

Public Financial Management Systems at Subnational Levels: PEFA Lens

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Can you clarify the definition of Subnational government (SNG) revenue and expenditure? Does it include central government expenditures made at the SNG level?

SNG revenue includes:

- grants and transfers received from the central government and other levels of governments;
- subnational part of the shared revenues;
- subnational taxes and fees collected by the subnational government or other levels of government on the behalf of the SNGs;
- other revenues (grants from international organization, property income, sales of goods and services, etc.)

It excludes national revenue that are collected on the territory of the subnational government.

SNG expenditures include all expenditure incurred by budgetary and extrabudgetary units of the subnational government. Expenditures made by central government on the territory of the subnational government, through deconcentrated units of the CG are not included in SNG expenditure, and subsequently not covered in the SNG PEFA assessment

Does China conduct federal PEFA on a regular basis?

The eight PEFA assessments in Hunan province are the first ever PEFA assessments conducted in China. There has never been a PEFA assessment of the Chinese Federal government.

Are there separate criteria for PEFA assessment at the local government level? How can the new guidance be applied in countries where there are different levels of SNG (e.g, provinces, districts, municipalities? Can the performance indicators be applied to all levels?

PEFA methodology can be applied to all levels of subnational governments: country, states, provinces, regions, districts, counties, municipalities, etc. The only criteria is that the subnational government must fulfil the PEFA definition of a subnational government, which is: *Any level of government below the national level (state/provincial or regional and local), provided these entities have the authority to own assets, incur liabilities, and/or engage in transactions in their own right. The right to borrow is not a requirement for treatment as a subnational government in the PEFA Framework.*

PEFA Secretariat has adjusted the methodology for subnational governments. The main revisions to the framework include the following:

- *Introduced two brand new indicators and two dimensions into existing indicators:*

- HLG–2 FISCAL RULES AND MONITORING OF FISCAL POSITION, which through its three dimensions assesses HLG–2.1: Fiscal rules for subnational governments; HLG–2.2: Debt rules for subnational governments; and HLG–2.3: Monitoring of subnational governments.
 - PI–9bis PUBLIC CONSULTATION which assesses the extent to which the subnational government conducts public consultation in preparing the budget, designing important and significant service delivery programs, and planning investments.
 - New dimensions in 2 indicators – HLG1. Predictability of transfers, which is a critical aspect to be assessed for SNG considering that most SNG depend significantly on transfers from the CG; and PI–19.2 Property tax register and value assessment, considering the importance of property tax as own source of revenue for SNG.
- The other adjustment includes merging three indicators of the fourth Pillar-Policy Based Fiscal Strategy and Budgeting into More specifically, PI–14: Macroeconomic and fiscal forecasting, PI–15: Fiscal strategy and PI:16: Medium-term perspective in expenditure budgeting, have been merged the new indicator on PI.14 MEDIUM-TERM BUDGET STRATEGY (PI-14 includes 1 brand new dimension PI-14.1: Underlying forecasts for medium-term budget, , 2 adjusted dimensions (15.1, 16.1/14.2), one original dim (16.4). However, in the case of applying the framework in federal states, with extended authority, and fiscal, political and administrative decentralization, they could choose to apply the full set of macro-fiscal indicators of pillar IV.
 - In addition, we have adjusted more than 20 dimensions. The changes relate to narrowing down the coverage and simplifying the requirements.

Overall, we have also improved and clarified the applicability of the indicators/dimensions when applied at SNG level. We hope that through these changes the revised guidance has been simplified and it more relevant to the SNGs. For more information on the revised guidance for SNG PEFA assessment, which is being pilot tested, please visit [The revised guidance for SNG PEFA Assessment -Piloting Version](#)

Are the authorities keen to publish the report?

Most of the governments conducting PEFA at the national and subnational levels have published the assessment reports. Around 62 percent of all PEFA assessments reports are publicly available. For more information on the publicly available reports please visit our website at www.pefa.org

Does this guidance have legislative oversight as an indicator?

PEFA framework includes two indicators related to the legislative scrutiny- PI-18 Legislative scrutiny of budget and PI-31 Legislative scrutiny of reports. These two indicators are applied similarly for the central and the subnational governments. In both cases, it is the activity of the subnational legislature or elected council which is assessed, and not the national one.

Could the speakers please elaborate as to how the assessments were actually carried out during Covid times i.e were the assessments done on the ground or through online discussions / emails only?

For China, it was a combination of virtual and in-person assessment while for Argentina, it was 100% virtual i.e. online.

How local laws, policies and procedures are compatible with the PEFA assessment methodology?

The PEFA indicators focus on the operational performance of key elements of the PFM system rather than on all the various inputs and capabilities that may enable the PFM system to reach a certain level of performance. PEFA thus does not measure every factor affecting PFM performance, such as the legal framework or human resource capacities within the government. These are matters that should be taken into account, however, in addition to PEFA, as part of a dialogue on PFM reform after the PEFA report has been finalized. Further analysis, including more detailed examination of specific areas, may be required in addition to PEFA to explore the underlying factors affecting performance.

PEFA also does not involve fiscal or expenditure policy analysis that would determine whether fiscal policy is sustainable. It does not evaluate whether expenditures incurred through the budget ultimately have their desired effect on reducing poverty or achieving other policy objectives, or whether value for money is achieved in service delivery. A more detailed analysis of data, or utilization of country-specific indicators, would be required for such an assessment. International organizations and research institutions have such tools at their disposal to perform more detailed analysis, such as public expenditure reviews (PER) performed by the World Bank. PEFA focuses on assessing the extent to which the PFM system is an enabling factor for achieving such outcomes.

Overall, the PEFA framework is policy neutral, so it does not assess the government's policies. For example, the PEFA framework requires the existence of an operational audit function. If this function is missing at the subnational level, the score will be D even though the national law does not require the subnational governments to have an operational internal audit system.

Are there grants available to carry out sub national PEFA?

The PEFA secretariat does not conduct nor funds PEFA assessments. PEFA's are either undertaken by the development partners or the governments. There are often arrangements between governments and development partners for conducting a PEFA, which sometimes include a grant or in-kind contribution through the funding of an external consultant.

While promoting subnational PEFA, how do we ensure subnational-PEFAs do *not* try to explain all public sector inefficiencies at local level better? There is a danger over-seeling sub-national PEFAs too!

PEFA is a PFM tool which assesses the strengths and weaknesses of the country's PFM. It is not designed to assess the non-PFM technical factors such as institutional organization, organization of service delivery, economic decisions, etc.

Was the Argentina assessment done remotely in its entirety? Were all interactions all via e-mail and video conferences?

Yes, the assessment was done entirely remote, with all interactions via emails and video conferences. PEFA Secretariat has provided a guidance on doing PEFA's during COVID19 effectively: ["Tips, Tricks, and Ideas for a Successful Virtual PEFA Assessment During COVID-19 Pandemic Based on Feedback from Countries in 2020"](#)

What is the PEFA secretariat strategy regarding SN PEFA implementation and building capacity for conducting SN PEFA?

PEFA Secretariat has a comprehensive knowledge and learning program, which aims at strengthening the capacity of government officials, development partners, and other PEFA users (including experts undertaking PEFA assessments) to understand, manage, and participate in PEFA assessments, and prepare high quality PEFA reports that are used to support PFM improvement. PEFA trainings also aim to build demand for, appreciation of, and coalitions among governments and development partners around PEFA assessments to support PFM reform dialogue, action planning, implementation, and monitoring.

PEFA Secretariat has developed a significant number of knowledge and guidance materials, development and maintenance of the PEFA database, publication of practitioners' stories on the use of PEFA; promotion of research; monitoring of PEFA impact and commissioning of research. The PEFA Handbook, in particular, is used as a key resource by assessment managers and assessment teams. Assessment managers are guided by Volume I of the Handbook (The PEFA Assessment Process) which sets the key steps, tasks, responsibilities, and timelines in preparing a PEFA assessment. Volume II (The PEFA Assessment Fieldguide) is used extensively by assessors as it provides detailed measurement guidance on all indicators and dimensions. Volume III (Preparing the PEFA Report) expands on the PEFA 2016 framework document by providing supplementary guidance on all components of the expected structure of the report. Volume IV on how to Use PEFA for PFM improvement.

The training component is an important part of the knowledge and learning program. It includes workshops that can be delivered as both regional learning events and on demand in-country trainings; seminars, typically focused on specific topics and targeted both at development partners, and other interested PEFA users, to share knowledge and experience; and conferences, either organized by the Secretariat or in which the Secretariat participates and contributes to events conducted by other PFM institutions. Workshops and seminars can be delivered face-to-face or online.

During the COVID-19 pandemic, the demand for training on PEFA framework and the new products (i.e. gender, climate, and SNGs) has been strong. In addition, the Secretariat is about to launch a comprehensive online training program.

What are the key steps involved to conduct a SNG PEFA assessment? Should the process be government led or donor driven?

There are different models of conducting PEFA assessments including:

- **Self-assessment:** undertaken by the government - “assisted self-assessment”- when the government hires consultants to help
- **Joint assessment:** government working with other stakeholders – e.g. development partners, domestically-based academia or civil society organizations
- **External assessment:** led by a non-government stakeholder, with technical support provided by government

Irrespective of the model, the government ownership and drive is critical for a successful PEFA assessment process. . In most cases, the assessments are conducted in partnership between the government and the development partners. In the case of the subnational PEFA, the central government is often involved in the assessment, either as a peer reviewer and member of the oversight committee, or as the institution which initiates, funds and conducts the assessment, as it is the case of South Africa. Other tiers of subnational governments can also be involved in the assessment. For instance, in China representatives from the Hunan province participated in the assessment of the eight counties.

[Volume I of the PEFA Handbook](#) explains the phases and steps in a standard PEFA assessment process. It highlights key activities, responsibilities and timelines in planning and managing a PEFA assessment and in using the results of that assessment. It provides a chronological PEFA checklist, with detailed guidance on each phase and step in the assessment process, from initial discussions to preparation of the final report and beyond. It also includes links to templates and instructions to support the key activities.

The monitoring phase of the SNG PEFA Assessment Framework is very crucial, as this is when the implementation of reform initiatives to address gaps and weaknesses revealed in the assessment as well as the impact of such reform initiatives to service delivery are monitored. What is the ideal period for doing step 10 -monitoring (i.e., number of years) after the assessment was completed? Would monitoring done through follow-up assessment?

PEFA is a powerful monitoring and evaluation tool. Ideally, the timetable between the two assessments is 4 to 6 years. Many countries conduct the first assessment to establish the benchmark and use PEFA findings for developing PFM reform programs. Subsequently, they conduct repeat assessment to track performance changes over time and revise the PFM reform programs accordingly. In some cases, governments or development partners in their PFM reform projects use a set of PEFA indicators to monitor annually or semi-annually progresses of the PFM reform.

If treasury at provinces belongs to central government, do we still assess the role of treasury at provinces?

The subnational guidance defines precisely the applicability of the dimensions at the SNG level. In some instances, the activity of the central government treasury located in provinces will not be assessed. For

example, administration of revenue collected by CG treasury is not covered, except when it's done on the behalf of the subnational government. However, in most cases, this activity will be covered by the subnational assessment. The PEFA methodology strongly recommends to flag it in the report the entity which is responsible for the performance.