

Sub-National Assessments

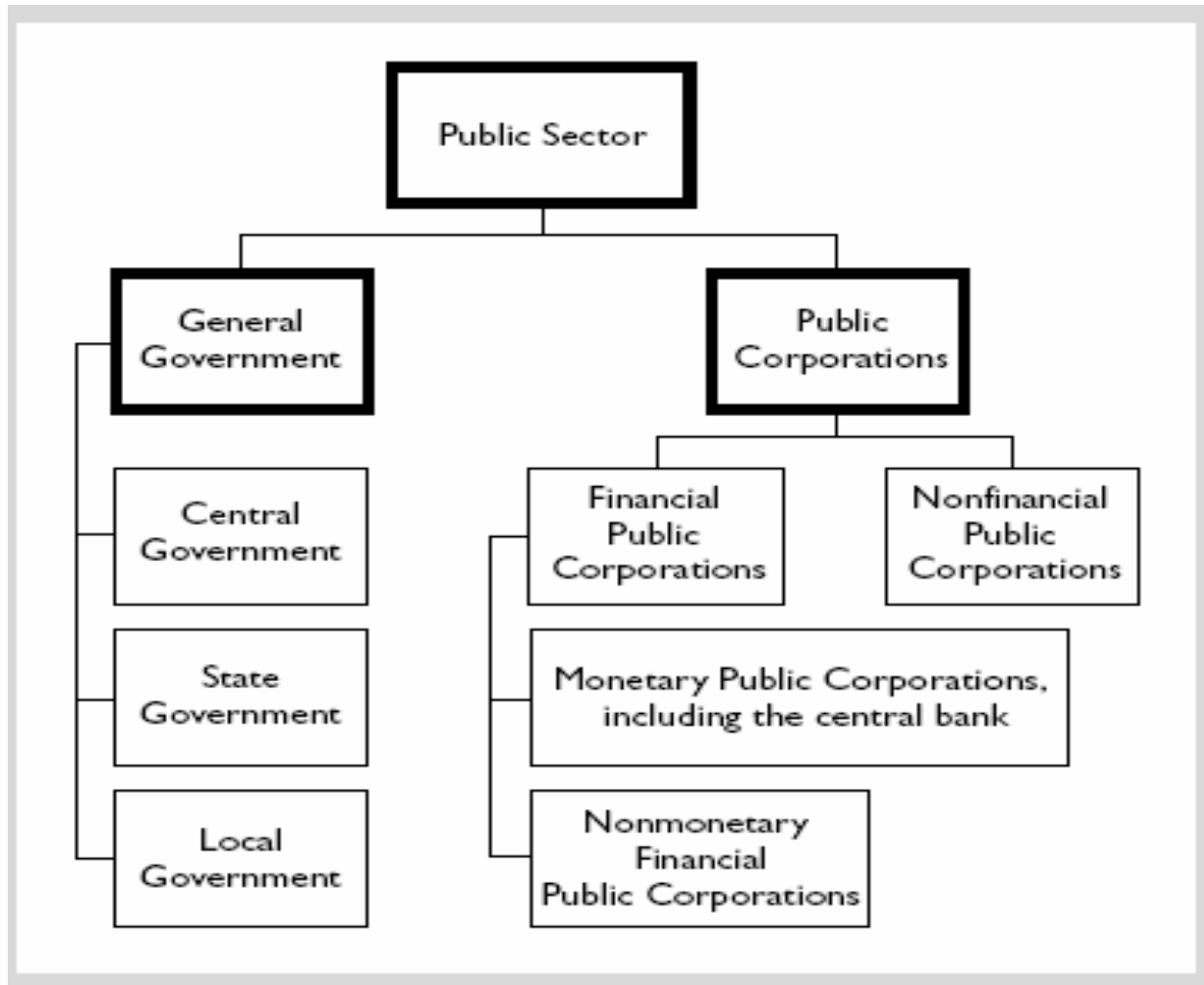
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Structure of the Public Sector



Definition of Sub-National Gov't

GFS manual: *“to be treated as institutional units, they must be entitled to own assets, raise funds, & incur liabilities by borrowing on their own account. They must also have some discretion over how such funds are spent, & should be able to appoint their own officers independently of external administrative control.”*

PEFA follows this definition **except** for ability to borrow on own account

Structural Models

- Almost every country has a unique structure, determined by historical & political circumstances
- Variations may relate to:
 - Federal vs Unitary states
 - Symmetrical vs Asymmetrical federalism
 - Federal units covering all vs part of a country
 - Francophone vs Anglophone decentralization

Sub-National Assessments

Political & Admin Decentralization:

- accountability; oversight

Fiscal decentralization:

- Service obligations / Expenditure assignments (Central: typically, defense; SNG: typically, primary services, e.g. health) but some services split between levels of govt: also, parallel structures

Financing

- Revenue assignments (often not called 'tax' even if it is)
- Shared revenue – collected by central or SN govt
- Grants from higher level government
- Borrowing

Purpose of the Assessment

- **Inform PFM reform & track progress**
 - Central government
 - Single (or multiple) sub-national government(s)
Region, Province, State, Municipality, District etc
- **Satisfy fiduciary requirements (FRA)**
 - Limited or no decentralization – *Central government*
 - Sub-national government receives significant transfers from the centre and has significant responsibility for service delivery – *Central government plus one or two levels of SN government*

Adaptation of PEFA Framework

Two types of SN Assessments

- One SN entity - **Primary Purpose**: inform entity's reform formulation & track progress: unrelated to national assessment: **Resource inputs high**
- Sample of entities - **Primary Purpose**: inform national reform formulation & donor fiduciary needs: related to national assessment: Resource inputs are lower for each entity, but **high in total**

For use at SN level, modifications needed to

- Indicator set
- Performance report

Modifications to PIs

Additional indicator required: HLG-1 3 dims:

- Annual deviation of actual total HLG transfers from original total estimated amount provided by HLG to SN entity for inclusion in latter's budget
- Annual variance between actual & estimated transfers of earmarked grants
- In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution)

Audit & legislature PIs need careful consideration to distinguish national/local oversight, & terminology aligned with local institutions

Modifications to PFM-PR

Essential to include careful description of :

- Structure of general government, its levels & entities
- Legal & regulatory framework for sub-national government
- Intergovernmental relationship such as transfers, expenditure assignments and borrowing powers
- Institutional framework/structures at SN level
- Exact coverage of the SN level assessment

Observations on SN assessments

- Difficulties in making appropriate distinction between national & sub-national performance features
- Indicator HLG-1 not included
- Problems with scope of revenue indicators
- Misunderstanding scope of PI-8 & PI-9(ii)
- Local assessors/consultants with no prior PEFA experience

Issue of Guidance Note

- Guidance issued as Exposure Draft in March 2008
- Publicized on www.pefa.org
- Comments from practitioners and field work welcome
- Final guidelines to be completed when sufficient feedback has been received

Thank you for your attention