature is also included in Appendix 1 to the PEFA Framework. All of these sources have been used.

Abreviations: Aggregate fiscal discipline (AFD); Strategic allocation of resources (SAR); Efficiency in service delivery (ESD)

# ANNEX D. THE PUBLIC SECTOR AND ITS MAIN COMPONENTS




1 Includes social security funds.

2 Alternatively, social security funds can be combined into a separate subsector, as shown in the box with dashed lines.

3 Budgetary units, extrabudgetary units, and social security funds may also exist in state and local governments.

Source: IMF 2013 II

# ANNEX E. LIST OF REFERENCES

**Table E.1 Structure of the Public Sector (number of entities)**

| | Public Sector | | | | |
|---|---|---|---|---|---|
| | Government Sub-Sector | | | Public Corporation Sub-Sector | |
| | Budgetary Unit | Extra-Budgetary Units | Social Security Funds | Non-Financial Public Corporations | Financial Public Corporations |
| **Central** | | | | | |
| **1st tier sub-national (State)** | | | | | |
| **Lower tier(s) of sub-national** | | | | | |

**Table E.2 Fiscal Data for Central Government (.... currency units)**

| **Year: .......** [1/] | **Central Government** | | | | |
|---|---|---|---|---|---|
| | **Budgetary Unit** | | **Extra-Budgetary Units** | **Social Security Funds** | **Total Consolidated** |
| Specify: Budget or Prelim. actual or final actual | Budgetary operations | Extra-budgetary operations | | | |
| Revenue | | | | | |
| Expenditure | | | | | |
| Transfers to (-) and from (+) other units of general gov‘t | | | | | |
| Liabilities | | | | | |
| Financial Assets | | | | | |
| Non-financial assets | | | | | |

[1/] include nominal GDP for the same year for comparison

**Table E.3 Breakdown of identified extra-budgtary operations for PI-7**

| | Nature of EBO | Amount of EBO | How covered in Fiscal Reports |
|---|---|---|---|
| MDAs under BCG institutional unit | | | |
| Autonomous EBUs | | | |
| Autonomous SSFs | | | |
| Quasi-fiscal by Financial Public Corporations | | | |
| Quasi-fiscal by Non-financial public corporations | | | |
| Quasi-fiscal by private sector | | | |

# ANNEX F. CLASSIFICATION AND COVERAGE OF SELECTED INSTITUTIONAL ENTITIES

**Social Security Funds (SSF)**

The classification of SSFs – and therefore relevance for various PEFA indicators – has caused assessors difficulties. They often hold large amounts of public assets (and long term liabilities). They may be managed directly by MDAs under the BCG institutional unit or operate as separate EBUs. Part of the problem is that some social security schemes do not meet the criteria for being SSFs. E.g. employment-related pension and insurance funds, where contributions and benefits are defined in employment contracts (including employment contracts for civil servants) do not meet the criteria for SSFs, even if controlled by the government. They would be classified as public financial corporations (or private sector corporations if not controlled by the government). Due to the complexity of classifying social security schemes, the GFS Manual devotes an entire annex to the issue. Whilst there may be special reasons from the view of fiscal analysis to maintain statistics separately on SSFs, there is no obvious reason why SSFs should be treated separately from other government funds in a PEFA assessment. Issues in that respect are mentioned under SWFs below.

**Sovereign Wealth Funds (SWF)**

SWFs are less common and therefore have caused fewer problems for consistent coverage in PEFA assessments to date. With an increasing number of SWFs being established in natural resource rich countries and their assets growing fast, this situation may change.

The GFS Manual describes SWFs as follows: “Created and owned by the general government for macroeconomic purposes, SWFs hold, manage, or administer assets to achieve financial objectives, and employ a set of investment strategies which include investing in foreign financial assets. The funds are commonly established out of balance of payments surpluses, official foreign currency operations, the proceeds of privatizations, fiscal surpluses, and/or receipts resulting from commodity exports.”

There is no standard classification of SWFs. A SWF could be controlled by and therefore classified as an MDA of the BCG institutional unit, or as an EBU or SSF (if it is a passive holder of assets and liabilities), or as a public financial corporation (if it provides financial services on a market basis).

The main issues concerning SWFs have to do with how the assets are invested i.e. the declared investment policies and their implementation - particularly related to the risk that the SWF may be ‘raided’ by the government to finance short term deficits or to pursue other government objectives not included in the SWF’s declared objectives. A proposal on including financial asset management in the PEFA assessment was made in Analytical Note 3 on Capturing Natural Resource Revenue[33] as many SWFs have been created to accumulate revenue from natural resource extraction for inter-generational wealth distribution, but the proposal apply equally to similar funds in other countries irrespective of the source of the funds.

[33] EU/IBF 2013 III

**Public–Private Partnerships (PPP)**

A PPP is a government service or private business venture which is funded and operated through a partnership of government and one or more private sector companies. A key motivation for governments considering public private partnerships is the possibility of bringing in new sources of financing for funding public infrastructure and service needs[34].

According to the EPEC PPP Guide[35], a PPP arrangement differs from conventional public procurement in several respects. In a PPP arrangement the public and private sectors collaborate to deliver public infrastructure projects (e.g. roads, railways, hospitals) which typically share the following features:

- a long-term contract between a public procuring authority and a private sector company on the procurement of services, not assets;
- the transfer of certain project risks to the private sector, notably with regard to designing, building, operating and/or financing the project;
- a focus on the specification of project outputs rather than project inputs, taking account of the whole life cycle implications for the project;
- the application of private financing (often "project finance") to underpin the risks transferred to the private sector; and
- payments to the private sector which reflect the services delivered, paid either by users through user charges, by the public authority or by a combination of both.

The rationale for using a PPP arrangement instead of conventional public procurement rests on the proposition that optimal risk sharing with the private partner delivers better "value for money" for the public sector and ultimately the end user.

PPPs can take many different forms and do not relate to only one type of institutional arrangement. The draft GFS Manual 2013[36] describes PPPs as joint operations between a public sector unit (which could be an MDA of the BCG institutional unit or an EBU or a PC) and a private sector entity. It could involve a joint venture as a separate institutional unit established to implement the PPP activity, or it may involve jointly controlled operations and/or assets. Depending on the actual control of the joint venture or the assets, a PPP may be classified as belonging to the private sector or to any sub-sector of the public sector. Some PPPs may be considered as procurement contracts with a long implementation horizon and sharing of revenue and expenses.

PPPs therefore do not belong to any specific indicator in the PEFA Framework; each significant PPP will have to be considered according to its specific classification (private sector, public corporation, EBU or BCG) and included in assessment under the relevant indicators. However, they will practically always be relevant to PI-19 on procurement and to the issue of fiscal risk, which currently is inadequately reflected in the PEFA Framework (ref. recommendations in Analytical Note 2 on Transparency, Oversight and Accountability[37]).

[34] Ref. Wikipedia entry on PPPs
[35] EPEC 2011
[36] Draft GFS Manual 2013 para. 2.128-2.131
[37] EU/IBF 2013 II

**Service Delivery Units (SDU)**

SDUs are the organizational entities of the public sector that maintain the direct contact with individual customers or clients i.e. citizens, households and private sector entities. SDUs are not defined specifically in the GFS system. They can form part of an MDA under the BCG institutional unit or as part of an EBU or SSF. The issue for PEFA assessments often relate to SDUs under shared control by different levels of general government - i.e. central, state or local government – and therefore whether a certain type of unit should be included in the assessment of central government or in a separate assessment for a local level of government.

As with classification issues related to GFS, the question is answered by looking at what level of government that maintains the ultimate control of the SDU. There are several potential indicators of control:

- Appointment of officers;
- Other provisions that effectively determines the general policy or program of the SDU;
- Degree of financing;
- Risk exposure;

A single indicator could be sufficient to establish control, but a number of separate indicators may collectively indicate control. In countries with relative strong central government and weak local government, many SDUs, which are nominally part of local government, are in effect controlled by CG through all four indicators.

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