



Intergovernmental Fiscal and Expenditure Review **Handbook**



LOCAL PUBLIC SECTOR
ALLIANCE

INTERGOVERNMENTAL FISCAL AND EXPENDITURE REVIEW HANDBOOK

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Preface: The Intergovernmental Fiscal and Expenditure Review (InFER) as part of LPSA's portfolio of multilevel governance assessment tools

In countries around the world, subnational governments and other local public sector entities are responsible for delivering the public services that people rely on day-to-day: schools for their children, public health services, access to clean water and sanitation, road infrastructure to get people to jobs and goods to markets, and so on. Although these public services align with global development objectives and national priorities, the provision of these public services are fundamentally local in nature.

LPSA assessment tools

The Local Public Sector Alliance (LPSA) provides a set of inter-related assessment tools to analyze the multilevel governance structure of a country, along with the subnational institutions and intergovernmental systems that contribute to inclusive governance, effective public service delivery and sustainable localized development.

The **Local Governance Institutions Comparative Assessment (LoGICA)** Framework considers a number of specific institutional dimensions of multilevel governance systems. LoGICA's Intergovernmental Profile (IGP) captures the subnational organization of the public sector; the nature of subnational governance institutions; and assignment of functional responsibilities. LoGICA's County Profile further considers the political aspects of the subnational public sector; the administrative aspects of the subnational public sector; the fiscal aspects of the subnational public sector; and the extent to which different sectoral services rely on mechanisms promoting inclusive and responsive localized services and development.

LPSA's **Multilevel governance as an Opportunity or Obstacle to Development**, or MOOD Assessment, aims to guide policy makers, sector specialists and/or policy advocates in a particular sector or area of development. A MOOD assessment starts from a specific development challenge, and then asks three questions: (1) What is the current role of stakeholders at different levels of the public sector and civil society in addressing the development challenge? (2) What more can stakeholders at different government levels do to address the development challenge at hand? And (3) What opportunities exist to improve the effectiveness of the multilevel governance system to promote resilient, inclusive, sustainable and effective development?

Next, LPSA's PROMOTE framework (**Promoting Results-Oriented Management for Local Transformation and Efficiency**) provides a conceptual and practical framework for assessing the inclusiveness and results-orientation of subnational governance institutions throughout their public sector management cycle.

Intergovernmental Fiscal and Expenditure Review (InFER)

As part of LPSA's portfolio of tools to assess a country's multilevel governance systems and intergovernmental finances, the **Intergovernmental Fiscal and Expenditure Review (InFER)**

recognizes that any country that wants to achieve inclusive governance and sustainable development must be able to do three things:

1. It must ensure that public resources are distributed vertically across the public sector to reach the local level, where frontline public services are actually delivered;
2. It must ensure that local public sector resources are distributed horizontally across the national territory in an efficient and equitable manner to the places where they are needed the most; and
3. It must ensure that local public sector resources are transformed efficiently from inputs into outputs and outcomes, ensuring that public services are provided in a citizen-centric and results-oriented manner.

The InFER methodology provides guidance by asking whether a country actually has (and uses) the necessary (regionally and/or locally disaggregated) fiscal and results data necessary to know that they are pursuing development in a localized, citizen-centric, and results-oriented manner. If so, the InFER methodology further provides guidance in reviewing the public sector's fiscal patterns across all government levels, analyzing the vertical allocation of resources (i.e., the distribution of resources across different levels) as well as the horizontal allocation of resources (the distribution of resources among jurisdictions at each level). Intergovernmental fiscal reviews using the InFER methodology aim to comprehensively cover general government institutions at all levels of territorial organization (i.e., central, regional and local governments), as well as decentralized administrative units, extra-budgetary institutions, public corporations, and other relevant stakeholders at each territorial level.

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1. WHY PREPARE AN INTERGOVERNMENTAL FISCAL AND EXPENDITURE REVIEW?

1.1 Background

Most public services are delivered—and resilient, inclusive, sustainable development is achieved—in a localized manner, in the cities, towns, and villages, and regions where people live and work.

As a result, a country's subnational governance structure, its multi-level governance arrangements, its system of intergovernmental finance, and the intergovernmental (vertical and horizontal) distribution of resources play an important role in achieving inclusive, responsive, and efficient public sector.

Regardless of a country's territorial-administrative structure, central government ministries, subnational actors, and citizens are dependent on one another in co-producing social and economic progress. In this context, the key underlying question is not whether to “decentralize or not” or whether to opt for a specific decentralization model (such as devolution), but to identify ways to improve capacity and coordination among public stakeholders at different levels of the public sector to increase the efficiency, equity and sustainability of public sector interventions (OECD 2011).

1.2 Limited consideration of multilevel governance and intergovernmental finance in public expenditure assessments

Public sector management reforms concern themselves with improving public sector results by changing the way governments work (World Bank 2012). The public sector comprises ‘upstream’ central government ministries, departments, and agencies, as well as downstream bodies, including directorates of sector ministries, parastatal organizations, subnational governance institutions, and frontline service providers. Downstream, the public sector delivers outputs that directly matter to citizens and firms. Public sector management reforms are often thought of as changes to the formal institutional and managerial arrangements in the center of government and in sector agencies, but ultimately, public sector management reform is about changing the behaviors of downstream agents within the public sector.

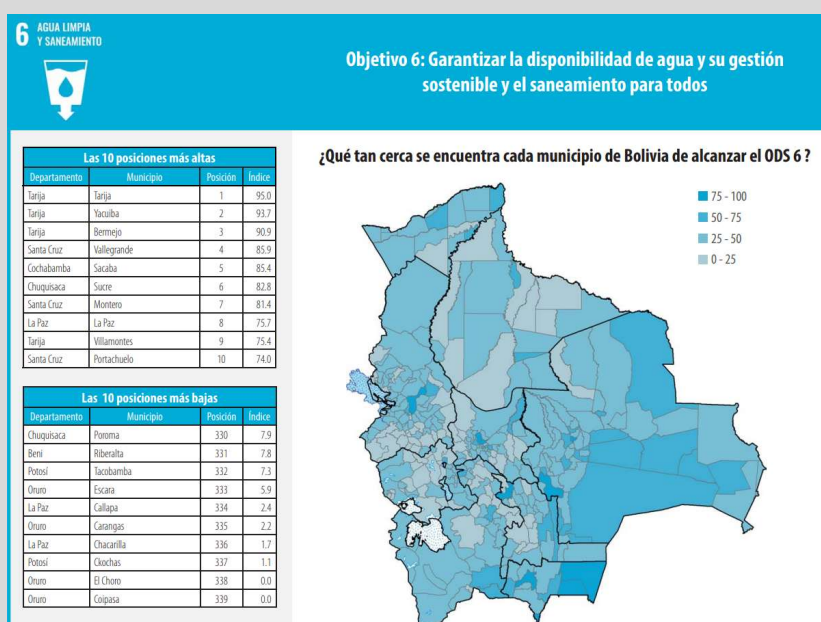
An effective public sector requires institutional arrangements and incentives which ensure that the behaviors of public sector officials are mutually consistent and targeted towards delivering results in response to the needs and priorities of citizens. In practice, poor public sector

performance can often be traced to weak links within the chains of accountability and results-orientation within the public sector. For example, an excessively rigid employment regime (or patronage in public sector employment) may prevent action from being taken on poor performers.

Localizing public services and development. Development does not take place even across space. While some information can be gleaned from national or aggregate levels of public spending or national-level indicators of service delivery performance or development success, these national-level indicators provide limited information on where or how to direct additional public resources to improve public service delivery results or development outcomes.

In order to prepare granular, targeted policy interventions to improve public services and promote sustainable development, policymakers (and the policy researchers that support them) are in need of detailed information about the organization of multi-level public sector, the vertical and horizontal distribution of public resources, and the spatial distribution of development-related efforts and results (outputs, outcomes, or impact).¹

Figure 1.1 Example of locally disaggregated development results: Bolivia



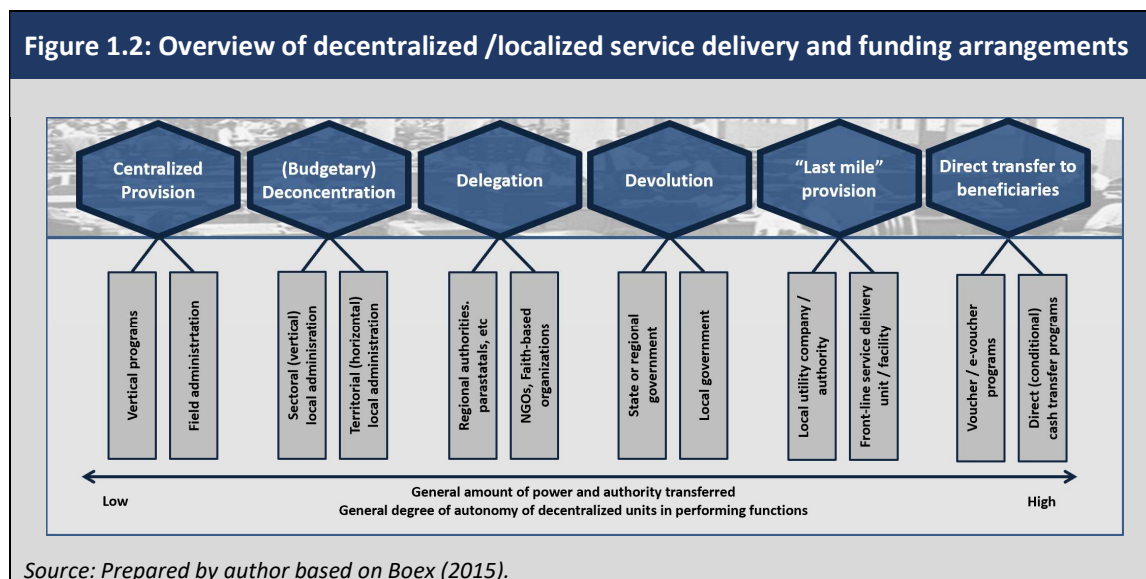
Source: Municipal Atlas of the SDGs in Bolivia 2020, Sustainable Development Solutions Network. *How close is each municipality in Bolivia to achieving SDG 6? (Ensure availability and sustainable management of water and sanitation for all).*

¹ In the context of localizing public services and development, the term ‘results’ is used broadly to define a wide variety of metrics used to measure the achievements of the public sector (or the economy at large), including measures of public sector outputs, outcomes, or other measures of performance of the public sector.

In line with the literature on decentralization, localization, and multilevel governance, localization of public sector results can be achieved through a number of mechanisms.

Devolution—the transfer of powers, functions and resources to elected subnational governments—is an important mechanism for promoting inclusive and responsive governance and for the localization of public services and development. An argument can be made that—under certain conditions—countries in which elected local or regional governments play a more extensive role in the delivery of public services tend to achieve better development outcomes.² This does not mean, however, that devolution is necessarily the only mechanism that can achieve better services and development outcomes at the grassroots level.

A comprehensive analysis of the local public sector should consider that there are different approaches by which governments interact with—and deliver services to—the people (Figure 1.2). Although many OECD countries rely on elected local governments (i.e., devolution) to deliver the bulk of frontline public services—such as public education, local health services, and solid waste management—roughly half of the countries around the world deliver public services predominantly or exclusively through mechanisms other than devolution (Boex and Edwards 2014). For instance, many countries outside of the OECD rely on ‘deconcentrated’ administrative bodies (administrative units that are a hierarchical part of the state administration and do not have their own elected political leadership) for the delivery of public services. In other cases, central government may delegate the delivery of public services to para-statal organizations or NGOs, or may even deliver certain front-line public services directly through vertical programs managed by central government agencies themselves. In fact, in most countries, frontline services—even within a single sector—are often provided and funded through a combination of different ‘vertical’ or intergovernmental mechanisms at the same time.



² This argument is buttressed by a strong correlation between measures of (fiscal) decentralization and economic development.

Based on observations such as these, decentralization and localization are increasingly understood as part of a multilevel system of governance and service delivery, where the ability of local governments and other local public sector entities to contribute to the more effective delivery of public services is defined to a considerable extent by the intergovernmental institutional context within which they operate (Charbit 2011). In this perspective, the key underlying question is not ‘whether or not’ to decentralize, which falsely suggests that public services can be delivered effectively without having the public sector reach down to the local level. Nor is the key policy question which specific decentralization model to follow, since most countries rely on different funding streams and different vertical governance mechanisms at the same time. Instead, the key challenge is to look at ways to improve capacity and the (vertical and horizontal) co-ordination among public stakeholders at different levels of government, and to determine ways in which local governments and other local-level stakeholders are able to increase the efficiency, equity, and sustainability of public services and public spending.

Limited consideration of multilevel governance and intergovernmental finance in public expenditure assessments. Public financial management is at the heart of achieving sustainable development. In order for any country to achieve its long-term development objectives, its public sector must provide a stable macro-fiscal environment and efficiently support its development objectives through the provision of publicly-funded services and infrastructure. In this context, many authors have framed the PFM system around achieving three key objectives: ensuring aggregate fiscal discipline; ensuring allocative efficiency, and achieving operational efficiency (e.g., Campos and Pradhan 1996; World Bank 1998).³

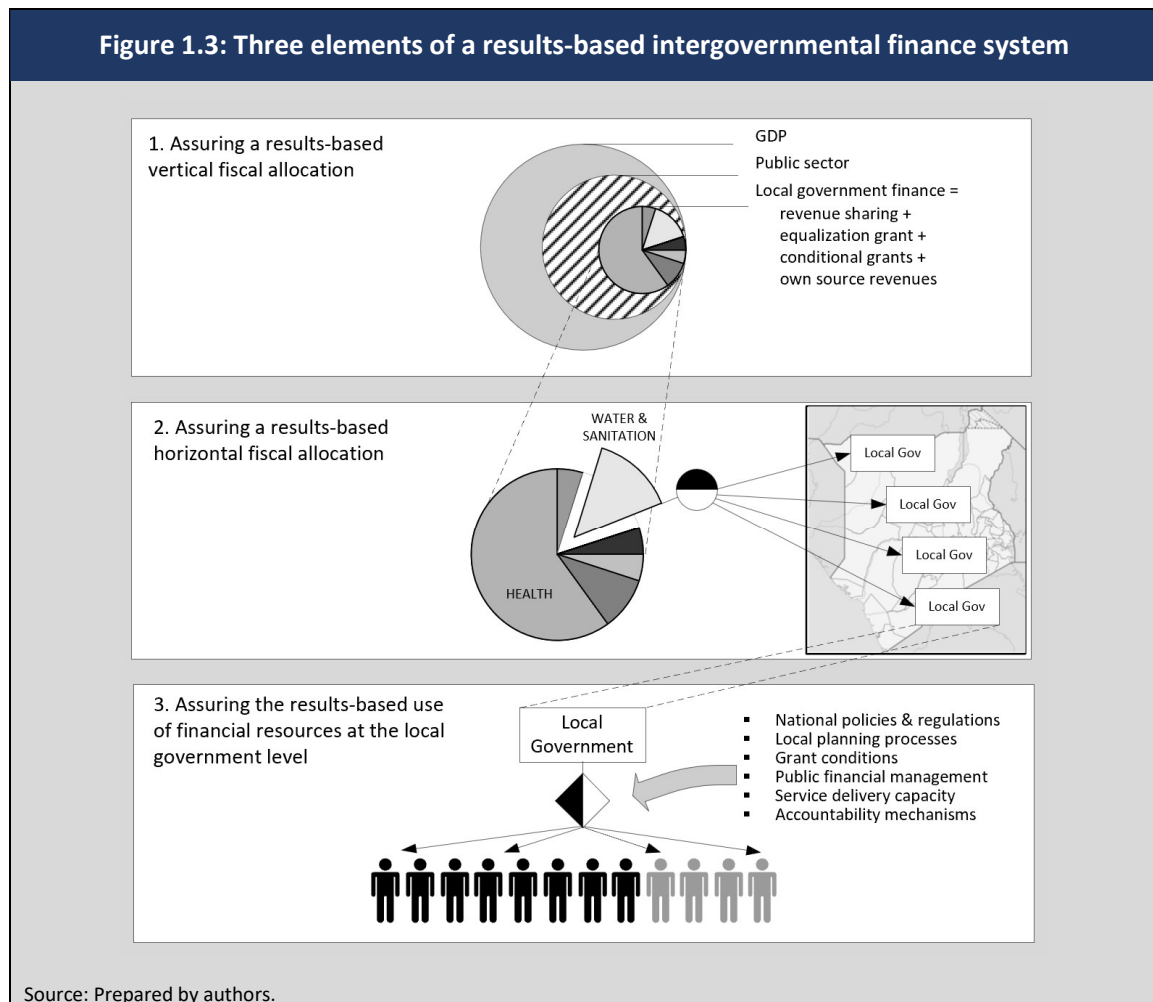
In pursuit of these objectives, PFM is understood to comprise several phases or components that together make up the annual budget cycle—budget formulation (including executive budget formulation and legislative budget approval); budget execution; and ex-post scrutiny and audit. For each of these phases of the budget process, there is considerable consensus on the principles, good practices on “how to do PFM right”. Over the past quarter century, the global PFM Community of Practice has articulated and built consensus around a standard set of metrics and tools based on which to consider and evaluate the effectiveness of PFM systems.

In practice, many general or sectoral assessments of public expenditures, public finances, and/or public financial management focus largely or exclusively on central government finances, rather than considering the multilevel nature of public sector finances. Many public expenditure reviews (and similar assessments) tend to overlook the revenues and expenditures of regional and local governments and other subnational public sector entities (such as local government utilities). As such, the Intergovernmental Finance and Expenditure Review (InFER) methodology complements existing public finance assessment tools by providing conceptual and methodological guidance that can be used to prepare a comprehensive profile of the revenues, expenditures, and intergovernmental fiscal flows in multilevel public sectors.

³ Even though ensuring legislative oversight and control of the executive is widely understood to be an important fourth objective of PFM systems (e.g., World Bank 1998), at an operational level, attention to this policy objective of PFM systems has been quite limited. This is true both in centralized as well as decentralized governance contexts.

At the same time, existing approaches to the analysis of intergovernmental finances tend to be limited, in that they (a) exclusively focus on the finances of devolved regional and local governments and (b) focus exclusively on the aggregate vertical allocation of public sector revenues and expenditures, without taking into account the horizontal distribution of revenues and expenditures. These limitations restrict existing intergovernmental fiscal analyses to making generalized statements about the impact of the extent of decentralization and localization on public sector results, without being able to analyze the more granular relationship between localized conditions, localized expenditures, and localized development outcomes.

Results-based intergovernmental finance systems. LPSA's Intergovernmental Fiscal and Expenditure Review (InFER) framework identifies inclusive, result-based subnational finance relies on three core elements, and that the ability of any public sector to deliver public services and promote localized development efficiently and equitably across its national territory depends on its ability to accomplish three basic tasks (Figure 1.3):



- First, the public sector has to achieve a vertical allocation of resources in line with the functional responsibilities of subnational governments or subnational administrations. This is known as vertical fiscal balance.
- Second, the public sector has to achieve a horizontal allocation of resources across the national territory to ensure that public sector resources are directed to the places where they are needed the most (horizontal fiscal balance).
- Third, once resources arrive at the provincial or local level (whether in the form of devolved, deconcentrated, or delegated funding flows), financial resources need to be transformed from financial inputs into service delivery outputs and developmental outcomes in an inclusive and efficient manner.

These three elements of result-based multilevel governance and finance hold true whether in the form of devolved, deconcentrated, or delegated funding flows, or any combination thereof.

The InFER methodology takes into account subnational spending, including devolved as well as non-devolved (e.g., deconcentrated) subnational spending. As discussed in subsequent sections of this guidance note, the methodology also aims to include, where data permits, spending of national and subnational off-budget entities and other public sector entities that are not included in the general government budget at each level.

1.3 Objective of an Intergovernmental Fiscal and Expenditure Review (InFER)

The **Intergovernmental Fiscal and Expenditure Review** aims to provide a “big picture” understanding of the public sector’s fiscal patterns across all government levels, covering both general government institutions at all levels of territorial administration, as well as extra-budgetary institutions, public corporations and other relevant stakeholders at each level.

A comprehensive INFER provides a deeper understanding of the nature of the public sector by not only exploring the role of central government institutions, but by highlighting the role of regional and/or local governments, as well as extra-budgetary institutions, public corporations and other relevant stakeholders that are often overlooked in more traditional public expenditure reviews.

Where possible, INFER aims to provide a breakdown of expenditures by function and economic type. In terms of revenues, it aspires to distinguish between own source revenues, shared revenues, intergovernmental fiscal transfers and other funding sources.

As such, an INFER assessment would be an important ingredient in a Public Expenditure Review, a (fiscal) decentralization review, or as part of a Voluntary Subnational Review.

1.4 Main differences from other/earlier methodologies

The **Intergovernmental Fiscal and Expenditure Review (InFER)** aims to build on existing public finance data definitions and methodologies wherever possible, including definitions and methodologies developed by the United Nations (UN), International Monetary Fund (IMF), the Organization for Economic Co-operation and Development (OECD), as well as the fiscal profile contained in the Local Public Sector Country Profile Handbook (Urban Institute 2012).

InFER's approach to measuring revenues and expenditures across different government levels is different from existing methodologies in a number of ways:

- The INFER methodology comprehensively considers revenues and expenditures at all government levels; not just central *or* subnational level;
- The INFER methodology considers general government institutions and finances at all government levels as well as institutions and finances outside general government (i.e., includes extrabudgetary institutions, public corporations and other actors at different government levels, as relevant);
- In addition to devolution, the INFER methodology provides specific guidance to document funding flows associated with alternate approaches to decentralization and localization (including not only devolution, but also 'vertical' central government programs, deconcentration, and delegation);
- In addition to analysis of vertical expenditure and revenue patterns (on a disaggregated functional or sectoral basis, where possible), the INFER methodology encourages investigation of "horizontal" expenditure and revenue patterns across the national territory.
- Where disaggregated data availability permits, the INFER methodology enables policy analysts to investigate the link between sectoral expenditures and sectoral (development) results in specific sectors or areas of thematic interest (including health, water, education or other policy areas such as urban development, women's empowerment or climate finance).

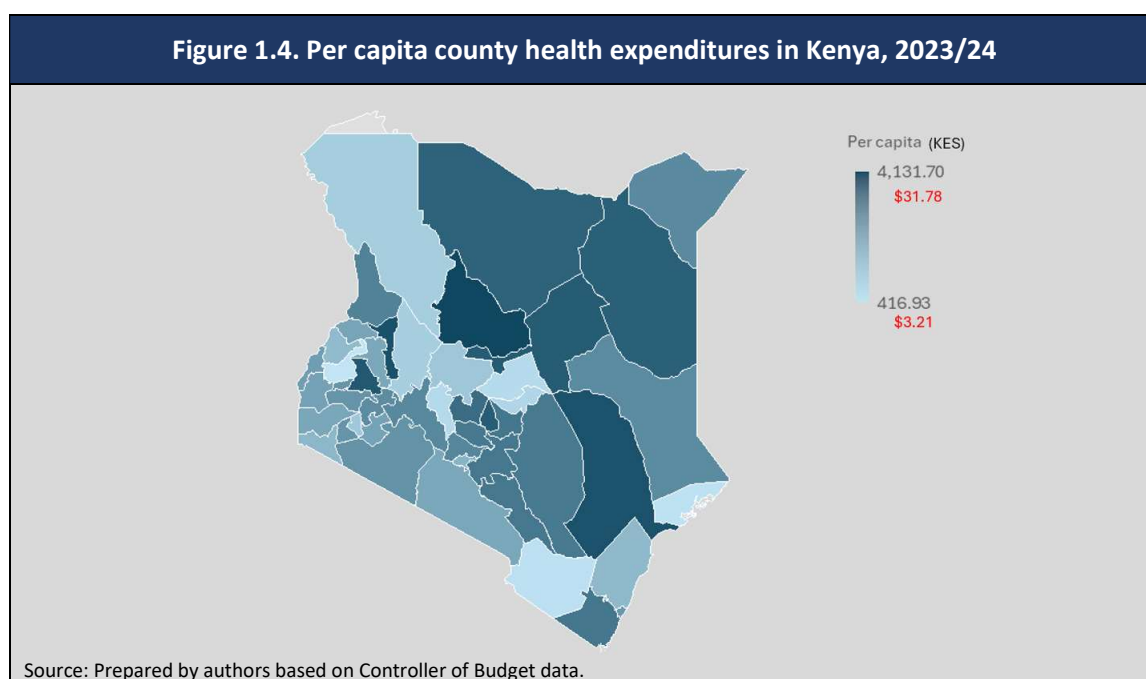
1.5 Who should prepare an Intergovernmental Fiscal and Expenditure Review (InFER) and why?

There are a number of instances where an Intergovernmental Fiscal and Expenditure Review could make an extremely useful contribution to the analysis of subnational governance, public financial management, or localized development.

For instance, use of the InFER methodology in the preparation of **World Bank Public Expenditure Reviews (PERs)** could result in a much more comprehensive and accurate review of public sector expenditures. In current practice, it is quite common for PER reviews to largely or exclusively focus on central government expenditures, at the expense of comprehensive consideration of all public sector finances (including subnational public finances). A selective focus on central government expenditures (as opposed to public sector expenditures at all government levels) can result in an extremely selective or biased view of public expenditures. For instance, failure to consider state and local government finances in a public expenditure review of the United States would result in

the analysis excluding more than half of public sector expenditures (54.5 percent). Similarly, many ‘traditional’ PERs of water finances fails to consider local government spending and/or the revenues and expenditures of municipal water utilities, potentially resulting in the analyses excluding up to three-quarters of relevant public expenditures.

Furthermore, an InFER analysis can provide a spatially disaggregated picture of public spending in a way that is traditionally omitted from traditional PERs, thereby more substantially informing the policy reforms or interventions needed to improve service delivery outcomes (see Figure 1.4 for illustration).



Similarly, it would also be advisable to conduct an intergovernmental fiscal review as a prequel to a **public expenditure and financial accountability (PEFA) assessment**. A PEFA assessment evaluates the public financial management systems in a country or subnational jurisdiction (i.e., budget formulation, budget execution, and ex-post budget review). Prior to conducting a national-level PEFA, an InFER review can quantify the share of public sector expenditures that is excluded from consideration in the national-level exercise. At the same time, prior to conducting a subnational or local-level PEFA, an InFER review can provide a clear indication of the importance of the review of subnational PFM systems by quantifying the share of public sector expenditures that are subject to the lessons from the subnational PEFA.

In addition, the InFER methodology is also a powerful tool to conduct a comprehensive and evidence-informed **(fiscal) decentralization review**. For instance, based on existing intergovernmental finance methodologies (such as the IMF Government Finance Statistics or OECD/UCLG’s WOFI methodology), a fiscal decentralization review might suggest that

Mozambique is considerably less decentralized than many of its neighbors (e.g., Tanzania, Malawi, or South Africa). In reality, however, the level of subnational spending in Mozambique is equal or greater than the levels of subnational spending of many of its neighbors in the region.⁴ The discrepancy in observations results from Mozambique relying largely on deconcentrated public expenditures at the provincial and district levels (which are not consistently captured by the IMF or OECD/UCLG as subnational spending), whereas Malawi, South Africa, and Tanzania largely rely on devolved local government institutions.

Another specific analytical context where the application of the InFER methodology has the potential to contribute considerable insight is in the preparation of **Voluntary Subnational Reviews (VSRs)**. VSRs are reviews to be prepared at the country level (often led by regional and/or local government associations) in order to highlight the important contribution of subnational governments in pursuit of the Sustainable Development Goals (SDGs). The InFER methodology adds a rigorous framework for analysis, allowing subnational actors to more clearly highlight the specific contributions of subnational stakeholders in pursuit of the SDGs by linking—wherever possible—subnational expenditures to the achievement of specific subnational development results.

Finally, the InFER methodology is uniquely suited to **providing sectoral specialists with specific answers** to sector-specific questions. For instance, in the health sector, the InFER methodology can guide health policy analysts to come up with detailed overview of the total level of general government expenditure on health (GGHE) across all government levels, including spending that takes place through national health authorities and similar extrabudgetary entities. Since the methodology separately incorporates local facility-level finances (which are generally not captured as part of general government expenditure), the methodology guides analysts to capture the revenues and expenditures of both public and private health facilities (including out-of-pocket expenditures and insurance payments) not only in aggregated, but also in a spatially disaggregated manner where such data is available.⁵

⁴ In Mozambique, 44.1 percent of public sector finances are spent at the provincial, district, or municipal levels. By contrast, spending by local government authorities in Tanzania accounts for only 20.2 percent of public sector expenditures. For further analysis, see: Boex. 2013. *Analyzing the role of the local public sector in achieving sustainable development: Does more spending at the local level result in better development outcomes? An analysis of the vertical allocation of public sector resources in ten developing countries*.

⁵ Throughout this document, the term ‘disaggregated data’ refers to data sources that presents data in a way that is spatially or territorially disaggregated at the regional and local level by subnational jurisdictions. In most countries, however, we would expect that central government (or a designated national budgetary or statistical agency) consolidates the relevant ‘disaggregated’ subnational data by collecting, tabulating and consolidating this data into a single consolidated data set.

2. OVERVIEW AND SCOPE OF AN INTERGOVERNMENTAL FISCAL AND EXPENDITURE REVIEW

2.1 Overview

The Intergovernmental Fiscal and Expenditure Review is an Excel-based diagnostic tool that facilitates the analysis of the public sector finances and intergovernmental fiscal relations in a multilevel public sector (Figure 2.1). The framework provides greater insight into fiscal patterns across all government levels, covering both general government institutions at all levels of the public sector, as well as extra-budgetary institutions, public corporations and other relevant stakeholders at each level.

Figure 2.1 The InFER Excel Template

Figure 2.1 The InFER Excel Template

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The InFER Excel workbook contains ten worksheets, subdivided into five different clusters. The content of each of these worksheets is explored in detail in this handbook. Depending on the purpose and scope of the InFER review, the user may complete one, or more clusters of worksheets.

The first cluster of worksheets (1a and 1b) captures details of a country's **subnational governance structure (or intergovernmental architecture)**, and addresses the **classification of functions** and the classification of revenue and expenditure data in the public sector. In capturing a country's intergovernmental architecture, the InFER framework recognizes that the public sector may deliver services to citizens through three broad mechanisms: through the central government (for instance, vertical programs or deconcentrated field administration); through subnational

governance institutions (e.g., regional or local governments); and/or through public authorities, public corporations, and other public sector entities.

The second set of worksheets (2a and 2b) deals with the degree of data availability to analyze intergovernmental finances and results. Worksheet 2a ***captures the extent to which policy makers have access to (regionally or locally) disaggregated “results” data*** for different public sector functions. In other words, to what extent are policy makers able to “see” where—across their national territory—greater progress is being made in terms of (public sector) outputs, outcomes, or development impact? In turn, worksheet 2b ***captures the extent to which policy makers have access to a breakdown of public sector spending by function***, as well as (regionally or locally) disaggregated revenue and expenditure data for different public sector functions. In other words, are policy makers able to “see” where—across their national territory—public sector resources are flowing for each function?

Whereas the first two segments of the template focus on qualitative indicators (e.g., “is the data available?”), the remainder of the InFER template focuses on capturing a quantitative picture of public sector finances across governments and institutions at different government levels.

The third cluster of worksheets contained in the InFER template (worksheets 3a, 3b and 3c) allows the assessor to capture aggregated public revenue and expenditures at different government levels. Recognizing that the decentralization or localization of public services and public spending can take place through different mechanisms or types of decentralization, the different worksheets capture the revenue and expenditures of different public sector stakeholders across the multilevel governance structure. Worksheet 3a captures spending directly controlled and managed by the central government, including the funding needed to operate core central government headquarters functions, as well as direct, delegated, and deconcentrated spending on frontline public services. Worksheet 3b captures the expenditures and revenues of subnational (regional or local) governments (i.e., devolution). Worksheet 3c captures the expenditures and revenues of other public sector entities and institutions, including public corporations and other extra-budgetary entities. As relevant, this last category of localized spending on public sector functions may also include spending by (public and private) facilities or service delivery units (e.g., schools and health facilities), certain nonprofit institutions, as well as direct household spending.

If disaggregated financial data is available for expenditures and revenues by function, the fourth set of worksheets—including worksheets 4a (*Regional*) and 4b (*Local*)—is available to capture disaggregated intergovernmental revenues and expenditures for each regional and/or local jurisdiction.

Finally, Worksheet 5 (*Results*) is used to capture disaggregated local results data, to the extent that relevant results data is available for different public sector functions.

2.2 Pursuing an initial qualitative InFER review

The Intergovernmental Fiscal and Expenditure Review framework can be applied with different degrees of depth and with different scopes. It is recommended that—before pursuing a full InFER

analysis—the assessor first conducts an initial qualitative InFER review, which is limited to completing worksheet segment 1 (institutions and classifications) and 2 (subnational data availability).

An agile—iterative, flexible, and collaborative—analytical process would first assess whether the country has the necessary data available to pursue an in-depth review of its intergovernmental finances, expenditures and results before making the decision to pursue a more in-depth data gathering and analytic exercise to determine whether the country pursuing development results in a localized, citizen-centric and results-oriented manner.

Completing the first two segments of the InFER methodology will allow the assessor to answer ten key questions about the extent to which the intergovernmental fiscal system meets some of the core conditions to achieve inclusive and efficient (citizen-centric and results-oriented) multilevel governance (Table 2.1, next page). The assessment questions consider (1) whether the preconditions exist for public resources to be distributed vertically across the public sector to reach the local level, where public services are actually delivered; (2) whether local public sector resources are distributed horizontally across the national territory to where they are needed the most; and (3) whether local public sector resources are transformed efficiently from inputs into outputs and outcomes.

These questions are also included in the InFER Excel Template as part of the InFER Worksheet, which allows these questions to be answered for different functions or sectors. The functions or sectors can be modified by the assessor as suitable for the country or research question being analyzed.

2.3 Determining the functional scope and depth of the InFER review

Whereas the first two segments of the template focus on qualitative assessment of the ability of the intergovernmental fiscal system to act in a localized manner (for which the state of data availability should not be a constraint), the remainder of the InFER template focuses on capturing a quantitative (vertical and horizontal) picture of public sector finances across governments and institutions at different government levels, to the extent that available data sources allow.

Varying functional scope of an InFER review. The scope of an Intergovernmental Fiscal and Expenditure Review depends on the interest(s) of the assessors. The default application of the InFER framework is for it to be applied to the public sector as a whole, recognizing the key functional areas of the public sector.

Alternatively, the InFER framework can also be applied to a single function, sector, or thematic area (or to a subset of functions or sectors), depending on the policy interest of the assessor.

When applied to a single sector or thematic area, the framework can be applied to analyze the selected government function (or sector) as a whole, or can be used to consider specific sub-functions within a sector.

Table 2.1 Questions to be answered as part of the first stage of an (agile) InFER assessment	
Conditions for inclusive and efficient multilevel governance	InFER assessment questions ^a
1. Public resources are distributed vertically across the public sector to reach the local level, where public services are actually delivered	1. Does the public sector know how much it spends by function and sub-function/program?
	2. Does the public sector know the vertical allocation of resources by function and sub-function/program?
2. Local public sector resources are distributed horizontally across the national territory to where they are needed the most	3. Does the public sector know how it distributes public sector resources territorially (horizontally, at regional and/or levels) by function and sub-function/program?
	4. Does the public sector know what public sector results are being achieved in a territorially disaggregated manner by function and sub-function/program?
3. Are local public sector resources transformed efficiently from inputs into outputs and outcomes?	5. Is analysis being done to consider results and value-for-money (or unit costs) in different local jurisdictions by function and sub-function/program?
	6. Is the public made aware of the results and value for money in different local jurisdictions by function and sub-function/program?
	7. Is central / intergovernmental decision-making informed by the analysis of results and value for money in different local jurisdictions by function and sub-function/program?
4. Are local public services provided in a citizen-centric and results-oriented manner? ^b	8. Is analysis being done to consider results and value-for-money (or unit costs) <i>within</i> different local jurisdictions (e.g., ward or facility level) by function and sub-function/program?
	9. Is the public made aware of the results and value for money <i>within</i> different local jurisdictions by function and sub-function/program?
	10. Is local decision-making informed by the results and value for money <i>within</i> different local jurisdictions by function and sub-function/program?

Note: ^a These questions should consider central government expenditures; regional and/or local government; central-level public corporation and other-extrabudgetary institutions; subnational public corporation and other-extrabudgetary institutions; public (and quasi-public) facilities, non-profit organizations and/or households. ^b The first three conditions for inclusive and efficient multilevel governance consider the role and efforts of the national government (or higher government level) and its interaction with regional and local governance institutions. The fourth condition for inclusive and efficient multilevel governance considers the role and actions of local-level officials or stakeholders, and is explored in greater detail as part of LPSA's PROMOTE framework.

The scope of an InFER review may be limited by data availability. A more in-depth application of the InFER framework considers the vertical allocation of resources by tabulating data on aggregated intergovernmental revenue and expenditures at different government levels and different stakeholders using workbook segment 3. This is not always possible, however, as not every country has the necessary subnational revenue and expenditure data available to provide an accurate picture of the vertical allocation of resources.

Depending on data availability, an analysis with an even greater degree of granularity would further consider the horizontal allocation of resources by collecting data on (regionally or locally) disaggregated intergovernmental revenue and expenditures patterns (workbook segment 4). Again, this analysis may not be possible. Finally, the most comprehensive application of the framework would consider the vertical and horizontal allocation of public sector resources in conjunction with an analysis of local-level development results (i.e., completing all workbook segments). Section 3.5 consider whether to proceed or not—and if so, how—in countries with data limitations.

2.4 Preparing a collaborative intergovernmental fiscal review

By providing a “big picture” understanding of how the public sector is structured and how revenues and expenditures are distributed ‘vertically’ across different government levels and ‘horizontally’ across the national territory, INFER reviews can form an important input into policy discussions among different stakeholders within the public sector reforms, as well as their counterparts within the global development community.

Ideally, INFER profiles are prepared at the country-level in a collaborative manner by teams of experts including relevant central government officials; local government representatives; civil society stakeholders, academic scholars and/or public policy researchers; and development partners, as relevant.

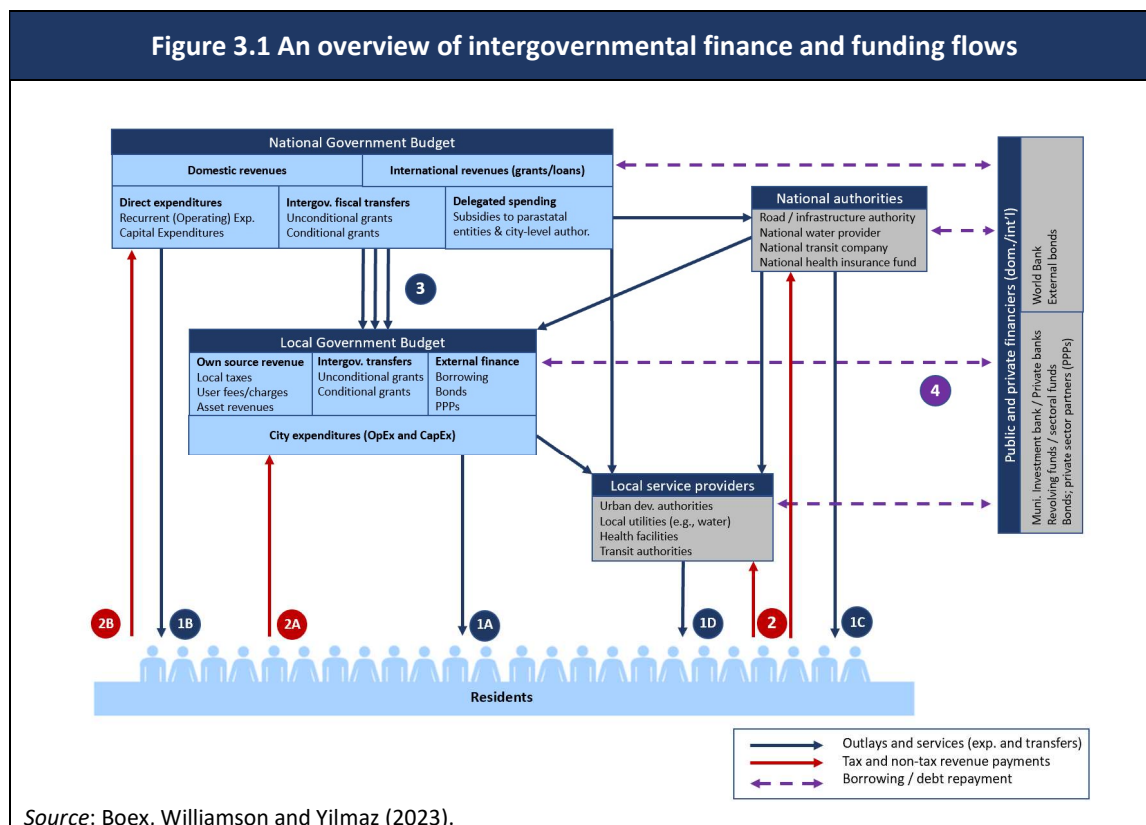
Depending on the objective, nature and scope of the InFER exercise, different stakeholders may be invited to participate in the preparation of an intergovernmental fiscal review.

Within the public sector, relevant stakeholders that should be involved in the preparation of an InFER review include the Ministry of Local Government (and/or democratic governance, decentralization and local governance specialists); the Ministry of Finance (and/or fiscal decentralization and public financial management specialists); planning officials in charge of preparing national development plans; and officials tasked with intergovernmental analysis or coordination. Regional and local government officials should be engaged to obtain their perspectives and insights—preferably through their associations. In addition, sectoral specialists may be engaged as appropriate. When possible, INFER assessments should involve stakeholders from all government levels, as well as relevant civil society stakeholders.

3. LOCALIZING SERVICES AND DEVELOPMENT

3.1 Overview of the institutional and fiscal architecture of the public sector

Accepting the reality of a multilevel public sector requires accepting the reality that multilevel governance arrangements—along with the fiscal relationships between stakeholders at different government levels—are often complex and messy. Rather than focusing on a single central government that typically relies on a single central treasury system, the institutional and fiscal architecture of a multilevel public sector often involves multiple budgetary general government entities at the central as well as regional and/or local government levels, in addition to a range of other multilevel governance (MLG) institutions and stakeholders, such as national authorities outside the central government budget, regional and local service providers as well as public and private financiers (Figure 3.1).



In general, the decentralization of power and functions involves the transfer of legal, political, and/or administrative authority for planning projects, making decisions, and management of public functions from the central government and its agencies to subnational governments or other subnational governance institutions. Decentralization may involve the transfer of authority and responsibility from the central government to subordinate or quasi-independent government

organizations over a broad range of government functions. Decentralization takes different forms in different countries, depending on the objectives driving the change in the structure of government (Boex, Williamson and Yilmaz 2022). There is also no prescribed set of rules governing the decentralization process that applies to all countries.

The first three worksheets of the InFER Excel template capture the institutional architecture of a multi-level public sector ('1 Institutions'), the prevailing budget classifications used ('2 Classifications'), as well as a general assessment of the availability of subnational data ('3 Data Availability').

Figure 3.2 InFER Excel Template Overview

INTERGOVERNMENTAL FISCAL AND EXPENDITURE REVIEW (InFER): INSTITUTIONAL ARCHITECTURE OF THE PUBLIC SECTOR									
				BGG Level	Territorial Level	Institutional Type			
Country Information									
C.1	Country						Comments / Clarification		
C.2	Year								
C.3	Currency								
C.4	Display Units								
Budgetary General Government Institutions									
1	Central Government (Total)			Central	Central	BGG			
2	of which : Localized Programs / Spending			Central	Central	BGG			
3	Regional Administration			Central	Regional	DECON			
4	Local Government			Local	Local	BGG			
5	Lower Level Local Government			Local	Local	BGG			
6									
7									
8									
Other MLG Institutions and Stakeholders									
1	Central Government PCEBIs			Central	Central	PCEBI			
2	Regional Level PCEBIs			Central	Regional	PCEBI			
3	Local Government PCEBIs			Local	Local	PCEBI			

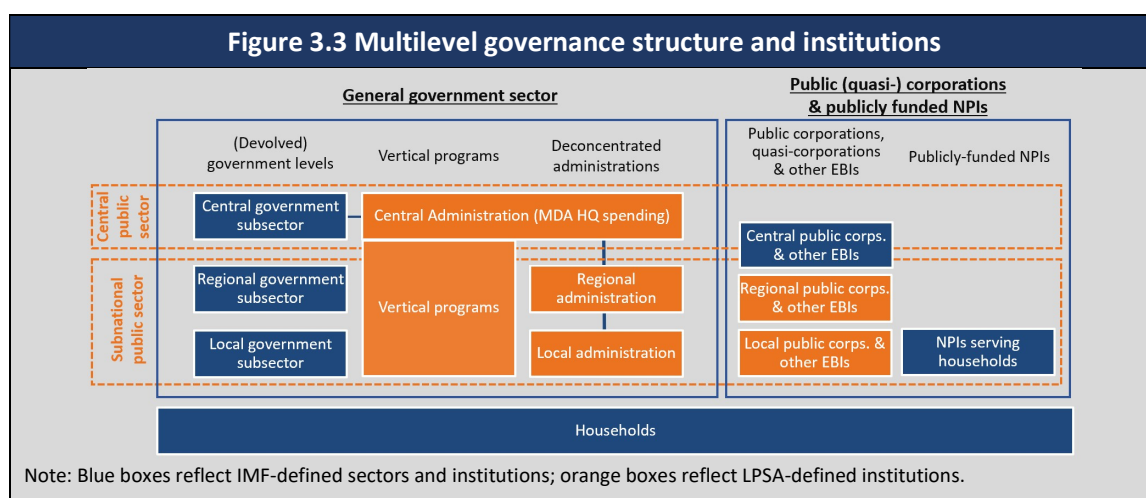
< > 1 Institutions 2 Classifications 3 Data Availability 4 GeneralGov 5 OtherEntities ... + : ◀ ▶

Note that for illustration purposes, the InFER Excel template's Institutions worksheet includes a sample of illustrative regional and local governance institutions, along with a sample of illustrative MLG institutions and stakeholders. These institutional levels/tiers/types are not necessarily relevant for all countries. The assessor should update these categories as appropriate for the intergovernmental fiscal review being performed, including only those levels/tiers/types that are relevant for the analysis at hand (e.g., those that contribute at least 1-5 percent of public spending, in total, or to any particular public sector function).

3.2 Details of the institutional and fiscal architecture of a multi-level public sector

The InFER framework aims to provide a picture of public sector finances that is disaggregated as possible, in terms of the vertical and horizontal distribution of financial resources among institutional units at all government levels, as well as in terms of the functional and economic breakdown of expenditures and revenues.

The InFER Framework is based on the IMF's framing of the public sector, with some minor modifications (Figure 3.3). According to the IMF's System of National Accounts (1993; 2008) and Government Finance Statistics (e.g., 2001), the total economy of a country can be divided into five sectors, with each sector consisting of a number of institutional units. The five sectors are (1) non-financial corporations, (2) financial corporations, (3) general government, (4) non-profit institutions serving households, and (5) households. The general government sector can be divided into three subsectors: the Central Government Subsector; the State Government Subsector; and the Local Government Subsector. The public sector is defined to include all units of the general government sector plus all public (financial and non-financial) corporations.⁶



While based on the IMF's framing of the public sector, the InFER Framework aims to provide further specificity with respect to different types of decentralization and localization, by not only considering the financial transactions of devolved subnational governments, but by also considering deconcentrated and delegated subnational public sector expenditures, where possible. The InFER methodology also pays greater attention to spending by subnational public corporations and other extrabudgetary institutions at all levels.

To ensure to the proper interrogation of intergovernmental and subnational finances, the InFER framework considers the following types of institutional units:

- Budgetary general government institutions:
 - Budgetary General Government (BGG) units at central, regional or local levels;
 - Deconcentrated Government Institutions (DECON)
- Other MLG institutions and stakeholders:
 - Public Corporations and Extrabudgetary Institutions / Authorities (PCEBI),
 - Non-Profit Institutions serving households (NPI); and
 - Households and Business Sector (HHBS).

⁶ The SNA (2008) further considers social security funds as a separate subsector. This subsector is typically not relevant in the context of intergovernmental fiscal reviews, unless the focus of the review is specifically on social protection.

In discussing the architecture of the public sector, a clear distinction should be made between subnational *governance* institutions—a general term capturing different types of subnational public sector institutions—and subnational *government* institutions, which are subnational institutions that adhere to a number of specific institutional characteristics.

Budgetary general government (BGG) institutions. The INFER Excel template allows for the inclusion of up to eight levels or tiers of budgetary general government institutions, which may include budgetary central government, budgetary regional (e.g., state or provincial) governments, and budgetary local governments. Depending on the particular multilevel governance structure of the public sector (and the scope of the INFER analysis), the assessment may separately include special-purpose subnational governments (such as elected school districts or water boards) as well as lower-level local governments (e.g., village or commune governments) as budgetary general government institutions.

- **Devolved subnational (regional or local) government institutions.** The Local Public Sector Alliance defines subnational governments as *corporate bodies (or institutional units) that perform one or more public sector functions within a subnational jurisdiction and that have adequate political, administrative, and fiscal autonomy and authority to respond to the needs and priorities of their constituents*. This definition implies that regional and local governments—as corporate bodies or institutional units—have a degree of institutional autonomy and authority, including the ability to own assets, raise funds, and engage in financial transactions in their own name. Subnational governments should also be able to appoint their own officers, independently of external administrative control.⁷
- **Deconcentrated institutions.** The IMF generally does not consider deconcentrated regional or local administration units as part of the central government subsector.⁸ In contrast, the InFER framework considers regional and local deconcentrated administrative units as part of the subnational public sector as long as they are identifiable of subnational sub-organizations in the central government budget (as discussed further in Section 4). If deconcentrated spending can be identified in the central government budget (e.g., regional administration spending or district administration spending), such deconcentrated spending should be excluded from central government spending and included in the INFER review as a separate institutional level/type.
- **Central government spending on frontline services (localized central government expenditures).** As discussed further in Section 4, as part of the review of central government expenditures (part of budgetary general government), the assessor will later be asked to report total central government expenditure, as well as the amount of central

⁷ The assessment of the institutional nature of subnational governance institutions is guided by LPSA's Local Governance Institutions Comparative Assessment (LoGICA) framework.

⁸ According to the IMF (2001, Chapter 2: 14): “[i]f a government entity operating in a state is entirely dependent on funds from the central government, and if the central government also dictates the ways in which those funds are to be spent, then the entity should be treated as an agency of the central government.”

government spending on localized service delivery (e.g., through vertical sector programs or delegated expenditures).

Other MLG Institutions and Stakeholders. It is not unusual for Public Expenditure Reviews or similar fiscal analyses to be limited to the analysis of central government-level budgetary general government finances. Likewise, many analyses of fiscal decentralization or decentralized finance limit themselves to regional and local government-level budgetary general government institutions. In addition, however, the INFER Excel template allows for the inclusion of up to eight levels, tiers or types of other public sector institutions (and other stakeholders) that fall outside of budgetary general government. These institutions may include:

- **Public corporations or extrabudgetary institutions (PCEBIs)** that are owned and/or operated by central, regional and/or local government units, while the budget of these institutions is not included in the general budget. While practices vary from country to country, among others, this category include national-level parastatals (e.g., national universities, national hospitals, national water utility company) and national or sector authorities (e.g., national road funds, national health insurance funds, etc.), as well as subnational parastatals or public corporations, such as municipal utility companies.⁹
- **Local service delivery facilities** (with different types of legal basis, institutional nature or ownership) may exist and play an important role in frontline service provision. These entities may rely on a combination of different funding mechanisms.
- **Non-profit institutions / household sectors.** When relevant to the analysis, the role of non-profit institutions serving the household sector (NPIs) as well as spending by Households or Business Sector (HHBS) may be included in the analysis. This is especially relevant in cases where there is substantial delegation to NGOs (for instance, heavily reliance on NGOs in health and education service delivery, or extensive reliance on water user committees to deliver rural health services).

Further details on the inclusion of other (non-general government) entities in the InFER review are provided in Section 6.

For each level, tier, or type of institutional unit included in the InFER assessment, the assessor is asked to identify which BGG subsector (central, regional, or local government) owns or is affiliated with the institutional level or unit ('BGG Level'); the territorial level at which the institutions operate ('Territorial level'); as well as the Institutional Type.

Further information and guidance on the preparation of the institutional profile may be found in the guidance for LPSA's Local Governance Institutions Comparative Assessment (LoGICA) Framework (<https://decentralization.net/resources/logica-framework/>).

⁹ For these entities, transfers to and from these entities may be recorded in the parent government's budget, but the parent budget does not provide an accounting of these institutions' total expenditures and revenues.

3.3 Overview of public sector functions and other budget classifications

As noted in Section 2, depending on the objective of the review, the InFER methodology can be applied to a single public sector function or development objective or to a wider set of public sector function or development objectives. In fact, in its broadest approach (and unless specified otherwise), the InFER review aims to capture the broadest view of the public sector by considering all public sector functions.

Once the institutional architecture of a multi-level public sector is captured in the first worksheet of the InFER template ('1a Institutions'), the assessment requires the assessor to determine the functional expenditure categories, economic classifications and revenue classifications to be used as part of the review ('1b Classifications').

Figure 3.4 InFER Excel Template: Classifications

	A	B	C	D	E	F	G	H	I	J
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Although—based on the specific objective of the review—the assessor may choose to apply a non-standard set of functional, economic and revenue classifications (vis-à-vis standard global classifications), the same functional, economic and revenue classifications must be used for all levels, tiers, or types of public sector institutions included in the review. The budget classifications selected here will automatically be populated into the other worksheets of the InFER template.

Functional expenditure classifications. The InFER template allows for up to 15 categories of functional spending to be defined. The functional classification should be determined by the assessor based on the scope of the assessment, as well as based on data availability.

When possible, InFER assessments should generally follow top-level COFOG functional classifications. If data availability allows, it might further be desirable to break out important sub-functions as separate functional categories following the COFOG classifications. For instance, in addition to top-level COFOG categories, the functional classifications that are pre-populated in the InFER template separately include a number of important sub-functions, such as agriculture sector activities, transport (including the construction and maintenance of roads, bridges, tunnels, parking facilities, bus terminals, and so on), and water supply (Table 3.1).¹⁰ Depending on the exact scope of the review, these functional categories may (or should) be modified to fit the scope of the analysis.

Table 3.1 Functional Classifications	
Main InFER Functional Class.	GFSM Functional Classification (Code)
General public services	General public services (701)
Defense	Defense (702)
Public order and safety	Public order and safety (703)
Economic affairs	Economic affairs (704 excl 7042, 7045)
Agriculture sector	Agriculture, forestry, fishing & hunting (7042)
Transport	Transport (7045)
Environmental protection	Environmental protection (705)
Housing and community amenities	Housing and community amenities (706 excl 7063)
Water supply	Water supply (7063)
Health	Health (707)
Recreation, culture, and religion	Recreation, culture, and religion (708)
Education	Education (709 excl 7091, 7092)
PPE, primary and secondary ed.	Pre-primary, primary and secondary ed. (7091, 7092)
Social Protection	Social Protection (710)

For each category that the assessor includes in the functional classification, the assessor is then asked to confirm whether COFOG classifications are being followed (Yes/No). Expenditure data based on COFOG classifications may not be relevant or possible for all InFER reviews, depending on the scope of the review and/or the budget data available to the assessors.

As noted earlier, in order to conduct a full review of intergovernmental finances, expenditures, and results, data on public expenditures by (relevant) functions—based on the selected functional classification—should not only be available for the central government level, but also for regional and/or local governments, as well as other relevant public sector institutions. Unless public expenditure data are available at all government levels or institutions using the same functional classifications (and at the same level of detailed disaggregation), the assessor may need to make trade-offs between the comprehensiveness of the analysis and the accuracy or detail of the

¹⁰ For instance, based on data availability, Agriculture, forestry, fishing & hunting (7042) might be broken out of Economic affairs (704); Water supply (7063) may be listed separately from other Housing and community amenities (706); while Pre-primary, primary and secondary education (7091, 7092) may be reported separately from other expenditures on Education (709). These decisions need to be made on a case-by-case basis.

analysis. In fact, in some cases, it may be necessary in some cases to rely on estimates of certain expenditures and revenues, rather than on (aggregated or disaggregated) budget data.

Adjustments of the functional classifications used and/or departures from COFOG functional classifications may be necessary due to data availability, or the specific scope of the InFER exercise. When the framework is applied to an individual function, sector, or thematic area, it may be necessary to abandon the general COFOG classification structure altogether, in which case the assessment may rely on one or more customized functional categories determined by the assessor.

Other entities? A comprehensive review of intergovernmental finances, expenditures, and results, data on public expenditures by (relevant) functions should not only incorporate the central government level, but should also consider the role for regional and/or local governments, as well as other public sector institutions that fall outside the scope of “general government” at each level, such as (off-budget) central government parastatal organizations or municipal utility companies.

For each functional category included in the classification, the InFER review should assess whether the function is exclusively delivered by general government entities, or whether other entities (i.e., entities outside of budgetary general government) play a role in the function or sector. For instance, in water and sanitation, water utility companies and/or rural water user committees often play an important role in the delivery and funding of sectoral services. Although the standards or reporting vary between countries, the finances of such other entities are often not included in government finance statistics.

To the extent that public corporations and extrabudgetary institutions (PCEBIs) or other stakeholders (non-profit organizations or households) are involved in delivering and funding frontline services, this ‘check’ should prompt the assessor to consider whether the functional or sectoral expenditures and revenues associated with these institutions are included in the review. When other entities are involved in a function or sector (in more than a minimal manner), the assessor should ensure that these other MLG institutions and stakeholders are included in the institutional architecture.

Economic Classifications. Below the functional classifications, the assessor is asked to define the basic economic and revenues classification with which financial transactions are recorded at different government levels. The InFER methodology generally considers six broad economic classifications of expenditures (Table 3.2).

Table 3.2 Economic Classifications	
Main INFER Classification	GFSM Economic Classification (Code)
Salaries/Wage Expenditures	Compensation of employees (21)
Other Recurrent Expenditures	Use of goods and services (22); interest (24); social benefits (27); and other expenses (28)
Capital Expenditures	Expenditures on fixed capital (23)
Direct Expenditures	Subtotal
Intergovernmental Expenditures (IGE) and Indirect Expenditures	Grants to other general government units (2631/2632) Subsidies to PCEBs and other entities (25)
Total Expenditures	Total (Direct Expenditure plus IGE)

Generally, capital expenditures are accounted for on a cash basis, rather than as consumption of fixed capital (as per the latest version of the IMF Government Financial Statistics Manual).

Intergovernmental fiscal transfers or intergovernmental expenditures—as well as subsidies to PCEBs that are included in the analysis—should be excluded from their respective direct expenditure category. To the extent that subsidies are provided to entities other than those that are included in the analysis as separate multilevel governance institutions (e.g., subsidies to national parastatals or local utility companies), the residual of subsidies to be included in the relevant respective direct expenditure category (or Other Recurrent Expenditures, if unclear).

Revenue Classifications. On the revenue side of the budget, the INFER methodology generally considers four broad classifications of revenues:

Table 3.3 Revenue Classifications	
InFER Revenue Class.	GFSM Revenue Classification (Code)
Own revenues	Taxes (11); Non-tax revenues, including property income (141); sales of goods and services (142); fines, penalties, and forfeits (143)
Shared revenues	N/A
Intergovernmental Revenues (IGR)	Grants from other general government units (133)
Other revenues	Other grants (13, excl. 133); Miscellaneous and unidentified revenue (145)
Total Revenues	Own, Shared, Intergovernmental plus Other Revenues


These InFER revenue classifications depart from the standard revenue categories used by the Government Finance Statistics Manual. Further details regarding the classification of revenues are provided in Section 5.

3.4 Exploring data availability: subnational finances and results

The next two worksheets included in the InFER Excel template—worksheets 2a and 2b—explore the extent to which intergovernmental finance and results data is available for each institutional level, tier, or type in a country.

Subnational results data (worksheet 2a). In terms of pursuing sustainable development, geography matters: development does not take place at a single point, but rather, is achieved to different degrees across a country’s national territory. As such, policy makers at all levels should be aware of the extent to which results are achieved in different regional and/or local jurisdictions. Without such information, policy makers would be unable to improve the efficiency with which inputs are being transformed into outputs, outcomes, or results, nor would policy makers be able to direct resources to the places where they are needed the most. With this in mind, InFER template worksheet 2a captures the availability of subnational results data (Figure 3.5).

Figure 3.5 Availability of Subnational Results Data (Screenshot)

A	B	C	D	E	F	G	H	I	J	K	L	M
1			INTERGOVERNMENTAL FISCAL AND EXPENDITURE REVIEW (InFER): AVAILABILITY OF DISAGGREGATED RESULTS DATA									
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The process of monitoring and evaluation relies on a structured approach that tracks resources, outputs, outcomes and impacts, through the use of indicators. Inputs are the resources used in an intervention or provision of a service; outputs are the direct products of these activities; and outcomes and impacts measure the changes resulting from the program or intervention (Table 3.4). The term ‘results’ refers generically to the outputs, outcomes, and impacts that result from public sector actions. Monitoring involves tracking performance, while evaluation assesses a program's effectiveness by considering how inputs are transformed into outputs, outcomes, and impact.

In order for the public sector to be meaningfully results-oriented in pursuing any particular public sector function, it must (be able to) track at least one output, outcome, or impact indicator in a territorially disaggregated manner. At a minimum, it must know—for instance—the number of clients that is receiving services, as the most basic output measure for a service.

Table 3.4 Types of results indicators		
Indicator type	Description	Examples
Inputs	The resources used in an intervention or provision of a service	Funding, personnel, materials, and facilities
Outputs	The direct results of activities; the goods or services produced or provided	The number of students provided with public schooling; the number of residents receiving public health services; the number of kilometers of road constructed / maintained
Outcomes	The short- to medium-term effects of an intervention or provision of a service	The share of children completing basic education; the share of population with access to clean drinking water
(Developm.) Impact	The long-term changes and overall effects of an intervention or provision of a service	Improved literacy, economic status, reduced mortality rates, or enhanced community resilience

Based on data availability, the assessor must indicate at least one (regionally or locally) disaggregated results indicator for which data is (or should be) available, as relevant to each functional category. To the extent that the indicator is publicly available, the assessor is asked to list the data source. Although sector specialists may find greater detail desirable, the InFER methodology merely requires the availability of one results indicator (e.g., an output/outcome/impact indicator) per functional (sub)category.¹¹ Where relevant, multiple indicators may be listed: for instance, enrolment and completion numbers/rates may be available for education for pre-primary, primary, and secondary education. In practice, however, the most desirable

Once the results indicator for each function is listed in the worksheet, the assessor ought to indicate whether the indicator is available—in a regular and timely manner—at the national level; disaggregated at the regional level; disaggregated at the local level; and at the facility level (e.g., school or health facility). Appropriate responses are ‘Yes’, ‘Partial’, ‘Unclear/Mixed’, or ‘No’.¹²

Subnational fiscal data. The next worksheet (*2b Subnat fiscal data*) assesses whether expenditure and revenue data are available in aggregate each institutional level, tier, or type, for both budgetary general government entities as well as for other subnational institutions (in total, as well as broken down by different classifications). In addition, the worksheet captures—further below—whether expenditure and revenue data are available in a regionally and locally

¹¹ In fact, for the purpose of intergovernmental reviews, ‘simple’ output or outcome indicators that related to the provision of public services—such as the number of clients receiving public health services in a locality—may be a more appropriate indicator than the more detailed sectoral / impact indicators that sectoral reviews may prefer.

¹² In order for the indicators to be considered available in a disaggregated manner at the regional and local levels, it is expected that the data would be available in a consolidated manner at the national level. It is generally not expected that facility-level data is available in a consolidated manner at the national level. Hence, for the facility-level column, ‘Yes’ indicates that facility-level data is universally available at the local level.

disaggregated manner for different levels or institutions. Possible responses include: *Yes; Yes, Actuals only; Yes, Budgeted only; Estimate; Unclear; or No.*¹³

The subsequent analysis should reflect the most accurate data available: actual revenues and expenditures when possible or budget plan figures ('budget estimates') if actual revenue and expenditure figures are not available.

In other cases, when data are available for some—but not all institutional levels/tiers/types—it may be necessary and appropriate for the assessor to rely (partially or wholly) on projections or estimates. For instance, while central and local government entities may report on water and sanitation spending using COFOG classifications, the best data on the expenditures and revenues for local water and sanitation utilities (as available to the assessor or the public) may be an aggregate estimate imputed based on a sample of water utilities. The assessor should evaluate whether the benefits of including such expenditure and revenue estimates in the analysis outweigh the potential risks of using less accurate data on a case-by-case basis.

3.5 Given the review's objective and available data, how to proceed?

Ideally, a full InFER assessment includes both a quantitative analysis of the vertical allocation of public sector resources (i.e., an analysis of aggregate MLG revenues and expenditures) as well as an analysis of horizontal allocation of public sector revenues and expenditures (i.e., an analysis of revenues and expenditures disaggregated by regional and/or local government jurisdiction). The extent to which this is possible is largely driven by the extent to which data are available to the assessment team.

The analysis of aggregate MLG revenues and expenditures: vertical allocation of resources. The analysis of aggregate MLG revenues and expenditures—hopefully broken down by functional and economic classification—will quantify the 'vertical' allocation of resources within the public sector, and identify the role of off-budget organizations in public sector (or sectoral) spending. Guidance on how to complete the relevant segments of the InFER template—when the relevant aggregate fiscal data is available—is provided in Sections 5, 6, and 7 of this handbook.

Many countries—especially in Asia, MENA, and Sub-Saharan Africa—still lack consistent and reliable revenue and expenditure data for subnational governments and other stakeholders outside central government. An analysis of aggregate MLG revenues and expenditures would be an improvement over existing public expenditure analyses in many countries: public expenditure reviews in many countries are still limited to central government spending (or—if lucky—general government spending). In addition, it is not unusual for the finances of parastatals and SOEs to be excluded from analytical scrutiny. Data on subnational public corporations (such as municipal utility companies) and other frontline service delivery units (e.g., water user associations; local health facilities; school committees) is rarely available—even in aggregate form—and is almost always excluded from analysis.

¹³ The response 'Yes' would imply that both budgeted and actual expenditure/revenue data are available.

It may be possible to proceed with an analysis of the vertical or aggregate allocation of resources, even when data is missing or incomplete. It would be important, however, to point out these data gaps. The analysis may also attempt to supplement the gaps in official revenue and expenditure data by coming up with estimates of the aggregate amount of expenditures or revenues that are not taken into account through official data sources. For instance, if existing data sources only cover central government spending in a sector, the state of knowledge would still be advanced if the review could arrive at a reasonable estimate of the total spending that is being done within the sector by subnational governments and/or by public corporations or extrabudgetary institutions, especially if subnational governments or other public sector institutions play a nontrivial role in the sector.

Of course, any review should clearly distinguish between expenditure and revenue data from official or public sources, versus estimated or imputed expenditures and revenues. Likewise, to the extent that certain expenditure and revenues are excluded from an analysis of intergovernmental finances due to data unavailability (in cases where it is not possible or practical to arrive at reliable estimates), it is important to note the exclusion of such data.

The analysis of disaggregate MLG revenues and expenditures: horizontal allocation of resources. An analysis of regionally and/or locally disaggregated multilevel governance revenues and expenditures will reveal the horizontal allocation of resources in pursuit of different development objectives across the national territory.

In fact, detailed knowledge of horizontal or spatial allocation of resources is a necessary condition to ensure that public sector resources are directed towards the locations where they are needed most (a precondition for allocative efficiency) and for further analysis to make sure that resources are efficiently transformed from inputs into outputs and outcomes (a precondition for technical efficiency). Such data is also incredibly important to ensure accountability in the public sector.

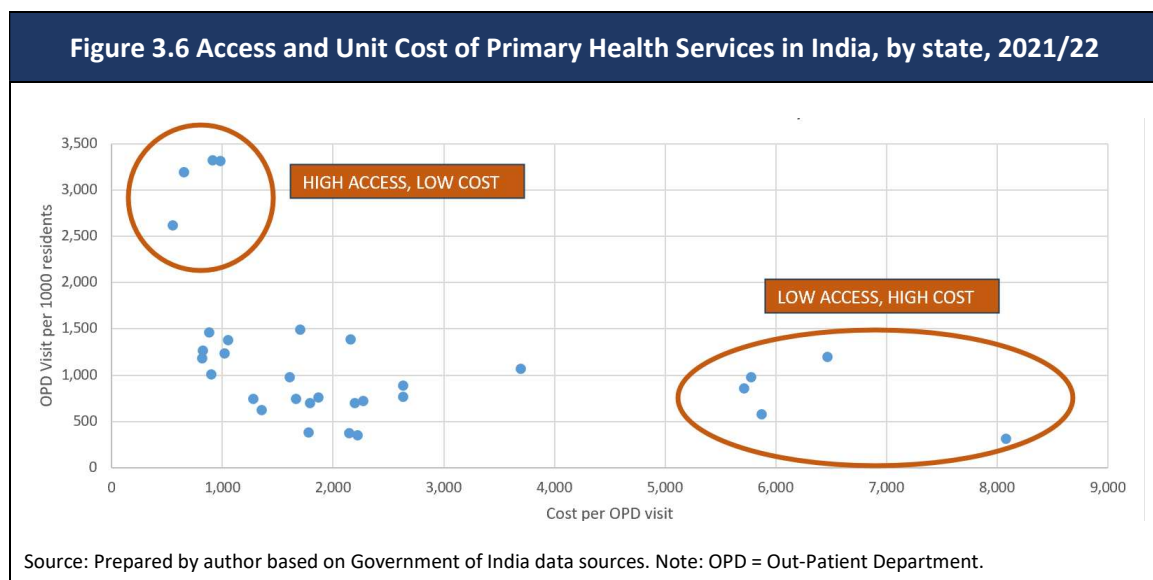
To the extent that disaggregated subnational expenditure data is available, it will be important to analyze the extent to which expenditures for a specific public sector function vary across regional or local jurisdictions. Such analysis is typically done in per-person or per capita terms (rather than in total expenditures or in nominal terms), as a regional or local jurisdiction's residents are the ultimate recipients of subnational public services. While we don't expect the public sector to spend exactly the same amount per resident in each region or locality for a specific function or service, we would expect (or hope) that the variations in per capita expenditures are driven by policy factors (such as higher demand or higher cost) rather than by political factors or by historical factors and inertia.

Depending on data availability, it may or may not be possible to pursue further analysis that relates variations in subnational expenditures to other factors, such as differences in local needs or local performance.

When both disaggregated (regional or local) expenditures as well as disaggregated subnational results data are available, it may be possible to make some judgements about the performance of the public sector within different regions or different local governments. For instance, when

disaggregated data on population, expenditures, and the number of clients served, is available for a particular function, it may be possible to compute and analyze, first, the level of access to public services, and second, the costs per client served (or value for money).

Figure 3.6 illustrates such analysis using state-level primary health data for India, showing that some states provide much greater access to health services (as reflected by the number of outpatients served per 1000 residents), while achieving this result at much lower cost per patient. Rather than reflexively increasing public spending in response to poor health outcomes, using this analysis, an evidence-informed policy response would identify *why* some state governments are able to achieve better health sector performance at lower costs, and design and pursue state-level policy reforms accordingly.



Although some national governments are able to provide detailed subnationally disaggregated expenditure and results data, disaggregated reporting of subnational finances generally goes beyond the current state of practice.¹⁴ For instance, both the IMF's Government Finance Statistics as well as the OECD-UCLG's subnational finance statistics are reported in an aggregated manner (by function and level of government). The absence of disaggregated subnational data limits the ability to consider the subnational distribution of resources, and variations in the localized performance of public sector spending. As such, disaggregated data on subnational expenditures and results will become increasingly important in order to ensure that public sector spending translates into service delivery results or development outcomes.

¹⁴ Through its online portal (<https://subnacional.iadb.org/>), the Inter-American Development Bank reports some countries' disaggregated public sector spending by regional and/or local government. A limited number of European Union (EU) and OECD data sets also provide subnational disaggregation.

Concluding notes. In a country for which relevant subnational fiscal and results data is readily available by function, conducting an InFER review has the potential provide considerable insight into the distribution of public sector resources and the performance of the public sector with relatively little effort.

In practice, in most countries, subnationally (dis)aggregated data may or may not be readily available to the public, or may or may not be available at all. In these cases, the amount of analysis that should be performed needs to be limited when the costs of data collection and analysis exceed the benefits. Although political forces may come into play, the value to the public sector of engaging in rigorous analysis of intergovernmental finances and results often (greatly) exceeds the costs.

With respect to the completion of the InFER template, it should be noted that—if regionally- or locally- disaggregated regional and/or local revenue and expenditure data are accurate and readily available—it may be beneficial to complete the related worksheets first (i.e., complete worksheets 4a and 4b), and then to sum the aggregate amounts into the relevant parts of the expenditure and revenue templates contained in worksheet 3b.

4. COMPLETING THE InFER TEMPLATE: BUDGETARY GENERAL GOVERNMENT (EXPENDITURES)

4.1 An overview of InFER'S expenditure profile

The InFER Excel template's first worksheet ('1a Institutions') requires the assessor to identify the central, regional, and local general government institutions that exist in a country, as part of the general government sector (Figure 3.3). In addition, the assessor is asked to identify the main public institutions outside of the general government sector (and potentially, other stakeholders) that are relevant to the analysis of the multilevel governance system and the system of intergovernmental finances.

When conducting a full InFER review, the aggregate financial details of the different public sector institutions are recorded in three worksheets:

- Worksheet 3a captures spending directly controlled and managed by the central government, including the funding needed to operate core central government headquarters functions, as well as direct, delegated, and deconcentrated central government spending on frontline public services.
- Worksheet 3b captures the general government expenditures and revenues of subnational (regional or local) governments (i.e., devolution).
- Worksheet 3c captures the expenditures and revenues of other public sector entities and institutions, including public corporations and other extra-budgetary entities.

This section in the handbook provides guidance on completing the expenditure tables that are included in Worksheet 3a (central government budgetary general government revenues and spending) and Worksheet 3b (regional and local government budgetary general government revenues and spending). The revenue table(s) in these worksheets are dealt with in Section 5 of the Handbook. Guidance on the finances of other public sector entities (Worksheet 3c) is provided in Section 6 of the Handbook.

4.2 Central government expenditures

The IMF's Government Finance Statistics Manual contains two definitions of the central government: the so-called Budgetary Central Government and Consolidated Central Government. Whereas the consolidated central government includes a wider notion of central government finances (for instance, the accounts of the Central Bank), the statistics for Budgetary Central Government are based on the general revenue or treasury account for the central government.

Conceptually, it makes more sense to use the concept of Budgetary Central Government to prepare a comparatively consistent profile of the public sector.

What should be included as (total) central government expenditures? In many countries, reports of central government expenditures (actual expenditures or ‘approved budget estimates’ (i.e., planned budget expenditures approved by parliament) will be provided by the Ministry of Finance by function and/or economic classification as part of the budget documents prepared by the Ministry. In other countries, such reports may be prepared by other central government entities (e.g., Central Bank, Statistics Bureau, etc.).

The total amount of central government expenditures to be reported in the InFER template should reflect all central government spending included in the central government budget. The currency and display units (e.g., thousands, millions, billions, etc.) should be used consistently across all government levels/tiers/types.

In principle, therefore, total central government expenditure as recorded in the InFER expenditure profile should match the total expenditures (or total budget estimates, as the case may be) as reported for all (on-budget) central government ministries, departments, and agencies.

The InFER methodology divides central government spending into three different types:

1. Central government spending on core central government headquarters functions;
2. Central government spending on frontline public services, either through the allocation of resources for direct inputs into frontline public services, or through delegated spending on frontline services (e.g., a central ministry funding a parastatal or contracting an NGO to directly deliver public services). This spending may be referred to as ‘localized central government spending’, ‘direct and delegated expenditures’ or ‘vertical programs’. More detailed guidance on direct and delegated expenditures is provided in Section 4.3.
3. Central government spending also includes formally deconcentrated central government spending on frontline public services, whereby the regional or local administrative units are distinguishable and ring-fenced in the central government budget, either as territorial budget organizations (e.g., provincial administration votes listed alongside ministry votes in the budget) or as sectoral sub-organizations (e.g., district health administration sub-votes as part of the Ministry of Health). More detailed guidance on recording deconcentrated central government expenditures is provided in Section 4.4.

Figure 4.1 provides an overview of InFER’S Intergovernmental Central Government Expenditure Profile, which requests the assessor to indicate expenditures by function (rows) broken down by broad economic classifications (columns). Note that the functional categories used in the expenditure tabulation, as well as economic classifications are determined by the assessors themselves, as part of the *Classification* worksheet.

The first central government expenditure table in Worksheet 3a (Central Government Total) should reflect the total of all central government expenditures, including all three different types

of central government spending (i.e., central headquarters spending; direct and delegated spending; and deconcentrated spending). The subsequent tables in this worksheet should provide details on localized program spending by the central government, as well as on deconcentrated expenditures contained in the central government budget (if any).

Figure 4.1 InFER'S Intergovernmental Expenditure Profile (Central Government)

INTERGOVERNMENTAL FISCAL AND EXPENDITURE REVIEW (InFER): EXPENDITURES AND REVENUES (CENTRAL GOVERNMENT)

Central Government (Total)

General public services
 Defense
 Public order and safety
 Economic affairs
 Agriculture sector
 Transport
 Environmental protection
 Housing and community amenities
 Water supply
 Health
 Recreation, culture, and religion
 Education
 PPE, primary and secondary ed.
 Social protection
 NEC

TOTAL

EXPENDITURES

Salaries/Wages Other Recurr. Exp Capital Exp Direct Exp IGE Total Expenditure

REVENUES

OSR Shared Rev IGR Other Total Revenue

of which: Localized Programs / Spending

General public services

EXPENDITURES

Salaries/Wages Other Recurr. Exp Capital Exp Direct Exp IGE Total Expenditure

REVENUES

OSR Shared Rev IGR Other Total Revenue

3a CentralGov

3b SubnatGov

3c OtherEntities

4a Regional

4b Local

5 Result

Expenditure amounts should reflect all (recurrent plus capital) expenditures. Expenditure tables should reflect the total expenditure for the central government, in aggregate. If the central government has a separate recurrent budget and capital (or development) budget (as is practiced in some countries), this table should reflect the aggregate of both the recurrent and capital/development budgets.

As noted slightly further below, the InFER methodology makes an important distinction between direct expenditures at each government level versus intergovernmental expenditures.

Completing green cells versus grey cells? If detailed aggregate expenditure data are available (i.e., functional expenditures broken down by economic classification), the entire contents of the table can be entered (i.e., green cells). In this case, subtotals and totals (grey cells) can be incorporated as Excel formulas.

If detailed expenditure data (i.e., functional expenditures broken down by economic classification) are NOT available, the assessor has no choice but to enter only the (sub)totals by function and/or economic classification (i.e., the grey row / column(s) of the table) while leaving the inner (green) cells blank.

Direct expenditures versus intergovernmental expenditures. One of the main challenges with intergovernmental finances in a multilevel governance system is the risk of double-counting expenditures: unless corrected for double-counting for intergovernmental fiscal transfers, the sum of central government expenditures plus regional/local government expenditures (and other

institutions) will exceed total public spending. In order to prevent such double-counting, the InFER template separately captures direct expenditures and intergovernmental expenditures.

Intergovernmental expenditures (IGE) are intergovernmental fiscal transfers or grants-in-aid provided by a general government unit (e.g., central government) to other general government units (e.g., regional or local government), as recorded on the expenditure side of the ‘giving’ government’s (or institution’s) budget. Typically, “grants to other general government units” allocated by a central ministry, department, or agency can be identified using the economic classification of the budget.¹⁵

For the purposes of the InFER template, transfers or allocations to public corporations or other extrabudgetary entities that are included in Worksheet 3c should also be considered as intergovernmental expenditures. These allocations may be recorded in the budget or financial accounts of the central (or ‘giving’) government as grants or as subsidies. All other spending should be included in direct spending.

When intergovernmental expenditures are recorded correctly, the direct expenditures across all government levels/tiers/types (and other institutions) should add up to total public expenditures, without double-counting any intergovernmental resource flows.

In order to accurately prevent double counting, the column of intergovernmental expenditures (IGE) should include transfers and subsidies that are provided to (devolved or other) institutions that are separately included in the InFER review. For instance, a sectoral intergovernmental transfer to a local government (or a subsidy to a parastatal) should be included as an intergovernmental (or indirect) expenditure under the relevant function as long as the local government level (or parastatal) is included in the InFER analysis.

To the extent that the central government budget includes deconcentrated expenditures that are reported as a separate budgetary general government level/tier/type in Worksheet 3a (as discussed further below in Section 4.4), these deconcentrated expenditures should not be recorded as intergovernmental expenditure, as they are already included as part of (total) central government expenditures.

There are cases when an intergovernmental transfer (or subsidy to a public corporation or extrabudgetary institution) may be recorded as a direct expenditure as part of the InFER tabulation. This is the case when—due to limitations on data availability, or due to reporting convenience—the InFER assessment omits the receiving government level or institution. For instance, a sectoral intergovernmental transfer to a local government (or a subsidy to a parastatal) may be recorded as a direct expenditure under the relevant sector/function when the local

¹⁵ In most economic classifications of budget expenditures, “Grants” are typically included as a main economic expenditure category alongside other top-line economic expenditure categories, such as “Compensation of employees” and “Use of goods and services”. “Grants to other general government units” is typically a sub-category of “Grants”, which is often further subdivided into “Current grants” and “Capital grants”.

government level (or recipient parastatal or institution) is not separately included in the InFER analysis.¹⁶

Using additional columns or worksheets to provide greater details. The InFER template seeks to balance the desire for consistent and detailed expenditure reporting while limiting the time, effort, and data requirements needed to complete the profile.

In some cases, detailed expenditure data may be readily and easily available, in which case more detailed tabulation and analysis may be desirable. In these cases, the assessor should feel free to use the additional column to the right of the worksheet (from Column T onward) to capture additional detailed expenditure data, for instance, to break out wage expenditures, recurrent non-wage expenditures, and/or intergovernmental expenditures in greater detail. Similarly, the assessor should feel free to include additional worksheets in the Excel template to capture additional data.

Further guidance on record intergovernmental expenditures. Non-sectoral transfers (e.g., shared revenues, unconditional grants, equalization grants or other general-purpose grants) are typically recorded under general public services, or similar functional category. Sectoral grants (as determined by their objective, or by the sector ministry through which they are transferred) should be captured under their respective function.

4.3 Central government spending on localized services

In a few highly centralized countries, all fiscal and budgetary powers are concentrated with the central line ministries at the national level, rather than being devolved to subnational government or deconcentrated to subnational departments of central line ministries. In these case, the central government engages in the delivery of local public services almost exclusively in a centralized manner through direct central government provision.¹⁷

These cases—where direct central government expenditures are the only kind of local public sector spending—form an extreme example. However, many countries that are incrementally more decentralized (either through deconcentration or devolution) also rely—to a greater or lesser extent—on central expenditures for the direct and/or delegated delivery of frontline public services. For instance, many countries ensure law and order through a national police apparatus that is neither deconcentrated nor devolved. Likewise, many countries provide a share of public health services through national or regional hospitals and/or through a Directorate of Public Health Services which is an integral part of—and directly financed by—the Ministry of Health.

¹⁶ In other words, when the receiving public institution is not included as a separate level/tier/type in the InFER analysis, the expenditure should be counted as a direct (final) expenditure by the sending institution. As such, to ensure an accurate tabulation of expenditures, it is critical to *first* determine which institutions will and will not be included in the quantitative assessment.

¹⁷ For instance, this was/is the case in Afghanistan, where all major public services are financed directly from the central line ministry budget, without any further territorial-administrative breakdown (World Bank, 2008).

In fact, it is not at all unusual for certain public services to be delivered partly or mainly through deconcentration or devolution, while the respective central line ministries continue to provide—in a direct or delegated manner—certain aspects of public service delivery and related expenditures. For instance, in many countries where the provision and expenditure and responsibility for primary education services is deconcentrated or devolved to the local level, the Ministry of Education may still retain the responsibility for funding the capital infrastructure required for primary education (school buildings), or the procurement of goods and services required for the provision of primary education (i.e., schoolbooks or educational kits). Likewise, it is not unusual for the Ministry of Health to procure drugs and medical supplies (or medical equipment), even when the responsibility for the local delivery of health services is otherwise devolved to the local government level. In these cases, the supplies are transferred in-kind to the local health facilities. Similarly, the central Ministry of Agriculture may procure seeds and fertilizer on behalf of the local bodies entrusted with the local delivery of extension services. In some other cases (e.g., Sierra Leone), localized staff for ‘devolved services’ may be seconded to the local government level while the salaries for these “local” public servant is retained in the central government budget.

These are all examples of central government’s centralized delivery of local public services through localized programs and expenditures.

Unfortunately, established budget reporting procedures do not distinguish between truly centralized expenditures (i.e., central government bureaucracy or overhead spending) and central government spending on local infrastructure or frontline services. As such, the assessor will have to review the budgets of central government ministries, departments, and agencies in detail in order to identify such expenditures.

Once identified, these expenditures should be entered into second expenditure table contained in Worksheet 3a (*CentralGov*). In tabulating localized programs and expenditures, it should be noted that—in principle—all so-called localized programs and expenditures ought to be considered direct expenditures rather than intergovernmental (or indirect) expenditure.

4.4 Deconcentrated central government expenditures

Deconcentrated expenditures are not collected or reported as part of IMF’s Government Finance Statistics. Instead, deconcentrated expenditures are aggregated into the expenditure figures of the higher-level government’s organizations. Thus, breaking out deconcentrated expenditures, where they exist, requires vetting the country’s national budget document (and sectoral budget documents, as needed).

In the context of an Intergovernmental Fiscal and Expenditure Review, budgetary deconcentration is defined as the spending of administrative entities that (i) form an organizational part of the national (state) administration; (ii) deliver public services or perform its

functions in accordance with a territorial mandate; and (iii) form a formal budgetary entity (organization or sub-organization) in the Chart of Accounts.¹⁸

To the extent that territorial subnational administration units exist (i.e., where the central government budget contains a budget vote or chapter for provincial administrations or district jurisdictions), the institutional profile (Worksheet 1) should reflect such deconcentrated levels and should be recorded as deconcentrated expenditures in the InFER expenditure profile for the central government.

Similarly, sectoral (or vertical) deconcentration can be detected by analyzing specific line ministry budgets, especially those expected to be active at the local level (i.e., Ministry of Education, Health, Local Government, and so on). In some instance of sectoral deconcentration, the central line ministry budget may be divided into two components: “central administration” and “local administration”. In other instances, the line ministry budget is divided by department, reflecting both central administrative departments (e.g., Policy Department) as well as subnational departments (e.g., District Education Department for District X; District Education Department for District Y; and so on). When such sectorally deconcentrated administrative units exist, the institutional profile should reflect such deconcentrated level(s).

To the extent that the central government budget contains (territorially or sectorally) deconcentrated expenditures at one or more levels of territorial subdivision (for instance, at the regional or district levels), these deconcentrated expenditures should be captured in the third and/or fourth tables in Worksheet 3a (Central government).

4.5 Devolved subnational government expenditures

The Worksheet 3b (Subnational Government) contains up to four expenditure tables. The number expenditure tables to be completed for devolved subnational governments depends on the number of regional and/or local government levels included in the institutional profile.

In principle, only the finances of devolved regional and local governments should be included in this worksheet.¹⁹ As noted in Section 4.4 above, expenditures of deconcentrated subnational

¹⁸ Note that this definition accommodates both horizontal or territorial deconcentration, as well as vertical or sectoral deconcentration. A further discussion on deconcentration is provided in *the Local Governance Institutions Comparative Assessment (LoGICA) Framework* (LPSA 2022), and in the *Local Public Sector Country Profile Handbook* (Boex 2012).

¹⁹ In addition to devolved and deconcentrated (non-devolved) institutions, the LoGICA framework also recognize local governance institutions that are hybrid in nature, combining features of devolution and deconcentrated. Hybrid local governance institutions may be included in Worksheet 3b as long as the budgetary or fiscal features follow those of devolved institutions (including that the institution has de jure corporate status; it has, prepared and adopts its own budget; and its finances are held and managed in accounts—separate from the higher-level government budget and/or higher-level treasury—under the control of subnational officials).

administration units (contained in the higher-level budget) should be reported as part of central government expenditures in Worksheet 3a.

What should be included as (aggregate) subnational government expenditures? In many devolved countries, a consolidated report of subnational government finances is prepared by the central government, for instance, as an annex to the national budget document. In other countries, a report of consolidated subnational government expenditures may be prepared by other central government entities (e.g., Central Bank, Statistics Bureau, etc.).

The subnational government expenditure profile for each subnational government level, type, or tier, should reflect the aggregated subnational government spending included in the subnational government budgets or financial accounts—adding up the expenditures of all regional or local government unit at the relevant government level (or of the same type). The currency and display units (e.g., thousands, millions, billions, etc.) should be used consistently across all government units and all government levels/tiers/types.

Similar to the central government expenditure tabulation, the functional categories used in the expenditure tabulation, as well as economic classifications are determined by the assessors themselves, as part of the *Classification* worksheet. If subnational governments have separate recurrent budget and capital (or development) budgets (as is practiced in some countries), this table should reflect the aggregate of both the recurrent and capital/development budgets.

Completing green cells versus grey cells? If detailed subnational expenditure data are available (i.e., subnational functional expenditures broken down by economic classification), the entire contents of the table can be entered (i.e., green cells). In this case, subtotals and totals (grey cells) can be incorporated as Excel formulas. If detailed subnational expenditure data are NOT available, the assessor has no choice but to enter only the (sub)totals by function and/or economic classification (i.e., the grey row / column(s) of the table) while leaving the inner (green) cells blank.

Direct expenditures versus intergovernmental expenditures. Similar to the reporting of central government finances, a distinction should be made in recording subnational government expenditures between direct expenditures versus intergovernmental expenditures.

It is common for regional (provincial or state) governments to provide intergovernmental fiscal transfers to local governments. These should be recorded as intergovernmental expenditures. It is much less common for local governments to have intergovernmental expenditures

For the purposes of the InFER template, subnational transfers or allocations to public corporations or other extrabudgetary entities that are included in Worksheet 3c should also be considered as intergovernmental expenditures. All other spending should be included in direct spending.

For instance, if a local government provides funding to municipally-owned water utility, and if water utilities are included as local service delivery facilities in Worksheet 3c, then this outlay should be recorded as an intergovernmental expenditure.

Aggregated subnational expenditure data versus regionally or locally disaggregated subnational expenditure data. To the extent that regionally/locally disaggregated expenditure data are available for regional and/or local governments, it may be possible to enter the disaggregated data in the relevant worksheets (as discussed in Section 7), and compute the aggregate expenditure totals by function and/or economic classification by using the Excel SUM function.

To the extent that regionally/locally disaggregated expenditure data are available for other regional and/or local institutions, the assessor may include one or more additional worksheets in the workbook; place the disaggregated expenditure data in the relevant worksheet(s); and compute the aggregate expenditure totals by function and/or economic classification by using the Excel SUM function.

Alternatively, to the extent that aggregate as well disaggregated expenditure data are available, it would be appropriate to cross-validate the aggregate expenditure totals against the disaggregated totals.

5. COMPLETING THE InFER TEMPLATE: BUDGETARY GENERAL GOVERNMENT (REVENUES)

The level and composition of multilevel public sector expenditures is not the only aspect of a system of intergovernmental fiscal relations that is important. Arguably an equally important part of the intergovernmental fiscal profile is how subnational public sector spending is financed.

5.1 An overview of InFER'S revenue profile

Public sector expenditures may be funded from one of three channels. First, national or subnational governments (or other public sector institutions) may collect and retain revenues from their own revenue instruments. Second, national or subnational governments (or other public sector institutions) may receive funds from other general government units in the form of revenue sharing arrangements or other intergovernmental fiscal transfers (or as budgetary allocations from the parent government, in the case of deconcentrated units). Third, public sector spending can be funded from subnational borrowing or other financing mechanisms (e.g., the issuance of bonds).

The composition of public revenues and the way in which a multilevel public sector is funded has potentially important implications for the efficiency and accountability of the public sector. For instance, it is commonly assumed that greater reliance on own revenues (as opposed to transfers) allows a multilevel governance system to improve allocative efficiency of the public sector, by causing local governments to be more responsive to local priorities while at the same time improving accountability to local constituents.

As part of Worksheets 3a through 3c, to the right of the expenditure tabulation of each government level or public sector institution is space to record the revenues of institutions that are part of the intergovernmental system.

The InFER methodology recognizes four broad categories of public sector revenues across different government levels and public institutions, which are generally—although not perfectly—aligned with international public sector revenue classifications. These revenue categories include:

- Own (tax and non-tax) revenue sources
- Shared revenues
- Intergovernmental revenues (intergovernmental fiscal transfers), including both general-purpose intergovernmental revenues and specific intergovernmental revenues
- Other revenues

Total revenues would be defined as the sum of these four revenue categories. It is possible for the assessor to define a different set of revenue categories, as appropriate to the specific purpose of the InFER revenue. Alternatively, if greater detail is available, the assessor can create additional worksheets to capture greater revenue details, if desirable.

Details for each of the general revenue categories are provided in the four sub-sections below. It is important to note upfront that—unlike on the expenditure side of the budget—the InFER methodology does not neatly follow the revenue categorization of the IMF’s government financial statistics. Among others, the InFER methodology broadly combines tax and non-tax revenues into a single revenue category (own source revenues), and makes more detailed distinctions between different types of intergovernmental revenues (e.g., shared revenues, general IGR and specific IGR).

5.2 Central, regional and local (own source) revenues

To qualify as a central, regional, or local government own revenue source, a necessary but not sufficient condition is that the revenue collected accumulates to the government entity in question.

The definition of an “own” revenue source typically further requires that the government entity has some degree of control over the revenue, whether over the rate or base of the revenue source, or over the administration of the tax.

Although own source revenues are typically collected by a government’s own tax administration apparatus, this is not always (or necessarily) the case. For instance, in some multilevel governance systems, lower-level governments are permitted to establish and determine the tax rate for a “piggy-back tax” on the back of a tax already collected by a higher-level government. For instance, piggy-back local incomes taxes and local option sales taxes are not uncommon in the United States. In the case of a piggy-back tax, the associated revenue is collected by the tax authority of the higher-level government, which then transfers the collected revenue to the recipient local government.²⁰

The IMF classification of public sector (tax and non-tax) revenues. For general government units, the IMF (2001) considers that there are two basic sources of revenue: taxes and other compulsory transfers from households and businesses imposed by government units on one hand, and non-tax revenue sources on the other hand. Tax revenue, which is composed of compulsory transfers by households and businesses to general government entities, generally forms the dominant share of revenues for many central government units, although local governments in most countries tend to rely extensively on non-tax revenues (much more so than central governments). In some countries, local own source revenues form a majority of local public sector financial

²⁰ Since piggy-back taxes are collected by the higher-level tax administration merely as an agent on authority of the respective local governments, the revenues are not recorded as general-fund revenues for the higher-level local government. As such, the disbursement of these funds should not be considered an intergovernmental fiscal transfer.

resources. In most countries, however, the degree of revenue-raising power at the local level is much more limited.

The IMF revenue classification differentiates taxes by the nature of what is being taxed, resulting in six basic categories of tax revenues: income taxes (111); taxes on payroll and work force (112); taxes on property (113); taxes on goods and services (114); taxes on international trade and transactions (115); and other taxes (116).

The IMF revenue classification captures non-tax revenues mainly as ‘other revenues’ (14). This category includes revenues collected from property income (141), sales of goods and services (142), fines, penalties, and forfeits (143), and miscellaneous other non-tax revenue (144, 145).

Assessors may need to rely on central, regional, or local budget documents (or documents from the relevant revenue authorities) in tabulating the own source revenues collected by different government levels and/or public sector institutions.

Shared revenues not to be included in own source revenues. Generally, the InFER methodology suggests that revenues should be recorded as own source revenues that are collected by the government itself, or that are collected on an agency basis on its behalf by a private sector entity, or by the revenue authority another government. As noted below, however, some countries classify certain revenue sources as being “own source” (tax) revenues, even when a government level has no control over the base, rate, or collection of a revenue source, regardless of its legal status. In these cases, the revenue source should be considered a shared revenue source (or possibly an intergovernmental fiscal transfer) for the purpose of the InFER review.

If shared revenues are reported as own source revenues for subnational governments, adjustments may need to be made accordingly to reflect the consistent classification of shared revenues. This may require creating additional Excel worksheets that maps the list of central, regional, and local government revenues to the different revenue categories.

5.3 Shared revenues

As noted above, government finance statistics do not make a consistent distinction between shared revenues and own-source revenues. For instance, a local government finance act may designate a shared revenue as an “own” local revenue source, resulting in the revenue being recorded as such in local government accounts. In practice, however, there is an important difference between shared revenues and own source revenues. As a general rule:

- Own-source revenues or own-source taxes are taxes for which subnational governments have the power to either set the rate, the tax base, or which are administered by the subnational government itself (e.g. property taxes are own-source taxes in most countries).
- Shared revenues or shared taxes are national revenue sources or taxes that shared between the national (central/federal) government and subnational governments. In the case of shared revenue, the sharing rate, the tax rate, and the tax base are all defined nationally, and

tax receipts are redistributed according to allocation criteria defined by the central government.

- Revenues should be considered as shared revenues (i.e., intergovernmental revenues) if the subnational government has no power at all over the revenue source (i.e., no authority to impose it or collect it, no discretion to set and vary the tax), even if it receives part or all of the tax receipts as a result of a revenue sharing arrangement with the higher-level government.
- The revenues are typically redistributed to the recipient government without being recorded by the higher government level's consolidated fund as revenues. If the revenues are recorded as first revenues as part of the accounts of the higher government level, the funds may be considered intergovernmental fiscal transfers.

If intergovernmental revenue sharing takes place, but the distribution of resources is determined on a formula-basis, rather than on a derivation basis, then this revenue type should be considered a (general-purpose) intergovernmental fiscal transfer.

In line with this guidance, assessors should make the distinction between own source revenues, shared revenues, and intergovernmental revenues (transfers or grants).

5.4 Intergovernmental revenues (intergovernmental fiscal transfers)

In addition to own source revenues, a multilevel public sector revenues profile should also include grants, including recurrent and capital grants from higher-level governments. Intergovernmental fiscal transfers often play a critical role in intergovernmental fiscal systems. In order to distinguish between intergovernmental fiscal transfers given by a government level and the intergovernmental fiscal transfers that are received, InFER refers to revenues received from intergovernmental fiscal transfers as intergovernmental revenues.

The assessor is asked to indicate the amount of general-purpose intergovernmental revenue received by a government level or type, as well as the amount of specific intergovernmental revenue received.²¹ General-purpose transfers may also be referred to as unconditional grants or by other, similar terms (e.g., equalization grant). Specific transfers, also referred to as conditional (categorical or earmarked) transfers, are a type of intergovernmental revenue where funds are given to another level of government with specific requirements or conditions on how they can be used. Unlike general purpose transfers, which are given without restrictions, specific transfers are intended to be used for particular programs or activities.

It is important to note that in many countries, the budgetary breakdown of intergovernmental fiscal transfers received by subnational governments does not follow the IMF classification of

²¹ Note that this distinction is not explicitly made on the expenditure side of the transfer process. However, on the giving side of the transfer process, specific intergovernmental fiscal transfers would typically be reported as part of the functional classification that they are earmarked for, whereas general purpose transfers would typically be reported as part of the 'general administration' functional classification.

revenues, since the greatest level of detail provided by IMF revenue classifications is the breakdown into recurrent grant and capital grants from higher-level governments. As such, the researcher completing the profile will have to compile the amount and type of transfers being provided to (and subsequently, received by) local governments, in order to provide a breakdown of transfers by type in the revenue table.

Similar to the collection of own source revenues, amounts received for different grant schemes that fall within the same category should be aggregated and reported on the same line within the revenue table. If sufficient detail is available on the nature and mix of intergovernmental revenues (e.g., if details are available regarding the size of different types of sectoral grants), it would be appropriate to insert an additional worksheet in the InFER workbook and provide greater detail on the nature and composition of intergovernmental fiscal transfers received by different levels of government.

It should be noted that to the extent that intergovernmental revenues or grants may be received from different higher-level governments (e.g., a local government may receive grants from the federal level as well as from the state level), the assessor completing the profile would have to sum up grants received from different government levels.

General-purpose intergovernmental revenues (transfers). The main distinction made in this segment of the revenue table is between general purposes IGR or transfers (i.e., non-earmarked or cross-sectoral transfers) received by local governments and specific IGR or transfers (including sectoral, earmarked or otherwise targeted conditional transfers).²² General transfers should be considered free from higher-level conditions or earmarks if the resources are deposited into the general revenue account of the local government, and if they are free from explicit conditions on their use, so that the local government can use these resources as freely as it would use its local own source revenues.

General purpose transfers can typically be used by the recipient government for both recurrent as well as capital (development) purposes.

To the extent that subnational governments are recipients of shared revenues (as defined above), it would be appropriate to report these separately in the revenue table (as noted above), and exclude these from the amount reported as (general-purpose) intergovernmental revenues.

General purpose transfers or grants include unconditional transfers or equalization transfers, typically provided by a higher-level government to a lower government level. General purpose grants should be free from explicit conditions on their use, so that the local government can use these resources as freely as it would use its own source revenues.²³

²² This basic division is consistent with the main OECD (2006) classification of intergovernmental fiscal transfers between earmarked and non-earmarked transfers.

²³ General purpose transfers may have general conditionalities associated with them, including—for instance—reporting requirements, or requirements that an overall percentage is spent on capital versus operation and maintenance.

Specific intergovernmental revenues (transfers). In the InFER revenue tables, all specific intergovernmental revenues or transfers—such as conditional transfers—should be aggregated into a single line-item, by function, if possible. Within each functional category, specific IGR may include transfers that are intended for wages, non wage-recurrent spending, or for capital purposes.

5.5 Other Revenues

All ‘regular’ non-tax revenues, such as non-tax user charges and fees, fines, interest income, and so on, should be recorded as part of own source revenues.

In the InFER revenue tables, the classification for ‘Other revenues’ should reflect all revenues that are not already classified as own source revenues, shared revenues, or other intergovernmental revenues.

For instance, subnational governments may record balance carried forward as ‘other revenues’. Similarly, funds received directly from international development partners, foundations, and other contributions may be included in other revenues.

Since most (subnational) government account for their finances on a cash basis rather than on an accrual basis, proceeds from lending might also be recorded as a revenue inflow under the category ‘Other revenues’.

6. COMPLETING THE InFER TEMPLATE: OTHER PUBLIC SECTOR ENTITIES (EXPENDITURES AND REVENUES)

6.1 Classification of other (non-general government) public sector entities

The InFER methodology recognizes that other public sector entities and other stakeholders—that are not part of the general government sector—can play an important role in multilevel public service delivery and inclusive, sustainable localized development. As noted in Section 3, the INFER Excel template allows for the inclusion of up to eight levels, tiers or types of other public sector institutions (and other stakeholders) that fall outside of budgetary general government as part of Worksheet 3c (*Other Entities*).

Types of entities that may be relevant as part of an intergovernmental fiscal profile of a multilevel public sector include public (non-financial) corporations or quasi-public corporations, as well as—in some cases—non-profit institutions serving households, and even households themselves. The key question for determining which entities to potentially include an entity or type of entity as part of an Intergovernmental Fiscal and Expenditure Review is whether the entity performs a public sector function, and does so in a way that is not fully captured by the finances of the (central, regional, and/or local) general governments already included in the InFER profile.

Central public corporations or extrabudgetary institutions (PCEBIs). While practices vary from country to country, governments at different government levels often own, operate, or control public corporations, quasi-public corporations or extrabudgetary institutions (PCEBIs) that engage in public sector functions, but that are not incorporated into the financial reports of their parent governments.

At the central government level, this category may include a wide range of institutions, including state-owned entities or public corporations (such as a central government-owned water company or the postal service), national-level parastatal organizations (e.g., national universities, national hospitals, etc.), as well as national or sector authorities (e.g., national road funds, national health insurance funds, and so on).

In some cases, the full revenues and expenditure are fully incorporated into the revenue and expenditure statistics of their ‘parent’ government. In these cases, there is no need to include these entities in the InFER profile separately. In many other cases, however, there are significant financing flows that do not come through the parent government’s budget. For instance, public university tuition fees are seldom accounted for through the general budget, but provide an important source of higher-education funding in many countries.

Likewise, whereas a national health insurance fund may receive considerable subsidies from the central government budget (for instance, in order to fund social health programs), national health insurance authorities may also receive a considerable share of their funding from household contributions or withholdings that are not recorded by the central government as revenues.

To the extent that the budgets or financial accounts of these institutions are not included in the revenue and expenditure statistics of their 'parent' general government level, and to the extent that they represent a meaningful level of spending in the public sector or in a sector of interest, these entities may be included as 'other entities' in the InFER review.

The role of central government-level public corporations or extrabudgetary institutions—and how their finances are accounted for—is likely to vary from country to country, and from sector to sector.

Subnational public corporations or extrabudgetary institutions (PCEBIs). Public corporations or extrabudgetary institutions (PCEBIs) may be owned and/or operated not only by central government, but also regional and/or local government units. Similar to the situation at the national level, this category may include regional and/or local-level parastatals such as state universities or provincial hospitals, as well as regional, metropolitan or local development authorities, or municipal utility companies.

As is the case at the national level, in some cases, the full revenues and expenditure are fully incorporated into the revenue and expenditure statistics of their 'parent' government. In these cases, there is no need to include these entities in the InFER profile separately. In many other countries, however, there are significant financing flows that do not come through the parent government's budget.²⁴

To the extent that the budgets or financial accounts of these subnationally-owned institutions are not included in the revenue and expenditure statistics of their 'parent' general government level, and to the extent that they represent a meaningful level of spending in the public sector or in a sector of interest, these entities may be included as 'other entities' in the InFER review.

The role of subnational government-owned public corporations or extrabudgetary institutions—and how their finances are accounted for—is likely to vary from country to country, and from sector to sector. In some case, their role may be extensive. For instance, in the case of a water sector that relies on local government-owned water utility companies, the amount of sectoral funding that is not accounted for through the general government budget may be substantial.

Public service delivery facilities. While practices vary from country to country, and even from sector to sector, local service delivery facilities (depending on their legal basis, institutional nature

²⁴ In some countries, the finances of these public sector organizations and entities outside general government are explicitly included in financial statistics. For instance, the Census of Government Finances in the United States (which is conducted every five years) does not only include the General Fund expenditures of each government unit / level, but also includes the spending of the non-General Fund entities, ranging from public universities to state-owned alcoholic beverage stores.

and/or ownership) may be fully or partially excluded from the revenue and expenditure reports submitted by their respective parent governments.

For instance, many public health facilities receive user fees and charges directly from their customers. In some countries, these revenues are recorded as non-tax revenues of the local health department. In many other countries, however, this is not the case. To the extent that facility-level revenues (and their subsequent expenditures) are not recorded in the financial management systems of their parent governments, the revenues and expenditures may be included as ‘other entities’ in the InFER review.

Private service delivery facilities, non-profit institutions serving households, and households.

Similar to the case of public service delivery units or facilities, to the extent that public services are effectively provided by the privately-owned local service delivery facilities, the revenues and expenditures of these private local service delivery facilities may be included in the InFER profile as well. For instance, this may be the case for private schools or private health clinics, which provide direct substitutes for services provided by the public sector. Without considering the amount of spending that takes place on these direct substitutes for public sector services, an analysis of intergovernmental would likely result in an extremely skewed picture of sectoral efforts.

Likewise, when relevant to the analysis, non-profit institutions serving the household sector (NPIs) as well as households or businesses may be included in the analysis as well, to the extent that (i) these entities perform public sector functions and (ii) a non-trivial part of their revenues and expenditures is not reported by their parent government.

There are numerous cases around the world where non-profit institutions or similar institutions play an important role in public service delivery. For instance, in many countries, water user committees are assigned the responsibility to provide rural water services, even though these entities are not a formal part of the public sector. In other cases, private developers or households—rather than the public sector—may fund the extension of last-mile piped water infrastructure. Another example might be the fact that in some countries, School Committees or Parent Teacher Associations play an important role in funding school level operations.

Similarly, if a (central or subnational) government has engaged in public-private partnership (PPP) with private sector partner that funds the delivery of a public sector good or service, the funding of the PPP may be taken into account as part of public sector spending. For instance, to the degree that a private company collects and retains tolls or fees to operate and maintain a toll road or a municipal parking lot, the total revenues paid by end-users should be considered as part of public sector revenues, while the expenditure of these ‘other entities’ ought to be considered as part of public sector expenditures.

Another example might be a situation where a central line ministry contracts with a faith-based organization (FBO) or non-governmental organization (NGO) and delegates substantial service delivery responsibility—for instance, in health or education—to this entity. In many cases, the service delivery provider supplements the funding received from the higher-level government

with funding from other sources, such as donations and/or user fees. As such, the intergovernmental fiscal picture would be incomplete to the extent that public services are delivered by the FBO/NGO that are only partially paid for by the contracting government. In that case, this type

In each of these cases where private sector stakeholders, nonprofit institutions or others play a role in public service delivery and/or where there is substantial delegation of responsibility to NGOs (for instance, heavily reliance on NGOs in health and education service delivery) where non-trivial funding for service provision is contributed by others than the contracting government, it would be prudent to include these NGOs as ‘other entities’ in their respective sector.

6.2 Expenditures of other public sector entities

The selection and determination which ‘other entities’ to include in an InFER review—and which to exclude—is likely driven by a number of factors. Beyond the public sector nature of the entities’ functions, the financial relevance of the entities under consideration and the availability of their (aggregated) financial data are likely to be the main selection criteria. Whenever other entities make more than a marginal contribution to expenditures in the public sector or their relevant sector (i.e., more than 1-5 percent), it would be appropriate to include these entities in the InFER profile, if possible.

For instance, in many countries, the vast majority of water utility companies funding comes from water tariffs or user fees that are collected directly from households. These entities often contribute (considerably) more than 5 percent to the expenditures of the water sector, even beyond the transfers that they receive from central, regional, and local governments. As such, it would be prudent to include the revenues and expenditures of water utility companies in the quantitative ‘other entities’ segment of the InFER assessment.

Whenever possible, the finances of the ‘other entities’ that are selected for inclusion in the InFER review could be grouped with like-institutions and mapped to the functional category to which they belong. Additional worksheets may need to be inserted into the template in order to transparently account for the revenues and expenditures included under this category.

For instance, water utility revenues and expenditures may be included in the InFER tabulations as part of a grouping of ‘local public corporations’ under the functional category for water. The same group of ‘local public corporations’ may also include the spending of other local public corporations and extrabudgetary entities, such as road construction spending by local development authorities (which may be captured under the transport function).

Likewise, the revenues and expenditures of water user committees might be included in the water functional under the category ‘non-profit institutions’ in Worksheet 3c (*Other entities*). To the extent that School Committees might collect significant community contributions for the funding of locally-hired teachers, these funds could be recorded under the same category (non-profit institutions) on the line designated for the education sector.

Data availability. The aggregated financial data for different sets of ‘other’ entities or stakeholders may or may not be readily available. For instance, it may be possible that a water sector regulator collects and publishes the aggregated revenues and expenditures for all water utility companies in a country. In other cases, such data may not be available, and the assessor may choose to estimate the volume of revenues and expenditures that take place through a particular type of institution in a particular sector.²⁵ This may be an option when a (more or less) representative sample of revenues and expenditures is available for a certain type of institution. In doing so, the assessor has to weigh the accuracy of their estimates with the negative impact that the exclusion of expenditure estimate would have.

Avoiding double counting. Whenever a type of entity or organization within a country is identified and included in the InFER review as an ‘other entity’, it is important to prevent double-counting of its revenues and expenditures. How this is done may vary from case to case. In some cases, it may be easier to record and attribute only the ‘additional’ revenues and expenditures to the facility or other entity. For example, if health facilities’ operating expenses are part of their local governments’ budget, but the health facility maintains its own account for user fees paid by patients as well as receipts from (private and social) health insurance payments, it may be appropriate to only record the facility-level account as facility-level spending.

In other cases, it may make sense to record all revenues and expenditure from an ‘other entity’ in the InFER review at the corresponding level. However, to the extent that these entities receive subsidies or transfers from general purpose governments (or from other entities separately included in the review), the subsidies or transfers should be counted as intergovernmental or indirect expenditures (rather than as direct expenditures) for the giving government or entity. For instance, it may be the case that a faith-based organization provides \$50 million worth of health services funded through a myriad of sources, including the provision of \$10 million worth of health services provided in remote parts of a country based on a contract with the Ministry of Health. In that case, the nonprofit provider may be included in the review as spending \$50 million, while ensuring that the \$10 million grant or subsidy is recorded as an intergovernmental (or indirect) expenditure by the central government.

6.3 Revenues of other public sector entities

Funding flows to other entities. As noted above, whenever an entity is included as an ‘other entity’ type in an InFER review, transfers to these entities by their parent governments (or other government levels) should no longer be considered a direct expenditure on the side of the parent government. Instead, transfers to these entities ought to be recorded in the parent government’s budget as an indirect expenditure. On the receiving end (i.e., on the part of the receiving entity), the revenue should be recorded as an intergovernmental revenue.

The own revenues of public corporations and other public institutions. The revenues of public corporations and other public institutions are often overlooked by profiles of intergovernmental

²⁵ In this case, the narrative part of the InFER review would obviously describe the process that was used to arrive at the spending estimate.

finances, especially to the extent that such public corporations are owned or controlled by subnational governments.

For instance, health centers may collect health fees or user charges—and receive public or private insurance payments—that are not recorded in the budget of the parent government, and thus, are excluded from consolidated subnational financial reports). Similarly, local water utility companies often collect tariffs or water user charges that are not incorporated in intergovernmental financial assessments.

To the extent that parastatal companies, utility companies, or frontline facilities derive a significant share of their revenues from fees, charges, or contributions by households and businesses, the failure to include such own source revenues in the intergovernmental fiscal review could be quite detrimental.

7. COMPLETING THE InFER TEMPLATE: DISAGGREGATED SUBNATIONAL FINANCES AND RESULTS

As noted in earlier sections of this handbook, a review of the vertical allocation of public sector finances is a necessary—but not sufficient—step in assessing a country’s intergovernmental fiscal system. In addition, reviewing the horizontal allocation of public sector expenditures and revenues is an important step in understanding a country’s intergovernmental system.

Reviewing and understanding the horizontal allocation of public sector resources by function, along with the results that are achieved in different regions and localities, is a necessary input to promote transparency, equity, efficiency, and accountability in any multilevel governance system. Such analyses are performed to varying degrees in most OECD countries, and in many countries in Latin America. This practice is less common in other global regions.

In fact, not all countries collect or consolidate data on subnational finances and intergovernmental funding flows—for each public sector function—in a territorially disaggregated manner. Likewise, in many countries, policy makers lack territorially (regionally or locally) disaggregated information on the inputs (e.g., facilities, functionaries), outputs (e.g., clients served), or development outcomes (impacts) in different sectors.²⁶

While this data is critically important for evidence-based decision-making, it is not unusual for such data to be withheld from the public, even if it is available to central policy makers. Similarly, such data may be available within limited circles (e.g., within a sector ministry), but may not be shared widely with other public officials and decision-makers (e.g., Ministry of Finance, Cabinet, Members or Parliament).

The availability of data is often limited as much by political economy constraints as by technical or practical (capacity) constraints. After all, there could be major negative political consequences if horizontal allocation data or analyses were to show an inefficiency or inequitable horizontal distribution of resources, or if such analyses would show that a disproportionate share of resources is being directed to places that are politically favored, while resources are being withheld from localities where service delivery needs are high—but which are politically not favored.

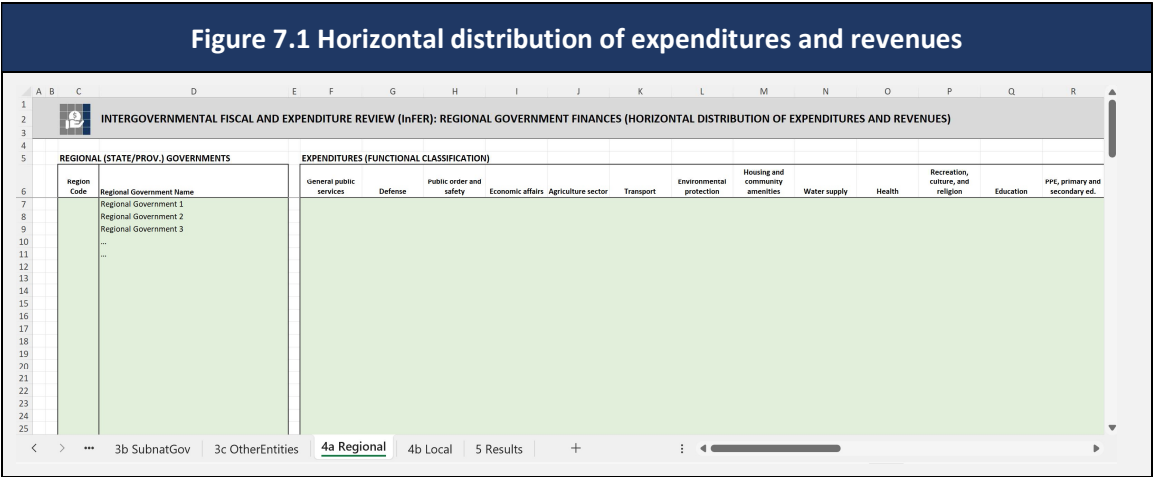
As discussed in Section 3.5 of this Handbook, to the extent that disaggregated subnational expenditure data is available, it will be important to analyze the extent to which expenditures for a specific public sector function vary across regional or local jurisdictions. Such analysis is typically done in per-person or per capita terms (rather than in total expenditures or in nominal terms), as

²⁶ As further discussed as part of LPSA’s PROMOTE framework, in decentralized countries, local governments or local administration units should also be aware of the territorial distribution of funds to different wards and facilities within the local jurisdiction.

a regional or local jurisdiction’s residents are the ultimate recipients of subnational public services. While we don’t expect the public sector to spend exactly the same amount per resident in each region or locality for a specific function or service, we would expect (or hope) that the variations in per capita expenditures are driven by policy factors (such as higher demand or higher cost) rather than by political factors or by historical factors and inertia.

7.1 Completing InFER regional and local government finance data

Worksheets 4a (*Regional*) and 4b (*Local*) seek to capture the revenues and expenditures of regional and local governments in a way that is disaggregated by region and locality, respectively (Figure 7.1). The expenditure and revenue categories included in these worksheets mirror the functional categories, economic classifications, and revenue categories used in the earlier fiscal tables.



Whether it will be possible to complete these worksheets will depend on the availability of sufficiently accurate and consistent disaggregated subnational fiscal data.

In many countries, regional or local government data reflects only general government revenues and expenditures, reflecting only the transactions made as part of general funds under the control of the regional or local government. In rare cases, subnational finance accounts—as tabulated by the higher-level government—may also include transactions on non-general-fund accounts, including public corporations and other entities owned or controlled by the subnational governments. It is important for the narrative accompanying the quantitative analysis to clarify the extent to which financial accounts are inclusive or exclusive of the revenues and expenditures of dependent or extrabudgetary subnational public institutions (e.g., subnational public corporations, subnational facilities, and so on).

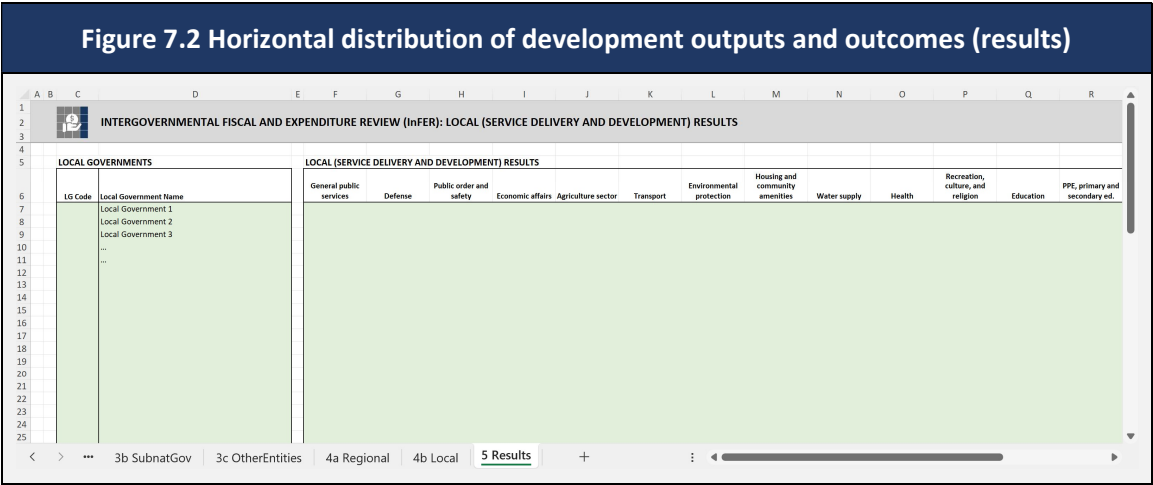
Depending on the nature of the analysis and the availability of data, the functional expenditure categories may be used to report either **total** subnational expenditures by function (including

intergovernmental and other indirect expenditures) or **direct** subnational expenditures by function.²⁷

To the extent that regional and/or local government expenditures and revenues are available (and broken down consistently across the relevant functional areas and/or economic classifications), it is important to ensure that the disaggregated subnational expenditure totals align with the aggregated expenditure totals in Worksheet 3b (*SubnatGov*).

7.2 Completing InFER regional and local results data

The final worksheet in the InFER template—Worksheet 5 (*Results*)—seeks to capture the main performance or “results” of the public sector in a spatially disaggregated manner (Figure 7.2). Depending on the availability of data, results should be captured at the most spatially disaggregated level possible (i.e., local governments, if possible). The results table follows the functional categories specified by the user in the classifications table.



The assessor is asked to select the most appropriate public sector output or outcome indicator available for each function or sector. In many cases, this may be the total number of clients or households served by the public sector within each local (or regional) jurisdiction. In other cases, the results indicator may capture alternate measures of the quantity or quality of services provided (e.g., number of students passing a school-leaving examination; average number of hours of water services provided each day), or even outcome indicators (e.g., literacy rate or infant mortality rate). If numerous results indicators are available for a sector, these may be captured in a copy of the results worksheet.

²⁷ Given the limited likelihood of extensive intergovernmental expenditure by local governments, preference may be given to recording total subnational expenditures. If both total and direct subnational expenditure data is available for all functions, the worksheet could be duplicated so that both may be recorded.

Results data should be used, whenever possible, to determine where service delivery results are better compared to other regions or localities.

It should be noted that the impact of public sector interventions often varies across different subnational jurisdictions. These variations may be due to variations in public sector spending and efforts across the national territory. Given that public services are often co-produced by the public sector, private sector, and households, differences in development progress across the national territory may also reflect variations in other factors, including factors beyond the government's control. For instance, education outcomes and health outcomes are often determined not only by the quality of public schooling or public health services, but are also often heavily influenced by variations in socio-economic characteristics in different localities. More advanced empirical techniques may be pursued to explore the determinants of variations in local performance.

Similarly, the disaggregated results data should be used—whenever possible—to determine the value-for-money that the (local) public sector provides to its constituents in different jurisdictions, for instance, by computing and presenting the ratio between the amount of local sectoral spending and the number of clients served. This reveals how much the public sector pays—on behalf of its citizens or constituents—for the provision of specific services in different sectors.

Regional or local cost variations. To the extent that value-for-money may be captured as the ratio between subnational expenditures and the number of clients served (or a similar indicator), it may be necessary to consider the role of regional or local cost variations. Although the primary measure of value-for-money ought to be expressed in nominal (per capita or per client) terms, it may be useful to also consider per client spending in cost-adjusted terms. This would be especially relevant in contexts where urban areas tend to have substantially higher costs of service provision, or where a country has considerable inter-regional variations in the costs of delivering public services.