Public Expenditure and Financial Accountability Baseline Report

Central Provincial Government

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Summary Assessment

This section aims to provide an integrated and strategic picture of PFM performance, including the extent to which the PFM system impacts on the achievement of outcomes of aggregate fiscal discipline, strategic allocation of resources and efficient service delivery.

The indicative length of this section is three to four pages.

The summary assessment provides the following information:

(i) Integrated assessment of PFM performance

The detailed indicator-led assessment is summarized along the six core dimensions of PFM performance identified in the Performance Measurement Framework:

1. **Credibility of the budget -** The budget is realistic and is implemented as intended.

2. **Comprehensiveness and transparency -** The budget and fiscal risk oversight are comprehensive and fiscal and budget information is accessible to the public.

3. **Policy-based budgeting -** The budget is prepared with due regard to government policy.

4. **Predictability and control in budget execution -** The budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds.

5. **Accounting, recording and reporting** – Adequate records and information are produced, maintained and disseminated to meet decision-making control, management and reporting purposes.

6. **External scrutiny and audit -** Arrangements for scrutiny of public finances and follow-up by the executive are operating.

In synthesizing the performance of the PFM system, the analysis aims at identifying the main PFM weaknesses and does not simply repeat the detailed list of weaknesses identified in section 3. The analysis captures in particular the interdependence between the different dimensions, i.e. the extent to which poor performance for one of the core dimensions is likely to influence the performance of the PFM system in relation to the other dimensions.

(ii) Assessment of the impact of PFM weaknesses

This part analyzes the extent to which the performance of the assessed PFM system appears to be supporting or affecting the overall achievement of budgetary outcomes at the three levels, i.e. aggregate fiscal discipline, strategic allocation of resources or efficient service delivery. In other words, it provides an understanding of why the weaknesses identified in PFM performance matter for this country. The assessment does not examine the extent to which budgetary outcomes are achieved (e.g. whether expenditures incurred through the budget have their desired effect on reducing poverty or achieving other policy objectives), but rather uses information from fiscal and expenditure policy analysis (as captured in the section 2 of the report) to assess the extent to which the PFM system constitutes an enabling factor for achievement of the planned budgetary outcomes.

The table in Appendix 1 (at the end of this section) is provided as an aid for making this assessment. It outlines how poor PFM performance may impact the achievement of aggregate fiscal discipline, strategic allocation of resources and service delivery. It is organized along the six core dimensions of PFM performance and the three levels of budgetary outcomes. Appendix 1 does not prescribe a mechanical link between weaknesses of the PFM system and achievement of the three levels of budgetary outcomes, but aims rather to support the thinking over the impact of PFM weaknesses and why they matter for the country.

(iii) Prospects for reform planning and implementation

This part assesses the extent to which institutional arrangements within the government support a timely and adequate reform planning and implementation process.

In addition, for aid-dependent countries, a statement is included on existing donor practices and on the extent to which they affect PFM performance.

Section 1: Introduction

The objective of the introduction is to understand the context and the process by which the PFM-PR was prepared and to outline the scope of the PFM assessment.

The indicative length of this section is one page.

The introduction includes the following:

- **Objective of the PFM-PR**, including why it has been undertaken at this time and its contribution to on-going country activities.

- **Process of preparing the PFM-PR**, including (i) the donors associated in the preparation of the report, with a description of their role and contribution (lead donor, participating donors, financing, consultations, etc) and, (ii) involvement of government in the preparation of the report.

- **The methodology for the preparation of the report,** such as reliance on information sources, interviews, etc.

- **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.

Section 2: Country Background Information

The objective of this section is to provide information on the country whose PFM system is being assessed, to allow sufficient understanding of the wider context to PFM reforms as well as the core characteristics of the PFM system in that country.

The indicative length of this section is four to five pages.

The section is structured along the following lines and provides the following information:

SUB-SECTION 2.1: DESCRIPTION OF THE COUNTRY ECONOMIC SITUATION

- **Country context,** including population, income level, percentage of population living below the poverty line, growth rate, inflation, economic structure and main challenges for development.
- **Overall government reform program**, with a focus on the main issues that are likely to influence public financial management.
- **Rationale for PFM reforms** in relation to the overall government reform program.

SUB-SECTION 2.2: DESCRIPTION OF BUDGETARY OUTCOMES

<u>The information for this sub-section is drawn from existing fiscal and expenditure policy analysis or other relevant studies.</u>

- ***Fiscal performance:*** The report includes a short comment on the main trends in fiscal aggregate discipline for the last three years, based on the information provided by the following table. It also integrates other relevant information, for example on the debt stock.

Central government budget (in percent of GDP)			
	FY1	**FY2**	**FY3**
Total revenue			
- Own revenue **- Grants**			
Total expenditure			
-Non-interest expenditure **- Interest expenditure**			
Aggregate deficit (incl. grants)			
Primary deficit			
Net financing			
- external			
- domestic			

- Allocation of resources: The report includes information on the trends in sectoral and, if possible, economic allocation of resources. It also provides a statement on the priorities embodied in the national strategy (e.g. PRSP) and the extent to which budget allocations reflect the priorities of government.

Actual budgetary allocations by sectors (as a percentage of total expenditures)			
	FY-1	FY-2	FY3
Health			
Education			
Agriculture			
Etc.			

Actual budgetary allocations by economic classification (as a percentage of total expenditures)			
	FY-1	FY-2	FY3
Current expenditures			
- Wages and salaries			
- Goods and services			
- Interest payments			
- Transfers			
- Others			
Capital expenditures			

- **Additional information**, such as proportion of funds allocated at the local level or any information related to service delivery or operational efficiency, would be added, if available.

SUB-SECTION 2.3: DESCRIPTION OF THE LEGAL AND INSTITUTIONAL FRAMEWORK FOR PFM

- **The legal framework for PFM:** the report describes the legal provisions that determine the fundamental rules that are guiding the PFM system. It would involve a brief description of recent changes made to the legal framework, if relevant.

- **The institutional framework for PFM:** the report describes the responsibilities of the main entities involved in PFM, including for the different levels of government (central and sub-national governments), the different branches of government (executive, legislative, and the judiciary) as well as for the public enterprises or autonomous government agencies. Additional information on the broad responsibilities for public financial management in the Ministry of Finance and between the Ministry of Finance and the line ministries is welcome. Recent changes in responsibilities can be mentioned, including trends towards decentralization of expenditures.

- **The key features of the PFM system:** the report describes the key features of the PFM system, including the degree of centralization of the payment system or the type of jurisdictional control exercised by the external audit body.

The information provided is descriptive and does not intend to make a statement on compliance with existing rules or effective roles played by the legislature and external audit. Such issues are captured in the detailed assessment of the PFM system (section 3).

Section 3: Assessment of the PFM systems, processes and institutions

The objective of this section is to provide an assessment of the key elements of the PFM system, as captured by the indicators, and to report on progress made in improving those.

is the following:

3.1. Budget credibility
3.2. Comprehensiveness and transparency
3.3. Policy-based budgeting
3.4. Predictability and control in budget execution
3.5. Accounting, recording and reporting
3.6. External scrutiny and audit
3.7 Donor practices
3.8. Country specific issues (if necessary)

The indicative length of this section is about eighteen to twenty pages.

SUB-SECTIONS 3.1 TO 3.7

Each sub-section discusses the relevant indicators. For example, the subsection 3.2 on comprehensiveness and transparency reports on indicators 5 to 10. Reporting reflects the order of the indicators.

The discussion of each of the indicators **distinguishes between the assessment of the present situation (the indicator-led analysis) and a description of the reform measures being introduced to address the identified weaknesses.** The assessment based on the indicator and the reporting on progress are separated in two different paragraphs, in order to avoid confusion between what the situation is and what is happening in terms of reforms.

Reporting the indicator-led analysis

Reporting on the indicator-led analysis is undertaken in the following manner:

- The text gives a clear understanding of **the actual performance of each of the PFM dimensions captured by the indicators** and the rationale for its scoring. Each dimension of the indicator is discussed in the text and addressed in a way that enables understanding of the specific level (A, B, C or D) achieved by the dimension.
- The report indicates the factual evidence (including quantitative data), that has been used to substantiate the assessment. The information is specific wherever possible (e.g. in terms of quantities, dates and time spans).
- Any issues of timeliness or reliability of data or evidence is noted. If no information exists either for a whole indicator or one of its dimension, the text explicitly mentions it. If it is felt that scoring is still possible despite a lack of information for one of the dimension, the rationale for the scoring is made explicit.
- At the end of the discussion of each indicator, a table specifies the scoring along with a brief explanation for the scoring.

As a complement to the indicator scoring, reporting on progress[1] is made in relation to each of the indicator topics (if relevant, i.e. when there are recent or on-going reform measures). It aims to capture the dynamic of reforms in the country while retaining sufficient rigor in assessing on-going changes:

Reporting on progress is based on **factual evidence** and focuses on:

(i) Small improvements in PFM performance not captured by the indicators

For example:

- <u>Indicator 4</u> (stock and monitoring of expenditure payment arrears): In Year 1, a country rated B on this indicator, partly because the stock of arrears stood at 7% and partly as a result of efforts made recently in reducing the stock of arrears. In Year 3, the stock of arrears stands at 3%. The rating of the indicator remains B, but the report should note the progress made in reducing the stock of arrears.

- <u>Indicator 12</u> (multi-year perspective in fiscal planning, expenditure policy and budgeting: In Year 1, a country has two out of ten sector strategies that are fully costed. The two sectors represent 35% of total primary expenditure. In Year 3, one additional sector strategy is costed. The sector represents 10% of total primary expenditure. The progress made does not influence the rating of the indicator, but the report should note the progress made in improving the performance.

[1] The level of performance of the PFM system, as captured by the indicators, reflects a combination of historical, political, institutional and economic factors and is not necessarily representative of recent or on-going efforts made by government to improve PFM performance. Improvement in the scoring of the indicators may take some years given the four-point scale by the high-level indicators. This is why the PFM-PR introduces some reporting on progress made in improving PFM performance as captured by the indicators

(ii) Reforms implemented to date, that have not yet impacted PFM performance or for which no evidence exists on their impact on PFM performance

For example:

- Indicator 21 (effectiveness of internal audit): In Year 1, the country rated D on this indicator as no internal audit function existed. In Year 3, an internal audit department has been created in the Ministry of Finance, but is still very weak. The reform – creation of the internal audit department – has not yet impacted PFM performance, but should be noted in the report.
- Indicator 19 (competition, value for money and controls in procurement): A new procurement law was adopted one year ago, but no analysis has been made since then to assess its impact on the use of open competition for award of contracts, etc. Since no evidence is available on the impact of this new legislation, the rating of the indicator should be based on the latest evidence of procurement practices, i.e., prior to the adoption of the new legislation. The report should note the existence of the new procurement law and the lack of evidence collected to assess its impact.

Reference to government reform plans or description of existing conditionality selected by the international finance institutions or donors (i.e. reform measures yet to be implemented) are not considered as sufficient evidence for demonstrating progress.

An upward arrow can be used next to the score (e.g., D▲) to indicate progress, but its use is limited to cases as described above under (i) small improvements in PFM performance not captured by the indicators, and (ii) reforms implemented to date that have not yet impacted PFM performance or for which no evidence on their impact on PFM performance exists.

SUB-SECTION 3.8

The PFM-PR provides information on country-specific issues that are essential for a comprehensive picture of PFM performance and that are not fully captured by the indicators. This sub-section is based on available information. Below are some examples of such country specific issues:

1) Sub-national governments:

The performance indicators capture local government issues in relation to the clarity of inter-governmental fiscal relations (PI-8), the comprehensiveness of fiscal risk oversight (PI-9) and the extent to which spending ministries and agencies are able to plan and commit expenditures in accordance with budgets and work plan (PI-16). In countries where a significant proportion of expenditures are executed at the sub-national level and where information is available, the PFM-PR provides some information on PFM performance at the local level. This section does however not seek to substitute for any assessment done at the sub-national level.

2) Public enterprises

The performance indicators capture public enterprise issues in relation to the comprehensiveness of aggregate fiscal risk oversight (PI-9). Depending on the importance of these entities, a comprehensive overview of the PFM system may therefore require a description of the relationships between the central government and those entities or the performance of those entities in terms of PFM, to the extent information exists.

3) Management of revenues in natural resources rich countries

Revenues from natural resources may constitute an important source of income for certain countries and may be subject to specific financial management arrangements. This section may in such cases present a description the performance of those arrangements.

4) Any other issues relevant for a comprehensive picture of PFM performance.

Section 4: Government reform process

This section aims to describe the overall progress made by government in improving PFM performance and to provide some forward-looking perspective on the factors that are likely to affect future reform planning, implementation and monitoring.

The indicative length of this section is about two to three pages.

SUB SECTION 4.1: DESCRIPTION OF RECENT AND ON-GOING REFORMS

The most important recent and ongoing reforms are briefly summarized (as a detailed description of those takes place in section 3) to give a thrust of the main progress made by government in strengthening the PFM system.

SUB-SECTION 4.2: INSTITUTIONAL FACTORS SUPPORTING REFORM PLANNING AND IMPLEMENTATION

This part of the report provides **a forward-looking perspective** of the extent to which **institutional factors** are likely to support the reform planning and implementation process.

The following identifies several factors that are likely to be relevant in supporting an effective reform process in many country contexts. In each case, this part of the PFM-PR takes into account recent and ongoing reform experiences and identifies, where appropriate, additional country specific factors to those suggested below.

- **Government leadership and ownership** is likely to contribute to a more effective PFM reform process by setting the objectives, direction and pace of reforms, clarifying organizational responsibilities for the reform process and addressing, in a timely manner, any resistance to change. Consideration may be given to the level and nature of political engagement in the reform process, the extent to which the government articulates a compelling case for PFM reforms, the dissemination of the government vision in public documents (PRSPs, specific PFM strategy or action plan, etc.) and the provision of resources by government to PFM reforms. Cross reference to the extent to which the reform process is progressing according to government plans can be included if found relevant.

- **Coordination across government** is likely to contribute to a more prioritized and sequenced reform agenda, as existing capacities of different entities and levels of government are taken into account in planning and implementing reforms. In assessing the extent to which arrangements for coordination are in place, consideration may be given to the extent to which relevant entities, especially line ministries, are associated in the reform decision making process, the existence of mechanisms to ensure timely decisions-making especially for cross-cutting reforms, the clarity of roles and responsibilities in the implementation of reforms and the existence of a focal point in government for coordination of donors in relation to PFM reforms. Association of the Parliament and the external audit in the PFM reform process may also be considered when relevant.

- Impact of the PFM reforms is likely to depend on the extent to which existing arrangements support a **sustainable reform process**. In this context, consideration may be given to the extent to which the reform process is driven by government experts or technical assistance, whether reforms are being associated with comprehensive capacity-building programs and consideration is being given to retaining trained staff. Any information on funding of the recurrent costs, resulting from the implementation of reforms, may also be included, if relevant.

The assessment of those institutional factors is as factual as possible and does not rely on government plans or commitments. **The report does not make recommendations** for the reform program of the government and does not include a judgment as to whether the government reform program addresses the right PFM weaknesses or whether the proposed reform measures are adequate.

PFM-PR Annex 1

This annex provides a summary table of the performance indicators. For each of the indicators, the table specifies the scoring assigned along with a brief explanation for the scoring.

Indicator	Scoring	Brief Explanation and Cardinal Data used
Illustrative Example:	B	
1. Aggregate expenditure out-turn compared to original approved budget		Actual primary expenditure (excluding donor funded projects) in 2003 was 8 percent below the originally budgeted expenditure, whereas in 2002 and 2004 expenditure was below budget by 4% and 3% respectively.
2.		

PFM-PR Annex 2

The annex indicates all existing analytical work that was used to develop the PFM Performance Report. Examples might include government reports, Country Financial Accountability Assessments (CFAA), Public Expenditure Reviews (PERs), Country Procurement Assessment Reports (CPAR), audit reports, etc.

Appendix 1: Links between the six dimensions of an open and orderly PFM system and the three levels of budgetary outcomes

(for the use of this table, refer to page 57)

	Aggregate fiscal discipline	Strategic allocation of resources	Efficient service delivery
Budget credibility	*In order for the budget to be a tool for policy implementation, it is necessary that it is realistic and implemented as passed.*		
The budget is realistic and is implemented as intended	A lack of credibility increases the likelihood of **overshooting the deficit target or increasing the level of arrears**. This can arise from pressures created by over-optimistic revenue forecasts and under-budgeting of non-discretionary expenditures (e.g. utilities, salaries, entitlement payments). It can also arise from non-compliance in budget execution (e.g. revenue leakages or unbudgeted expenditures).	A lack of credibility in the budget may lead to **short falls in the funding of priority expenditures**. This may arise from expenditure ceiling cuts resulting from revenues shortfalls, under-estimation of the costs of the policy priorities or the non-compliance in the use of resources.	Adjustments may fall disproportionately on **non-salary recurrent expenditures,** which is likely to have significant impact on the efficiency of resources used at the service delivery level. Non-compliance with the budget may lead to a **shift across expenditure categories,** reflecting personal preferences rather than efficiency of service delivery.
Comprehensiveness and transparency	*Comprehensiveness of budget is necessary to ensure that all activities and operations of governments are taking place within the government fiscal policy framework and are subject to adequate budget management and reporting arrangements. Transparency is an important institution that enables external scrutiny of government policies and programs and their implementation.*		
The budget and fiscal risk oversight are comprehensive and fiscal and budget information is accessible to the public	Activities that are not managed and reported through **adequate budget processes** are unlikely to be subject to the same kind of scrutiny and controls as are operations included in the budget. This increases the risk that those activities take place without reference **to the fiscal targets** decided by government and that potential risks linked to those activities are not accounted for, thereby increasing the risk of overshooting the deficit and creating unsustainable liabilities for government. Lack of transparency limits the availability of information regarding the performance of the government in maintaining fiscal discipline and managing fiscal risks. For example, incomplete or untimely financial statements limit the	Strategic allocation is strengthened if **all claims can compete with each other** in a transparent manner during budget preparation. Extra-budgetary funds, and earmarking of some revenues to certain programs are in particular likely to affect the efficiency of strategic planning against government priorities. Lack of transparency limit the availability of information on the use of resources in line with government publicized priorities. This limits the capacity of **the legislature, civil society and media** to assess the extent to which the government is implementing its policy priorities.	Lack of comprehensiveness is likely to increase **waste of resources and decrease the provision of services**. It limits competition in the review of the efficiency and effectiveness of the different programs and their inputs. It may also facilitate the development of patronage or corrupt practices by limiting the scrutiny of operations, expenditures and procurement processes not integrated in budget management and reporting arrangements. Lack of transparency limits the availability of information on the resources available for the service delivery units. This weakens the capacity of **local communities** to exercise any scrutiny on the resources allocated and used at the service delivery units.

	scrutiny by **financial markets**.		

	Aggregate fiscal discipline	Strategic allocation of resources	Efficient service delivery
Policy-based budgeting	*A policy-based budgeting process enables the government to plan the use of resources in line with its fiscal policy and national strategy.*		
The budget is prepared with due regard to government policy	**A weak planning process** may lead to a budget that does not respect the fiscal and macroeconomic framework defined by government. In particular, limited involvement by Cabinet may reduce the weight carried by the fiscal targets in the final budget negotiations. Limited integration of **medium-term implications of fiscal decisions** (spending and revenue decisions, approval of guarantees and entitlements programs, etc) in the annual budget process can lead to unsustainable policies.	**The lack of participation by line ministries, limited involvement by Cabinet or a chaotic budget process** is likely to constrain allocation of the global resource envelop in line with government priorities and to increase the likelihood of ad-hoc decisions. **The lack of a medium-term perspective** could undermine allocative decisions, as the time span of an annual budget is too short to introduce significant changes in expenditure allocations, so that costs of new policy initiative may be systematically under-estimated.	A poor budget process does not allow **discussions over efficiency in the use of resources**. In particular, it does not allow an orderly review of existing policies and new policy initiatives. The **lack of multi-year perspective** may contribute to inadequate planning of the recurrent costs of investment decisions and of the funding for multi-year procurement.
Predictability and control in budget execution	*Predictable and controlled budget execution is necessary to enable effective management of policy and program implementation.*		
The budget is executed in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds.	Lack of orderliness in execution, such as poor synchronization of cash inflows, liquidity and outflows, may **undermine fiscal management** by for example leading to unnecessary interest charges or supplier surcharges. Disorderly execution of the budget makes it difficult to undertake appropriate in-year adjustment to the budget totals in accordance with the fiscal framework, as information is likely to be inadequate and implementing decisions more challenging. Weak control arrangements may **allow expenditures (including the wage bill) in excess of budget or revenue leakages**, leading to higher	Disorderly execution could lead to **unplanned reallocations** because it may allow resources to be captured by low priority items and reduce availability of resources for priorities. Weak controls arrangements may allow **unauthorized expenditures and fraudulent payments**, and may therefore result in patterns in resources utilization, that are significantly different from initial allocations.	Lack of predictability in resource flows undermines the ability of front-line service delivery units **to plan and use those resources in a timely and efficient manner**. It may also foster an environment in which controls are habitually by-passed. **Non-observance of competitive tendering process practices** for the procurement of goods and services are likely to limit the efficiency of existing programs by increasing the costs of procuring the goods or leading to supply of goods of inadequate quality. Inadequate controls of payrolls, procurement and expenditure processes may

	deficit, debt levels or arrears.		create the **opportunity for corrupt practices, leakages and patronage.**

	Aggregate fiscal discipline	**Strategic allocation of resources**	**Efficient service delivery**
Accounting, recording and reporting	*Timely, relevant and reliable financial information is required to support all fiscal and budget management and decision-making processes.*		
Adequate records and information are produced, maintained and disseminated to meet decision-making control, management and reporting purposes	The lack of timely and adequate information on revenue forecasting and collection, existing liquidity levels and expenditures **flows constrain the capacity of government to decide and control budget totals**. Information is also necessary regarding debt levels, guarantees, contingent liability and forward costs of investment programs to allow management for long-term fiscal sustainability and affordability of policies.	A lack of information on cost of programs and use of resources would **undermine the ability to allocate resources to government priorities**. Regular information on budget execution allows monitoring on the use of resources, but also facilitates identification of bottlenecks and problems which may lead to significant changes in the executed budget.	A lack of information on how resources have been provided and used for service delivery is likely to **undermine the planning and management of services. Inadequate information and records** would reduce the availability of evidence that is required for **effective audit and oversight of the use of funds** and could provide the opportunity for leakages, corrupt procurement practices or use of resources in an unintended manner.
Effective external scrutiny and audit	*Effective scrutiny by the legislature and through external audit is an enabling factor in the government being held to account for its fiscal and expenditures policies and their implementation.*		
Arrangements for scrutiny of public finances and follow up by executive are operating.	**Limited scrutiny** of government macro-fiscal policy and its implementation may reduce the pressure on government to consider long-term fiscal sustainability issues and to respect its targets.	**Limited scrutiny** is likely to reduce the pressure on government to allocate and execute the budget in line with its stated policies	**Limited scrutiny** may reduce the extent to which government is held accountable for efficient and rule-based management of resources, without which the value of services is likely to be diminished. In addition, inadequate audit means that the accounting and use of funds is not subject to detailed review and verification.