GLOSSARY OF TERMS IN PUBLIC FINANCIAL MANAGEMENT (PFM)

Accounting and reporting (PEFA Pillar VI) are central requirements of PFM, as they are necessary for maintaining accurate and reliable records in order that needed information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs.

Actuarial review is a review of the sustainability of a social security system, including its present and expected future configuration of beneficiaries and contributors, with the possibility to include analyses of the financial effects of major structural reforms in the case of existing schemes. It is concerned with projected contributions and outlays for present and future beneficiaries and determining if the scheme is on a sound financial footing.

Budget cycle is the government process of agreeing to allocate public revenues to spending on the variety of goods, services, cash transfers, subsidies, loans and investments that the government intends to disburse within the budget period, given the tax and other revenues expected to be realized during the period. Most budget cycles are for a year (fiscal year, which need not correspond to the calendar year) and are based on an assessment of expected overall economic growth, inflation and exchange rate changes, as they affect both likely revenue collections (e.g., income taxes) and some expenditures (such as the domestic currency value of interest and principal payments falling due on foreign currency debt).

Budget reliability (PEFA Pillar I) refers to a government budget that is realistic and is implemented as intended, measured by comparing actual revenues and expenditures with the original approved budget.

Civic space is a term coined by the CSO community to refer to the degree of freedom that civil society organizations have, enabling them to organize, and exercise their right to voice and participation in political and social life.

Contributory social-protection schemes are forms of social insurance that are financed by mandatory contributions (seen as taxes when organized by governments or premiums when offered by insurance companies) paid by varying combinations of employers, employees, the self-employed and (as in health insurance) current beneficiaries. Official systems are guided by legislation but are typically administered separately from the government budget; private systems are variously regulated. Examples include old-age pension, health insurance, disability, and unemployment insurance.

External scrutiny and audit (PEFA Pillar VII) aim to assure that public finances are independently reviewed (audited) and that the executive follows up on the implementation of recommendations for improvement.

Fiscal consolidation is a diplomatic phrase for government austerity, meaning cutting back government expenditure that is deemed unsustainable (see fiscal sustainability). However, the International Monetary Fund and other authorities are increasingly focusing on increasing the revenue collected through taxation as well as the past practice of curtailing so-called “unaffordable” expenditures, which are too often disproportionally ones that benefit people with little political influence, i.e., the poor.

Fiscal deficit or surplus usually refers to the balance of expenditures and revenues of the central government. A fiscal deficit is covered by borrowing and adds to the government’s sovereign debt. A surplus allows for a net repayment of debt.

Fiscal policy/fiscal impact indicates the overall effect of "general government" spending and revenue collection on the economy, including the central government, sub-national governments and associated public institutions, often including the social security system. Together with the monetary policy of the central bank, fiscal policy is a major determinant of the overall growth of the economy, its rate of inflation and the level of the exchange rate.

Fiscal space refers to the room that governments have (or do not have) to expand expenditures on desired programmes. It depends, on the one hand, on effective tax policy and limiting losses through tax evasion and tax avoidance, and on the other hand, on the amount of funds that can be spent after non-discretionary entitlements are paid. Fiscal space grows during economic boom times and contracts during times of economic decline.

Fiscal sustainability refers to a fiscal balance that is sustainable in the medium to long run, meaning that the government retains credibility with its creditors that it will repay fully and on a timely basis so it can continue to borrow to cover its fiscal deficits. A government does not need to have an annual budget balance of zero (in fact it should borrow under normal circumstances to finance long-term investments, such as dams and roads, whose benefits will be shared with future generations). The usual focus is on whether the government's debt is growing faster or slower over a period of years than its total economic output, as measured by its gross domestic product (GDP).

Functional classification is a generic term used for classifying government expenditures by their function. In the case of social protection in the European Union, for example, the functions are sickness/healthcare, disability, old age, survivors, family/children, unemployment, housing, and social exclusion not elsewhere classified (EUstat). These functions can be handled by various ministries individually or with overlapping responsibilities. The focus is on realizing the functions, regardless of what entity or entities are responsible.

Management of assets and liabilities (PEFA Pillar III) focuses on assuring that assets are properly recorded and managed, fiscal risks are identified, and debts and guarantees are prudently planned, approved, and monitored.

Medium-term expenditure framework is a fiscal planning tool that seeks to translate a national government's sustainable development strategy into expenditure programmes to be enacted by the government for categories of spending over the medium term. It is meant to inform annual budget drafting by the government.

Nine Contingencies of Social Security, as specified in the Social Security (Minimum Standards) Convention 102 of the ILO (1952) and the Maintenance of Social Security Rights Convention 157 of ILO (1982), identify nine contingencies over the life course requiring provision of benefits to the affected citizens of a country, namely: medical care, sickness benefits, unemployment benefits, old-age benefits, employment injury benefits, family/child benefits, maternity benefits, invalidity/disability benefits and survivors' benefits.

Non-contributory social protection schemes are tax-financed programmes that are usually included in the government's annual budget. They may be established as entitlements to which all members of a class or group have access (e.g., universal child cash benefit) or may be targeted to a group deemed in need (e.g., social pension for the eligible poor).

PEFA Framework refers to a standard methodology for assessing the "public expenditure and financial accountability" of governments (last revised in 2016). PEFA uses quantitative indicators to measure performance of financial management and delivery of the programmes in the budget. Periodic assessments are made that provide a detailed examination of a country's PFM according to the standard methodology and offer comparison with previous assessments. Each assessment covers seven pillars, ranging from budget reliability to external audit (see glossary entries for PEFA Pillars).

Performance indicators (PI) quantify implementation of 31 components of government financial management, variously clustered into the seven pillars of the PEFA framework. Each PI has two to four sub-components, totalling 94 so-called "dimensions" for assessing the government. Each dimension is scored as either A, B, C, or D, assessing the degree to which the government complies with "good practice" in that dimension, as defined in the PEFA framework. The sub-components are combined into an overall score for each PI, based on an assessment of the relative importance of the sub-dimensions and their scores.

PFM cycle is a general term that envisages taking a government from forging broad policy agreements through national strategic plans and financing frameworks, through annual budget formulation and adoption, to implementation, monitoring and evaluation of implementation, finally feeding back into potential revision of the broad policy agreements. The full PFM cycle can be annual but is more often a multi-year process.

Policy-based fiscal strategy and budget (PEFA Pillar IV) means that the budget should be prepared with due regard to government fiscal policies, strategic plans, medium-term frameworks, and adequate macroeconomic and fiscal projections.

Predictability and control in budget execution (PEFA Pillar V) mean the budget should be implemented within a system of effective standards, processes, and internal controls, ensuring that resources are obtained and used as intended.

Programme-based budgeting (or programme budgeting) is a way to categorise government expenditures in the budget by policy programme, rather than by implementing department or category of cost to the government (e.g., wages and salaries, materials purchased, rent on properties, interest on debt). For example, social protection could be a government programme grouping together activities undertaken in the labour, social welfare and health ministries, in each of which the labour, material and other costs of the programme element in that ministry would be tallied.

Public expenditure usually refers to spending by the central government but may also include spending by sub-national and other units of government. Strictly speaking, it refers to government purchases of goods and services, cash transfers and subsidies (whether to state enterprises or economic sectors, such as farmers), but it may also include government lending to non-government entities.

Public Finance/Financial Management (PFM) is a term the community of official development assistance providers uses to refer to the set of laws, rules, systems and processes employed by governments to raise revenue, allocate public funds, undertake public spending, account for funds and audit results.

Public integrity is a set of behaviours of government institutions and their officials that promote trust and confidence of the public in government. The term sometimes refers to absence or limits on corruption, but the concept should be understood as broader than that. It includes efforts to deliver services and impose taxation efficiently and fairly, implement policy intentions, as well as avoid leakages of services and money or giving special treatment to certain people owing to corrupt actions of officials.

Results-based budgeting refers to a means to inspire efficient programme design and execution by compensating the programme authority (government department, sub-national government) according to the results achieved. The simplest variant is to condition budgeted programme renewal on evidence of success from previous efforts. Other variants can involve private loan contracts (bonds) that repay the lender only if the funded project succeeds, putting great pressure on effective monitoring.

Shock-responsive approaches to social protection take account of a government's obligations to go beyond meeting the social security needs of individuals through their personal life cycle, to encompass the needs of populations subject to sudden environmental, public health, global financial and economic disturbances. Shocks may be foreseeable in principle (e.g., cyclones are more common in certain seasons), but are usually unforeseen in practice (as in the catastrophic cyclone that impacted Mozambique, Zimbabwe and Malawi in 2019).

Social accountability refers to holding the government accountable for its impact on social wellbeing in the country. It involves seeking official adoption of explicit social goals, as in the country’s development plan or sustainable development strategy, which may be based on the internationally endorsed sustainable development goals (SDGs), and then monitoring the path to achieving those goals. Governments that prepare “voluntary national reviews” (VNRs) of progress toward the SDGs that they present at the United Nations should report on the progress realised in seeking to reach the SDGs, including the social goals.

Social Accounting System (SAS) is an quantitative analytical presentation of the revenues and expenditures of all the components of a country's social protection system, as developed by the International Labour Organization and the International Social Security Association in order to facilitate projecting component and overall expenditures and revenues to help devise a country’s social budget (see below).

Social budgeting refers to an approach to programme budgeting that addresses the set of national social policies in a coherent manner. It may integrate, for example, consideration of social assistance (financed from the central government budget) and contributory social security (financed from employer and employee payments), as well as social housing programmes, food security programmes, public healthcare and education and any dedicated funding sources of these programmes. It should incorporate methodologies to ensure gender and age-responsive equitable outcomes.

Social expenditure refers to the panoply of government social programmes, potentially including social protection, health and education, public support of housing and food security, special programmes for the disabled, and for inclusion of excluded populations into the economic mainstream. Social expenditure can comprise cash benefits, direct in-kind provision of goods and services, and tax breaks, all with social purposes.

Transparency of public finances (PEFA Pillar II) entails providing comprehensive, consistent, and available information on PFM, drawing on a comprehensive budget classification system, transparency of all government revenue and expenditure including intergovernmental transfers, published information on service delivery performance and ready access to fiscal and budget documentation.