Benchmarking Fiscal Decentralization (BFD) - Council of Europe

Objective and features

5. Methodology
The benchmarking toolkit works as a checklist with details on activities, indicators, and verification documents to score local governments. The checklist covers areas such as the principles of local fiscal policies, budgeting and fiscal planning, and local policy design. Some of the indicators require qualitative or quantitative analysis to assign a score. When qualitative, a score is given using expert judgment or peer review based on documents, local practices, surveys, or previous assessments. The quantitative analysis uses data that the local governments provide. For example, when assessing the fiscal autonomy, data on local rate settings and the scope of local discretion on legislated sharing ratio transfers may be required.

The resources required are the toolkit checklist and any subsequent documents needed to determine scoring. For example, under local taxation, the scoring for the component “local taxation should be operated at low administrative costs” can be assessed using the indicator “total tax administration costs in percent of local expenditure on administration.” To determine the score, municipal fiscal statistics or local budget will be required to provide the information.

6. Benchmarking system
The toolkit has a scoring system of 0 to 10 (10 being the highest score) for each indicator/activity. High scores indicate successful areas of local finances, and low scores help identify the areas for improvement. Further investigation is needed to identify the real causes of lower performance.

7. Linkage to PFM framework
BFD covers aspects related to the following PFM performance indicators: aggregate expenditure outcome (PI-4), expenditure composition outcome (PI-5), revenue outcome (PI-6), budget classification (PI-7), budget documentation (PI-8), transfers to subnational governments (PI-9), macroeconomic and fiscal forecasting (PI-14), accounting for revenue (PI-20), predictability of in-year resource allocation (PI-22), internal audit (PI-26), and external audit (PI-27).

8. Complementarity with PFM framework
BFD covers the entire PFM system. The central government component of BFD can provide inputs to PI-7 (transfers to subnational governments) and PI-6 (Fiscal Reporting – Monitoring of Subnational Government) assessments as well as a detailed analysis of underlying issues where weaknesses in those indicators have been identified in a PFM assessment.

Development and use

9. Development and coordination
In 2004, the CoE started to develop recommendations on local financial management. The recommendations were based on the CoE’s work in this area and were prepared in an open format after consultations with IMF, WB, and OECD. The recommendations, although relevant and useful, were not being used in practice. Considering this, the recommendations were translated into benchmarks. Thus, the benchmarks underlying the BFD tool are largely based on the recommendations and contain some additional guidance on how to score.

The local component of the tool was first piloted in 2008 (in Bulgaria and then in Ukraine). It was further improved in response to the economic crisis, and in 2013, it was used in municipalities (in Greece, Portugal, and Spain). The implementation began in Eastern Partnership countries under the CoE European Union Eastern Partnership Programmatic Cooperation Framework for 2015–2017. This tool enables these countries to understand the areas for improvement in their subnational governments and prioritize actions in order to efficiently allocate resources.

The central component of the tool was developed after the local component and is currently being implemented in Greece under a joint CoE–EU project. For the Eastern Partnership ( EaP) countries, using the tool to balance local needs with public service performance and enabling efficient resource utilization is critical given the limited economic resources and political conflicts. The tool was utilized in the EaP countries under the CoE/EU Eastern Partnership Programme Cooperation Framework for 2015–2017.

10. Assessment management
Data from local governments is an input for the assessment. No formalized quality assurance procedure is envisaged. Assessor training and hands-on guidance from international experts are available to ensure quality.

11. Uses by the government and members of the PFM community
Used primarily for diagnostic purposes to help government bodies identify areas of intervention and prioritize development actions. For public policy making, benchmarking provides evidence for decision-makers through scoring and ranking.

The tool supports governments at both national and local levels in identifying (i) effective revenue raising, (ii) equitable intergovernmental fiscal relations, and (iii) efficient local financial management.

The Council of Europe uses these benchmarks for policy advice. The tool is targeted at CoE members but could be used by other countries.

12. Sequencing with other tools
There is no sequencing with other tools.

13. PFM capacity building
The BFD tool supports policy makers in designing fiscal decentralization and supports elected officials and the local administration in designing targeted municipal actions in terms of local financial resources use and financial management.

14. Tracking of changes and frequency of assessments
While there is no specific information on how changes between assessments are captured, if the assessment is repeated, users can compare the results to determine changes. The assessment is carried out upon request and depends on the municipalities volunteering to participate, and there is no predefined frequency.

15. Resource requirements
About €1,000–€3,000. This estimate includes costs for training local experts, fieldwork, and report preparation.

Resource requirements depend on the level of participation from the local government. A typical assessment entails three to four days of training local experts, two to three days of fieldwork, and three to four days of report preparation. It can take from two months to a year to carry out the entire exercise - from receiving the request to having the final stakeholder meeting.

Transparency

16. Access to methodology
The Local Finance Development Toolkit (2017) has been developed and is publicly available, although there is limited information available on how the assessment should be carried out and reviewed. A summary report explaining options for assessing local financial resources and financial management is also available.

17. Access to assessment results
Publication of assessments depends on the government’s discretion.