Social Protection
& Public Finance Management

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Civil Society Training Manual on Public Financial Management for Social Protection

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Why this training is important

Public Finance or 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.[1] PFM was an early part of the "aid effectiveness" agenda which was endorsed at the International Conference on Financing for Development (Monterrey, Mexico, 2002), and by intergovernmental meetings on development assistance ever since.[2] It is meant to guide the management environment in which government financial operations take place. PFM systems are an important aid to national development strategies, and they can give opportunities for civil society and trade unions to influence government policies through increased transparency and opportunities for consultation.

These operations are not an end in themselves; they are a means towards realizing important national economic and social goals: economic growth, sustainable development, decent livelihoods and wellbeing for national populations. Social Protection is central to the realization of these goals and should therefore be well prioritized in the national development plans whose formulation and execution are guided by PFM principles. Governments should strive to achieve strong PFM systems, as they can ensure more predictable budget allocations, reduced fragmentation in revenue streams and funding flows, timely budget execution, and better financial accountability and transparency[3]. However, country reports on social protection frequently highlight the fact that social protection is not prioritized enough, or remains severely underfunded, even when it does feature in legal and policy documents. Thus, budgetary allocations for extending social protection to populations with critical needs are grossly inadequate.

Civil society and trade union advocates therefore have a crucial role to play in ensuring that social protection is well integrated into the PFM process of mobilizing revenue, allocating funds, undertaking public spending efficiently, effectively, transparently and with equity, with a view to delivering satisfactory social outcomes. In order to fulfil this role, advocates need to develop capacity in understanding public finance management and its application to social sector spending, and to social protection in particular.

The purpose of this training module is therefore to provide the background information and resources for a number of training sessions which will explore the basic concepts, processes and tools that underpin public finance management. It will demonstrate their relevance for the strengthening of social protection systems, and for the progressive universalizing of social protection regimes.

In the first instance, training sessions will be conducted virtually, at country level, in the four participating countries of the GCSPF EU-DEVCO project: *Improving Synergies between Social Protection and Public Finance Management*, namely: Cambodia, Nepal, Senegal, and Uganda. The intended participants of the training sessions are the country-level coordinators and members of their constituent networks of CSOs and trade unions. The resource materials, illustrative examples of relevant country experiences presented in boxes, the guide questions and the glossary of terms are all meant to inform and to stimulate highly interactive discussions in which participants will share relevant experiences and learn from each other and from facilitators.

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[1] Lawson, Andrew.2015, Public Finance Management, GSDRC Professional Development Reading Pack, No.6, Birmingham, UK.

[2] Herman, Barry 2020, Internal Memo. GCSPF-EU Project.

[3] Development Cooperation Project Document, Uganda. Improving Synergies between Social Protection and Public Finance Management in Uganda. December 2019, p. 4.

At the end of the sessions, CSO/TU advocates and activists will be better equipped to engage with their governments and institutional partners, with a view to effective participation in dialogues on the building and strengthening of social protection regimes, and on monitoring for desired results, all with a PFM lens.

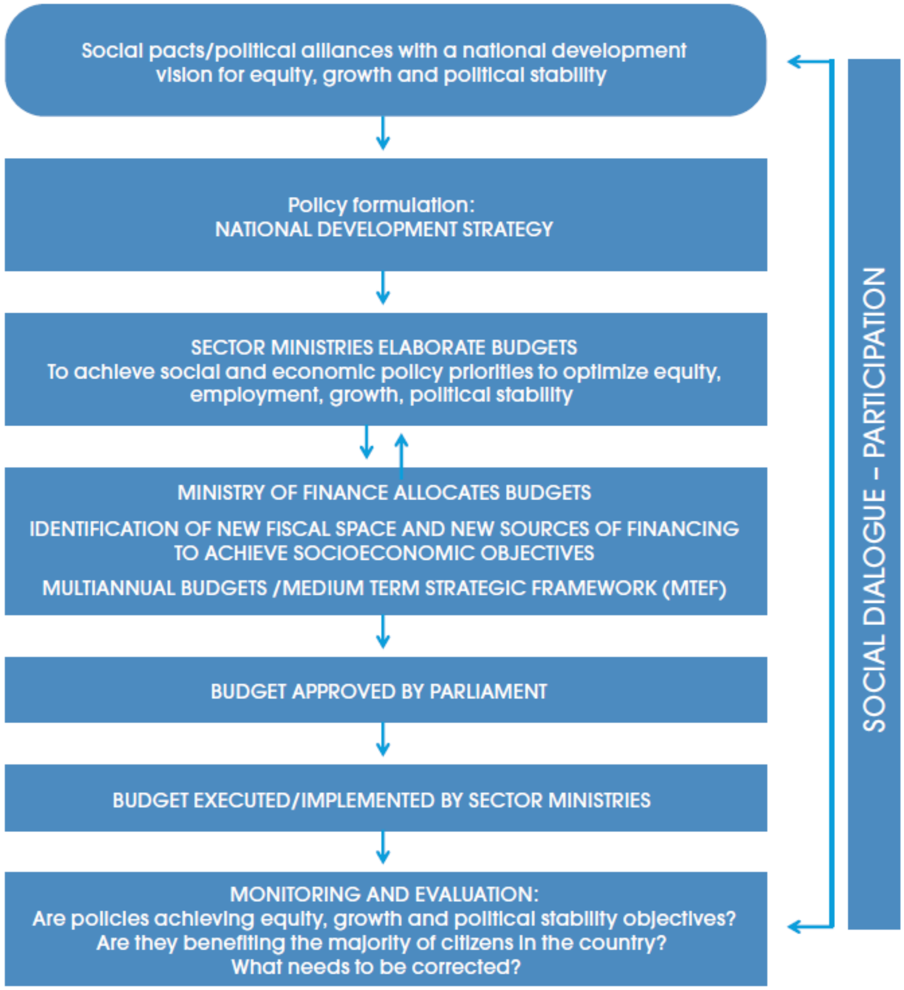
The PFM process

PFM can be conceived as a process in six phases, comprising, in essence the annual budget cycle, which is typically part of a broader medium-term policy and expenditure strategy, underpinned by a National Development Strategy. (See Figure 1).

It should be noted that the budgetary process, as outlined in Figure 1, makes provision for multi-stakeholder dialogue and participation as a cross-cutting activity, relevant to every phase. This is the ideal scenario which may or may not be adequately realized, depending on the civic space available in a given country. CSOs/Trade unions should, nevertheless, seek opportunities for engagement from the very start of the budget cycle.

Also, the International Monetary Fund (IMF), the World Bank and regional development banks and major individual country aid providers typically give advice to the government on the budgetary process from the outset. Given the IMF's recent commitment to engage with civil society in its member countries as part of its new policy on social spending, (adopted in May 2019), it may be worth their while for CSOs/trade unions to seek opportunities to discuss with IMF country mission staff, in particular, their perspectives and priorities with respect to the social protection components of the budget. This is all the more important because of the IMF's lead role in advocating for and providing emergency funding and government debt relief in the context of the Covid 19 pandemic. A focus on promoting shock-responsive approaches to social protection becomes important here, emphasizing, for example, ensuring the adequacy and timeliness of funding, prioritizing critical needs among vulnerable populations, and stepping up cash transfer programmes.

Figure 1: The PFM Cycle - the Budget Process



Source: ILO 2020 *Fiscal Space for Social Protection - A Handbook for Assessing Financing Options. Geneva,. page 50.*

The Government Budget in the PFM Cycle

(Refer to Figure 1)

Phase 1. The Office of the President/Prime Minister supported by the Ministry of Finance (MOF) typically leads the Phase 1 policy formulation activities. Many guiding documents on sustainable development, economic and social strategies may be assembled and discussed to arrive at a common vision for the national development strategy, the medium-term expenditure strategy, and the annual budgetary process.

Phase 2. At the second phase, sector ministries set their priorities and submit their plans and budgets. In actuality, a large number of actors engage in the budgetary cycle at this stage, in so far as policy space and procedural practice allow. Their aim is typically to ensure that the process operates effectively and transparently while maintaining accountability (all important PFM principles), and that it incorporates important societal priorities from their perspective.

Phase 3. At the third phase, the MOF allocates budgets to sectors and sub-sectors, and through an iterative process they reach agreement on a national budget, broken down in different ways: by programme sector, ministry operations and contributions to sub-national level, line by line administrative budget categories.

BOX 1: Illustration of phases 1 and 2 of the PFM cycle: Formulating policy and elaborating budgets for shock-responsive approaches to social protection in Nepal and Senegal

The Project Documents for Nepal and Senegal discuss the importance of promoting shock-responsive approaches to social protection, in order to ensure adequate and predictable funding for services to affected populations in times of crisis. These activities are examples of what is meant by Phases 1 and 2 of the budget cycle: Policy formulation, and elaboration of sectoral budgets.

For Nepal, the focus has been on natural disasters, and a workshop was organized by UNICEF on this topic at the inception phase of the EU-DEVCO/GCSPF project, in which CSOs participated.

In Senegal, the focus has been on the crisis of food insecurity, and the need to address this through social protection programmes.

The Covid-19 crisis has served to highlight the need to incorporate shock-responsive approaches to social protection from the outset, that is, at the policy-formulation phase of the budget cycle (Phase 1).
Guide Questions: ***What shocks should the government prepare for? What services should it offer in response to a shock? Does it have or need to develop the administrative and financial capacity to respond appropriately?***

Shock-responsive systems should have a strong answer to how to fund the accompanying programmes, so they could effectively incorporate adaptive mechanisms to cater to the needs of those experiencing vulnerability, such as expanding food banks to address food insecurity, or mobilizing emergency funds for expanded cash transfer programs.

Guide Question: ***As most low-income countries will need external assistance to pay for their emergency programmes, can the assistance be prearranged?***

In the current pandemic, the IMF has taken a lead role in advocating for and providing emergency funding and government debt relief and the World Bank and other international institutions have provided quick-disbursing loans. The emergency IMF funding mechanism had been prepared after the Ebola crisis and was able to distribute IMF loans quickly; the other loans and debt relief was agreed ad hoc as the depth of the crisis was realized. However, many countries eligible for debt relief did not find the offer sufficiently attractive to take advantage of it. Thus, national policy planning might take account of the availability of IMF loans, but press internationally for better preparation of the other providers.

Guide comment and questions on Phases 1 and 2: ***CSOs/trade unions may wish to seek opportunities to discuss with their government, the latter's perspectives on shock-responsive social protection. CSOs/trade unions may further wish to seek opportunities for a dialogue with IMF country mission staff, as well as the UN family of agencies and the World Bank, to hear their perspectives with respect to the social protection components of the budget, in relation to shock-responsive approaches to social protection.*** **Has** ***your network had any dialogues with the government, and/or with the IMF country mission on the question of shock-responsive social protection? Might CSOs/TUs work with counterparts in other countries to help campaign for better global preparedness?*** (Refer to Box 1, Nepal and Senegal)**.**

Phases 2 and 3 of the budget cycle are critical for CSO/Trade union advocates. They should seek opportunities to advocate for increased allocations to underfunded areas in social protection budgets, with a view to meeting the critical needs of vulnerable populations, while seeking to progressively extend coverage under the nine contingencies of social security.

The Nine Contingencies of Social Security

References: The Social Security (Minimum Standards) Convention 102 of the International Labour Organization (ILO, 1952), and the Maintenance of Social Security Rights Convention 157, (ILO, 1982). These provide a framework for pursuing comprehensive social security and social protection coverage by identifying nine contingencies over the life course, requiring provision of benefits to the affected citizens of a country. Governments should ensure the following provisions: medical care, sickness benefits, unemployment benefits, old-age benefits, employment injury benefits, family/child benefits, maternity benefits, invalidity/disability benefits and survivors' benefits.

Guide question on Phases 2 and 3 of the budget cycle (budget elaboration and budget allocation), ***Has your CS/TU network engaged with relevant sector ministries concerning your priorities with regard to issues such as design, coverage and funding of social protection programmes.***

Phase 4. During this phase, the budget is approved after parliamentary debate and possible revision.

Phase 5. At this stage allocations are made, and programmes are implemented.

Phase 6. During this phase, programmes are evaluated for their performance in relation to goals and targets.

BOX 2: Illustration of Phases 5 and 6 of the PFM cycle: Implementation, and Monitoring & Evaluation in Nepal

The Nepal EU-DEVCO/GCSPF Project document reports that research has revealed many coverage gaps and exclusion errors in the delivery of social protection, affecting, most notably, benefits to persons with disabilities (PWDs), and child grants. The present Project plans to focus on support to the Government of Nepal in "strengthening the system: identification of beneficiaries, registration, payment, monitoring and reporting, [with the aim of] expanding coverage and reducing exclusion errors, focusing also on improving the registration process, timely payment and real time monitoring of the child grant and the disability grant." Working to realize these project objectives alongside UNICEF and ILO could provide the CSO/Trade union network with entry points into discussions with the government in phases 5 and 6 of the PFM cycle, Implementation, and Monitoring & Evaluation.

Included here are grievance-handling/redress mechanisms which are reportedly weak, and thus in need of strengthening. CSOs/trade unions could advocate for strengthened grievance/redress mechanisms, and use them to support workers, families, vulnerable populations and other target groups within communities, to assess the coverage and quality of service delivery, and to bring issues for redress to the attention of the relevant agencies and service providers.

The Project document notes that the ward level within municipalities is the key point of SSA (Social Security Assistance) delivery, including "registration, enrolment, payment delivery and redressal/grievance handling". Thus, such an activity would link hands-on local level monitoring and evaluation with advocacy at provincial or national level for finding solutions to issues that emerge.

Source: Social Protection Programme - Nepal - COUNTRY PROJECT DOCUMENT *Enhancing Social protection System: Towards Investments for Results.* A EU-UN-GCSPF-DIFID Collaboration. October 2019, (pages 13-15).

Guide question on Phases 5 and 6 of the Budget cycle, (Implementation and M&E): ***Has your CS/TU network engaged in monitoring of implementation of social protection programmes, for example regarding adequacy of coverage, exclusion errors in registration, grievances among recipients and use of redress mechanisms? In some countries, this is a politically delicate matter. Is it the case in your country?*** (Refer to Box 2, Nepal).

It is generally accepted that a well-functioning PFM system should be informed by the following principles:[4]

- Budgets should be managed within clear, credible and predictable limits to ensure a sustainable fiscal policy. The maintenance of fiscal discipline is an important objective of a PFM system. It should ensure that levels of tax collection and public spending are consistent with targets for the fiscal deficit and avoiding unsustainable levels of public borrowing. (It should be noted, however, that the easing of strict ceilings on targets for deficit spending during the pandemic

[4] Lawson, Andrew..Op cit

may be needed with emergency international funding to provide enough fiscal space for needed social protection programmes, while returning to fiscal sustainability over the longer term).

- Budgets should be closely aligned with the medium-term strategic priorities of government, responding to national development objectives for all citizens.
- Budget documents and data should be open, transparent and accessible. The budget cycle should follow due process, applying checks and balances as an accountability mechanism.
- Debate on budgetary choices should be inclusive, participative and realistic.
- Budgets should present a comprehensive, accurate and reliable account of the public finances.
- Budget execution should be actively planned, managed and monitored.
- Performance, evaluation and "value for money" should be integral to the budget process. The aim is to achieve allocative efficiency and operational efficiency. Allocative efficiency is achieved when public resources are allocated to agreed priorities. Operational efficiency is achieved where there is maximum value for money in the delivery of services.
- Longer-term sustainability and other fiscal risks should be identified, assessed and managed prudently.
- The integrity and quality of budgetary forecasts, fiscal plans and budgetary implementation should be promoted through rigorous quality assurance including independent audit.

BOX 3: Uganda. - Potential entry points for CSO/trade union engagement Phases 1, 5 and 6 in the PFM Cycle

The Government of Uganda has not so far committed to the goal of establishing a social protection floor, but reflections on the subject are on-going. With respect to a longer-term PFM process, the present EU-DEVCO Project will support CSOs and trade unions to participate in national dialogues aimed at defining a vision for a social protection floor. Such dialogues will presumably be situated at the level of Phase 1of a new annual PFM cycle: "Policy formulation - National Development Strategy".

CSOs and trade unions will also benefit from capacity-building on the use of accountability mechanisms to hold governments to account in the financing and implementation of social protection. These activities will therefore provide opportunities for CSOs and trade unions to engage in Phases 5 and 6 of the PFM cycle: Implementation, and M&E.
Source: Development Cooperation Project Document, **Uganda**. *Improving Synergies between Social Protection and Public Finance Management in Uganda.* December, 2019; page 9.

Guide question on Phase 1 of the Budget cycle, (Polcy Formulation, National Development Strategy),: ***Has your CSO/Trade union network been engaged in policy dialogues with your government on defining a vision and broad goals for universalizing social protection, such as through establishing/strengthening a social protection floor?*** (Refer to Box 3, Uganda).

<u>BOX 4: Senegal - Entry points for CSO/trade union engagement in the PFM Cycle at Phase 2 (sectoral budget elaboration), Phase 5 (Implementation), and Phase 6 (M&E)</u>

The Project Document reports that the Multi-Stakeholder Network on Social Protection (REMAPS) will be implementing a programme aimed at improving access to non-contributory social assistance schemes such as PNBSF (the national cash transfer programme), and CEC (the Equal Opportunity Card which grants access to services to persons with disabilities.) The REMAPS initiative will also use a mechanism for monitoring access to these social assistance programmes in the fourteen regions of Senegal. These activities provide examples of CSO engagement within Phase 5 of the budget cycle (Implementation), and Phase 6 (M&E).

The Project Document further reports that UNICEF has supported the Ministry of Economic Planning and Cooperation in the creation of the Social Budget Monitoring Observatory (OSBS), aimed at securing an increased budget for the social sector. This activity is relevant to the work of the sectoral ministries at Phase 2, elaboration of budgets, and Phases 5 and 6, implementation and M&E.

<u>Source:</u> Development Cooperation Project Document, **Senegal**. *Consolidating the Financial Sustainability and Coverage of the Social Protection System in Senegal. December, 2019* (pages 9,4)

<u>Guide question on Phase 6 of the Budget cycle (M&E:</u> ***Do monitoring mechanisms exist for tracking beneficiaries' access to programmes and services in specific sectors? If yes, do your network members make use of them to assess quality and adequacy of service delivery, and to generate the evidence base for advocacy on social protection?*** (Refer to Box 4, Senegal).

Achieving fiscal space to maintain and scale up social protection programmes

Constraints on <u>fiscal space</u> to adequately fund social protection programmes may become particularly acute with economic downturns, the occurrence of natural disasters or public health crises such as the current pandemic, because of the need for unforeseen, extra-budgetary expenditures to cope with the crises and loss of usual funding sources like tax revenue. Yet, in fulfilment of their human rights obligations and their commitment to achieve the Sustainable Development Goals, (SDGs), governments must make every effort to ensure that social protection programmes are maintained. They should not cut back on pre-planned social protection expenditure in the name of austerity or <u>fiscal consolidation</u>. Rather, they should explore options for expanding fiscal space.

<u>Fiscal Consolidation</u> refers to the set of austerity measures used by many governments to reduce budget deficits following times of crisis (economic downturns, natural disasters, public health crises such as the COVID-19 pandemic), primarily involving cuts in public expenditure, in particular social expenditure (health, education, the wage bill, social protection).

BOX 5: Cambodia - Potential entry points for CSO/trade union engagement in the PFM Cycle (Phase 1, policy formulation, and expanding fiscal space.)

According to the Cambodian Project Document, the CSO/trade union network in Cambodia plans to engage in dialogue with relevant government bodies to explore the question of expanding fiscal space for increased social protection coverage for informal economy workers under the NSPPF (National Social Protection Policy Framework), with a particular emphasis on women workers. On the revenue side, the capacity of informal economy workers to contribute to the social insurance scheme will be explored by means of a survey. This activity is relevant to overall policy formulation, in particular fiscal policy, and so may be classified as In Phase 1 of the budgetary cycle. It can be a relevant entry point.

Source: Development Cooperation Project Document, **Cambodia**. *Improving Synergies between Social Protection and Public Finance Management - Cambodia.* December 2019.

Guide question on Phase 1 of the Budget cycle (Policy formulation with a focus on expanding fiscal space: ***Has your CS/TU network been involved in policy dialogue with your government on the question of expanding fiscal space to increase coverage of social protection programmes? (Refer to Box 5, Cambodia). On the question of strategies to expand fiscal space, see also the experience of Costa Rica, presented in Box 6).***

Fiscal space has been defined by the IMF as "the availability of budgetary room that allows a government to provide resources for the desired purpose without any prejudice to the sustainability of a government's financial position."[5]

Expanding fiscal space for social protection is essentially about finding opportunities within revenue categories to allocate additional funds to social protection expenditure. The main revenue categories that feature in national budgets are reproduced below in Table 1. By making adjustments within revenue categories (Table 1) and introducing reforms in expenditure allocations (Table 2), social protection can be better funded. This is key, given that coverage gaps are huge in all of the project countries, that the Covid-19 pandemic is placing severe constraints on existing social sector budgets, and given the governments' human rights obligations to meet the social, health and welfare needs of their populations. Advocates need to understand what is involved in expanding fiscal space, in order to urge their governments to prioritize this aspect of resource mobilization in the context of PFM reforms.

[5] Heller, P. 2005, Understanding fiscal space, IMF Policy Discussion Paper No. PDP/05/4, (Washington DC, International Monetary Fund), p.3

Table 1 Revenue categories in national budgets and the quest for fiscal space

Taxes
Taxes on income, profits and capital gains
Taxes on payroll and workforce
Taxes on property
Taxes on goods and services
Taxes on international trade and transactions
Other taxes
Social contributions
Social security contributions
Employee contributions
Employer contributions
Self-employed or unemployed contributions
Other social contributions
Grants
From foreign governments (Current/Capital)
From international organizations (Cu/Ca)
From other general gov. Units (Cu/Ca)
Other revenue
Property income
Sales of goods and services

Table 2: Expenditure categories in national budgets

General public services
Defense
Public order and safety
Economic affairs
Environmental protection
Housing and community amenities
Health
Recreation, culture and religion
Education
Social protection
Sickness and disability
Old age
Family and children
Unemployment
Housing
Social exclusion n.e.c.
R&D Social protection
Social protection n.e.c.

Source: ILO 2020, Op cit. page 36

<u>BOX 6: Costa Rica's success in finding alternatives to austerity, and in expanding fiscal space</u>

Costa Rica is a middle-income country with a fairly well-developed social protection system, comprising, most notably, universal health care and pensions. However, the country has been experiencing a severe economic downturn, and this was exacerbated by the Covid-19 pandemic. To address these issues, Costa Rica went into negotiations with the IMF in September 2020, for a US $1.75bn loan. Widespread opposition among unions, civil society and the business sector developed over the IMF's conditions for the loan, which would have involved a heavy burden of regressive taxes (affecting workers and poorer people disproportionately), and steep cuts in public spending (severely eroding the welfare state and social protection programmes). A process of dialogue between the government and multi-stakeholders was initiated, involving civil society, trade unions, the private sector, and other social actors. The aim was to find alternatives to the IMF-inspired austerity measures. The outcome was a number of agreements, including measures to address tax evasion and customs evasion, and tools to fight tax fraud. Agreement was reached on a global income tax to apply to all residents, whether nationals or foreigners. An agreement was reached on budget adjustments, with a commitment that they would not affect social programmes or cause public sector layoffs or wage reductions.

<u>Source:</u> Bretton Woods Project; 10 December 2020, ***Costa Rica resoundingly rejects IMF's austeridical recipe.***

Eight options for expanding fiscal space have been proposed by the International Labour Organization (ILO):

1. expanding social security coverage and contributory revenues for that coverage,
2. increasing tax revenues,
3. eliminating illicit financial flows out of the country,
4. improving efficiency and reallocating public expenditures,
5. tapping into fiscal and foreign exchange reserves (only for crisis funding, which is their purpose),
6. managing debt: borrowing or restructuring sovereign debt,
7. adopting a more accommodative macroeconomic framework, and
8. increasing aid and international transfers.

Social contributions and taxes (Options (i) and (ii) above), are two main areas of government intervention, in the quest for fiscal space.

<u>Option (i). Expanding social contributions and social security coverage</u> involves increasing levels of contribution (typically employer/employee-based), extending contribution requirements to additional categories of workers, (informal economy, self-employed), and extending social benefits to these additional categories. [6]

<u>Option (ii), Increasing tax revenue</u> may be achieved in different ways, for example, by expanding the tax base and altering different types of tax rates - e.g. on consumption, corporate profits, financial activities,

[6] ILO 2020, Op cit. page 11 (Options (i) to (viii).

personal income, property, imports or exports, natural resource extraction, etc. – and by strengthening the efficiency of tax collection methods and overall compliance. However, care is needed to ensure the taxes do not fall on the people least able to pay them.

Option (iii). Eliminating illicit financial flows: a vast amount of resources, estimated at more than ten times the total aid received, escape developing countries each year illegally, including tax payments that are not made and budgeted funds siphoned off through corruption. Therefore, policymakers should crack down on money laundering, bribery, tax evasion, invoicing trade at wrong prices and other financial crimes that deprive governments of revenues needed for social and economic development.

Option (iv). Re-allocating public expenditures: This option includes assessing on-going budget allocations through a review of public expenditure, replacing high-cost, low-impact investments with those with larger socio-economic impacts, eliminating spending inefficiencies and tackling corruption.

Option (v). Using fiscal and central bank reserves: this includes drawing down fiscal savings when available and other state revenues stored in special funds, such as sovereign wealth funds. This can only be a short-term or emergency source of social protection funding.

Option (vi). Managing debt – borrowing or restructuring sovereign debt: this involves an active exploration of domestic and foreign borrowing options that will cost less, including concessional loans, following a careful assessment of debt sustainability.

Option (vii). Adopting a more accommodating macroeconomic framework: This entails allowing for higher budget deficit paths when they do not jeopardize macroeconomic stability and can be financed at reasonable cost. This may also require exploring options such as (vi), restructuring sovereign debt, or (viii), increasing aid and transfers.

Option (viii). Increasing aid and transfers: this requires either engaging with different donor governments or international organizations in order to ramp up North-South or South-South transfers.

A number of countries have embarked on reforms with the aim of finding revenues (expanding fiscal space) for social protection. Thailand has reduced military spending, and Indonesia has eliminated some subsidies. Both countries have used freed up funds for their universal health care systems. Brazil, Uruguay and Costa Rica have focused on reforms to their systems of social contributions. They have created a unified system of contributions from formal and informal economy workers and enterprises, and have used funds to extend social benefits to the new contributors, notably from the informal economy.

These examples serve to demonstrate that with political will, expanding fiscal space is possible, but reforms are not without their challenges. if interest groups perceive that they stand to lose out from the reforms, there will be resistance. Good communications strategies, dialogue and awareness-raising among potential beneficiary communities can be crucial both for designing good reforms, and for gaining acceptance for their adoption. Here CSOs and trade unions have an important role to play in consulting their constituencies and should be invited to dialogues on the proposed reforms.

Social Budgeting

Social Budgeting is a useful approach that should be adopted by social protection researchers and advocates. It aims to influence the process of shaping sound systems for social sector public financing, and for social protection in particular. The approach involves analysing the current overall national expenditure and the sources of funding for different parts of the social protection system, and forecasting various outcomes based on different expenditure scenarios, with a view to imagining the best possible options for adequately meeting the needs of different sectors of the population[7].

The Social Accounting System (SAS) is a tool that the ILO has developed for social budgeting[8]. It incorporates all revenues and expenditures of a country's social protection system. Core elements on the expenditure side include (Table 2): (i) employment-related social security expenditure (e.g. pension, healthcare, unemployment benefits, etc.), (ii) publicly financed social protection expenditures (e.g. family benefits, healthcare, social assistance, etc.), (iii) private sector/collective agreements based on social protection expenditure (e.g. occupational pension, other enterprise-based social benefits, etc.). The income side, on the other hand, comprises all resources that are being used to finance the above expenditures (e.g. social security contributions, earmarked and general taxes.[9] (Table 1).

Social budgeting should incorporate methodologies to ensure gender and age-responsive equitable outcomes, (gender-responsive budgeting, child-centred programmes, prioritization of old age pensions etc.), in keeping with the guiding principles of ILO Recommendation 202 on Social Protection Floors, concerning gender equity and the life cycle approach.

Monitoring and Evaluation and the PEFA Framework (Public Expenditure and Financial Accountability)

Monitoring and Evaluation (M&E) of implementation constitutes a critical phase in the budgetary cycle (Phase 6 in Figure 1, above). Applied to the social protection programmes, It helps to reveal the strengths and weaknesses of the social protection system, the funding shortfalls and coverage gaps, the level of effectiveness and efficiency of social delivery, the adequacy of benefits to end-users, the effectiveness of strategies along the cycle from policy formulation through revenue raising, expenditure allocations, and service delivery. It can serve, progressively, to build up the evidence base for comprehensive programmes that deliver quality services to identified priority sectors. Multi-stakeholder dialogue should be a key component of this phase, and CSOs/trade unions have an important role to play in this regard.

A standard methodology has been developed for M&E, codified in the PEFA framework. PEFA uses quantitative indicators to measure performance, and addresses both financial management and social/developmental concerns. PEFA identifies seven broad categories of performance (pillars), broken down into 31 components of public financial management (performance indicators-PI)[10]. Countries receive letter grades on their performance, and assessments are repeated every so many years, leading to assessments of improvements and worsening indicators needing to be addressed. In addition, the governments prepare narrative reports about their PFM.

For example, Cambodia was evaluated in 2015 (and in 2011 before that). It got A grades for having expenditures closely match amounts budgeted, but a C grade for unreported extra-budgetary expenditures. It got a D+ for effectiveness in tax collection.[11]

Table 3 below presents the status of the four project countries with regard to the most recent PEFA assessments. (The corresponding reports are available in the shared Dropbox of the GCSPF EU-DEVCO project. [These will be made available]). CSO/Trade union researchers and advocates can make use of these country assessments for their own analyses, M&E studies and advocacy activities.

[7] ILO 2020, Op cit.
[8] ILO 2000-Social Budgeting-Scholz, S. Cichon, M. Hagenmejer, K. Geneva
[9] ILO 2020, Op cit, page 47
[10] As regards historical background, PEFA was a 2001 European initiative (EC, France, Norway, Switzerland, UK, joined by Slovakia in 2019) with IMF and the World Bank and is housed at the World Bank. See World Bank, pefa.org website, accessed on 01/05/21.
[11] Herman, Barry 2020, op cit.

Table 3: PEFA Assessments for the Four Project Countries

COUNTRY	PEFA ASSESSMENTS		
	1	2	3
Cambodia	2011	2015	2020
Nepal	2008	2015	2019
Senegal	2011	2020	
Uganda	2012	2017	

Figure 2 below presents the seven pillars of the PEFA framework for assessing public financial management.

Figure 2 The Seven Pillars of the PEFA Framework

Source: PEFA Framework 2016 revision.pdf at www.pefa.org

The subparts of Figure 3 below present a selection of some of the 31 performance indicators of particular relevance to social sector budgets and CSO/Trade union M&E activities and advocacy initiatives on social protection. (In actual training sessions, the scores on the relevant items in the indicators below for each country might be presented, encouraging discussion by participants of their sense of the scores and whether they are useful.)

Figure 3. The PEFA Framework: a selection of performance indicators (PIs)

Figure 3.1: Pillar Two - *Transparency of public finances* - Performance Indicators

PI - 8. Performance information for service delivery

The service delivery performance information in the executive's budget proposal or its supporting documentation in year-end reports. It determines whether performance audits or evaluations are carried out and if information is collected and reported on resources received by service delivery units.

PI - 9. Public access to fiscal information

The comprehensiveness of fiscal information available to the public based on specified elements of information to which public access is considered critical.

Figure 3.2: Pillar Three - *Management of Assets and Liabilities* - Performance Indicators

PI - 13. Debt management

Whether satisfactory management practices, records, and controls are in place to ensure efficient and effective management of domestic and foreign debt and guarantees.

Figure 3.3: Pillar Four - *Policy-based fiscal strategy and budgeting* - Performance Indicators

PI - 14. Macroeconomic and fiscal forecasting

The ability of a country to develop robust macroeconomic and fiscal forecasts, which are crucial to developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations.

PI - 15. Fiscal strategy

The analysis of the capacity to develop and implement a clear fiscal strategy. It also measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support the achievement of the government's fiscal goals.

PI - 17. Budget preparation process

The effectiveness of participation by relevant stakeholders in the budget preparation process, including political leadership, and whether that participation is orderly and timely.

PI - 18. Legislative scrutiny of budgets

The nature and scope of legislative scrutiny of the annual budget. It considers the extent to which the legislature scrutinizes, debates, and approves the annual budget, including the extent to which the legislature's procedures for scrutiny are well established and adhered to.

<u>Figure 3.4</u>: **Pillar Five - *Predictability and control in budget execution* - Performance Indicators**

PI - 19. Revenue administration

The procedures used to collect and monitor central government revenues. It relates to the entities that administer central government revenues and agencies that administer revenues from other significant sources such as natural resources extraction.

PI - 20. Accounting for revenue

The procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling tax revenue accounts. It covers both tax and nontax revenues collected by the central government.

PI - 21. Predictability of in-year resource allocation

The extent to which the central ministry of finance is able to forecast cash commitments and requirements and to provide reliable information on the availability of funds to budgetary units for service delivery.

PI - 22. Expenditure arrears

The extent to which there is a stock of arrears, and whether any systemic problem in this regard is being addressed and brought under control.

PI - 23. Payroll controls

How the payroll for public servants is managed, how changes are handled, and how consistency with personnel records management is achieved.

PI - 24. Procurement

Key aspects of procurement management, including transparency of arrangements, use of open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements.

<u>Figure 3.4</u>: **Pillar Five - *Predictability and control in budget execution* - Performance Indicators**

<u>Figure 3.5</u>: **Pillar Six - *Accounting and reporting* - Performance Indicators**

PI - 28. In-year budget reports

The comprehensiveness, accuracy and timeliness of information on budget execution. Consistency of in-year budget reports with budget coverage and classifications, which allows monitoring of budget performance and, if necessary, timely use of corrective measures.

<u>Figure 3.6</u>: Pillar Seven - *External Scrutiny and Audit* - Performance Indicators

PI - 30. External audit

The characteristics of external audit, including the audit of the government's annual financial reports and the independence of the external audit function.

PI - 31. Legislative scrutiny of audit reports

The extent to which legislative scrutiny of the audited financial reports of central government is timely, significant and transparent. It also assesses whether the legislature issues recommendations and follows up on their implementation.

Annex: 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.