

WORLD BANK EXPERIENCE WITH SPENDING REVIEWS

**“Spending Reviews as a Tool to Strengthen Fiscal Governance”
April 3-4, 2024, Vienna, Austria**

Outline

1. Institutional structure
2. Approach
3. Implementation
4. Timeline
5. Overcoming challenges
6. Technical support
7. Conclusion



1. Institutional structure of the Spending Review (SR)

INSTITUTIONAL SET-UP

SR success requires high-level political ownership. How it is ensured depends on country context and type of SR.

Approval of topics and final decision are mostly taken at a high level, approval of terms of reference at a lower level.

SRs on several topics tend to require higher level approval than a SR focused on one topic.

Bulgaria

	Approval of SR topics	Approval of terms of reference	Final decision on SR report
Cabinet / Prime minister	X		
Minister of finance jointly with line minister			X
Minister of finance			
Steering Committee		X	
SR Secretariat			
Other			

Poland

	Approval of SR topics	Approval of terms of reference	Final decision on SR report
Cabinet / Prime minister			
Minister of finance jointly with line minister			
Minister of finance	X		X
Steering Committee		X	
SR Secretariat			
Other			

SOURCE: WORLD BANK STAFF

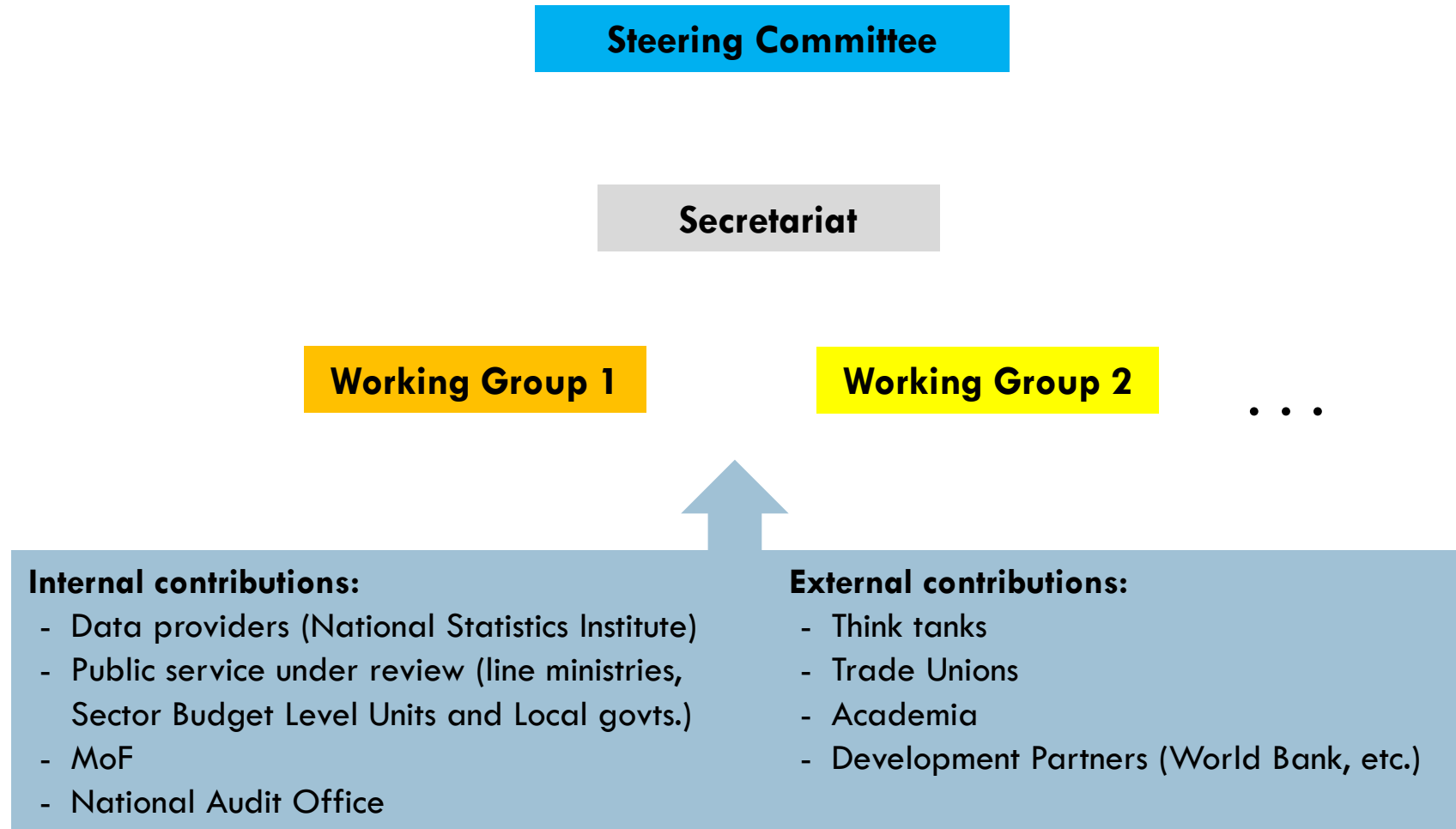
Croatia

	Approval of SR topics	Approval of terms of reference	Final decision on SR report
Cabinet / Prime minister	X	X	
Minister of finance jointly with line minister			
Minister of finance			X
Steering Committee			
SR Secretariat			
Other			

Turkish Cypriot Community

	Approval of SR topics	Approval of terms of reference	Final decision on SR report
Cabinet / Prime minister			
Minister of finance jointly with line minister			
Minister of finance	X		X
Steering Committee		X	
SR Secretariat			
Other			

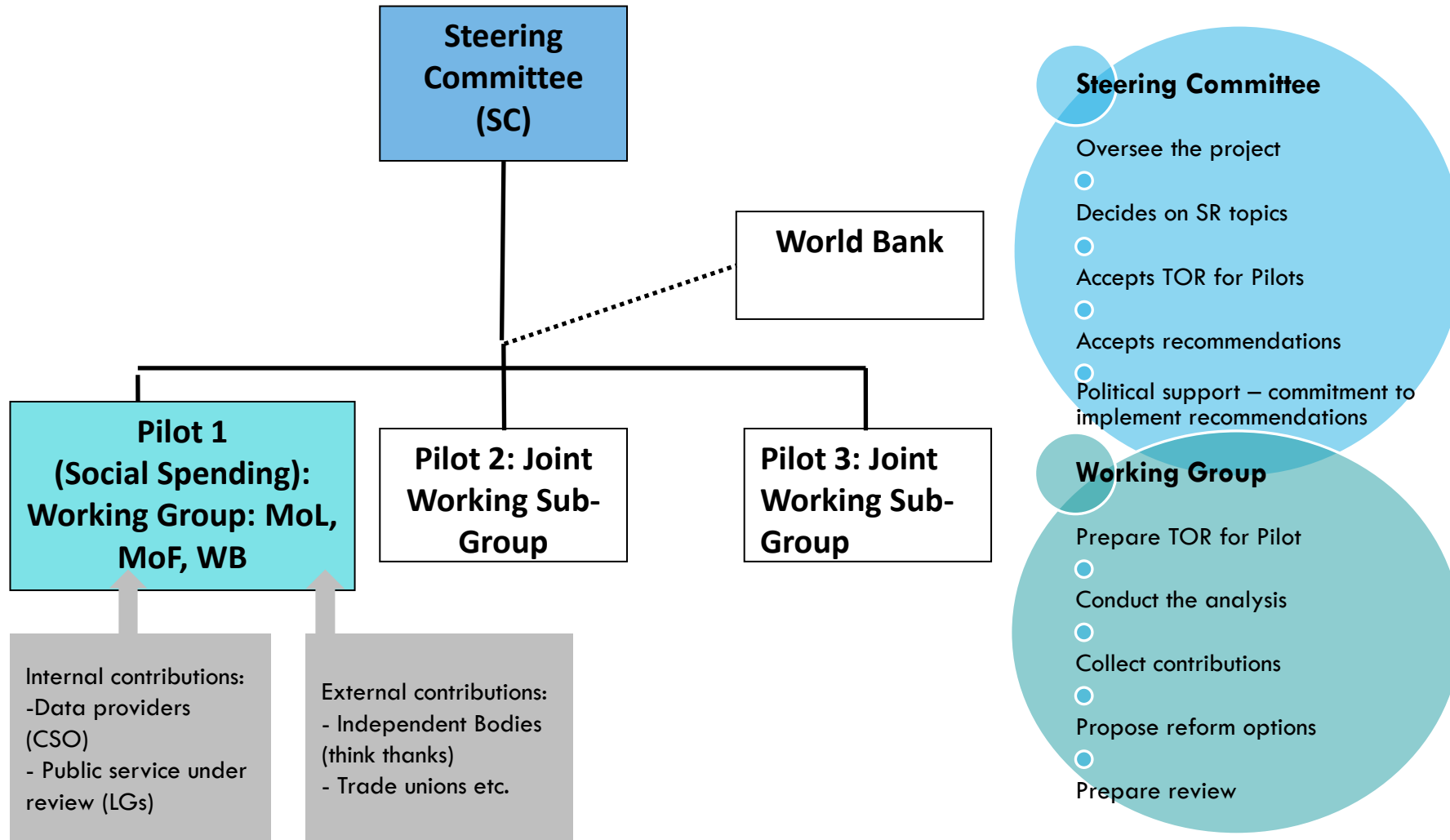
INSTITUTIONAL SET UP



FUNCTIONS AND MEMBERSHIP OF THE SR BODIES

	Function	Membership (examples)
Steering Committee	Submits recommendations / policy options for High-Level Govt.'s consideration	Deputy Minister of Finance, senior MoF staff (economic policy, budget and expenditure depts.), and responsible line ministries
Secretariat	Provides advice to WGs on their tasks, reviews progress, and submits recommendations to Steering Committee	Small team integrated by senior MoF staff
Working Groups	Conducts analysis, prepares reform options within the defined target savings and other qualitative recommendations	Chaired by SR Leader (MoF staff under direction of a senior MoF official). Members are civil servants and independent experts: technical, planning, and budgeting staff of MoF and relevant line ministries (budget analysts, internal auditors, strategic units, etc.), local govt. representatives (if relevant) & external experts (auditors, consultants, academia).

STRUCTURE FOR OVERSIGHT OF SR - POLAND



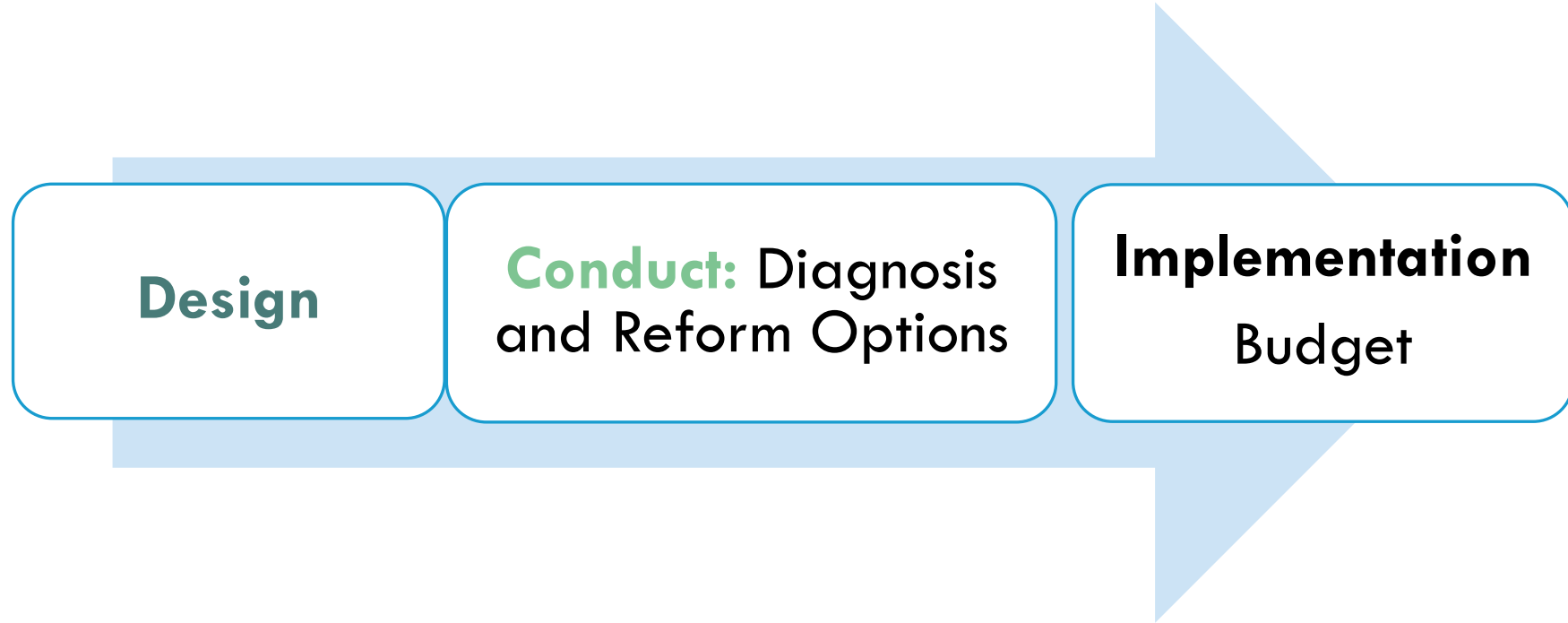


2. Approach

SR ROADMAP



PLAN



DESIGN: TERMS OF REFERENCE: KEY ELEMENTS

- ❑ Background and Rationale
- ❑ Scope: policy field and total expenditures under review
 - Selection of subjects is part of negotiation between line ministry and MOF
- ❑ Description of what at least one policy option must entail
 - Could be a reduction of spending by a certain percentage, reduction in spending growth, suggestion to improve effectiveness and efficiency of spending, or a combination
- ❑ Composition of the working group
- ❑ Date by which report needs to be completed
 - Timing should be anchored in budget preparation process: i.e. Reports finished just before start of budget negotiations in spring

Selection of topics for the SR

Criteria: It is advisable to focus on areas where there is significant public spending.

Topics covered in World Bank supported SRs in Bulgaria, Croatia, Cyprus and Poland:

Bulgaria: 1st SR reviewed spending patterns of ministries to identify large spending outliers. 2nd round reviewed spending on policing and firefighting (Ministry of Interior) and municipal spending on waste management.

Poland: 1st SR focused on review of family and social assistance benefits, 2nd on Budget Rigidities, while 3rd on Regional spending on Long Term Care.

Croatia: 1st SR reviewed public sector wage bill, non-agri subsidies, health care spending, operational costs of agencies, institutes, funds and other legal entities with public authorities, and tax expenditures.

Turkish Cypriot Community: SR reviewed how to increase fiscal space by enhancing revenues and cutting spending in key line ministries and on the public sector wage bill.

SPECIFY WHAT ARE THE QUESTIONS THAT THE SR WILL ADDRESS

1. **Effectiveness:** *To what extent does the activity/program meet its stated objectives?*
2. **Allocative efficiency (alignment):**
 - Is the activity still needed?*
 - Is the activity in line with government strategies or priorities?*

Slovenia (2015)

Effectiveness:

- To what extent does the activity achieve its objectives?

Allocative efficiency:

- Is the activity aligned with the priorities of government?
- Are there other ways to achieve these objectives?

Source: World Bank (2018).

SPECIFY WHAT ARE THE QUESTIONS THAT THE SR WILL ADDRESS (CONTINUED)

3. **Spending efficiency:** *Can the activity deliver the same output at a lower cost?*

4. **Functional coherence:**

- *Are there duplicative or inefficient functions that would lead to savings?*
- *Is the functional set up of the sector/program/entity conducive to achieving savings target?*

Slovenia (2015)

Spending efficiency:

- Are there measures which can improve the efficiency of the activity?
- Is there room to improve service delivery and simplify administrative arrangements?
- Can the activity be better targeted?
- Is it possible to subcontract or involve non-state providers at a lower cost?

Functional coherence:

- Are there any overlaps or duplication with other activities?

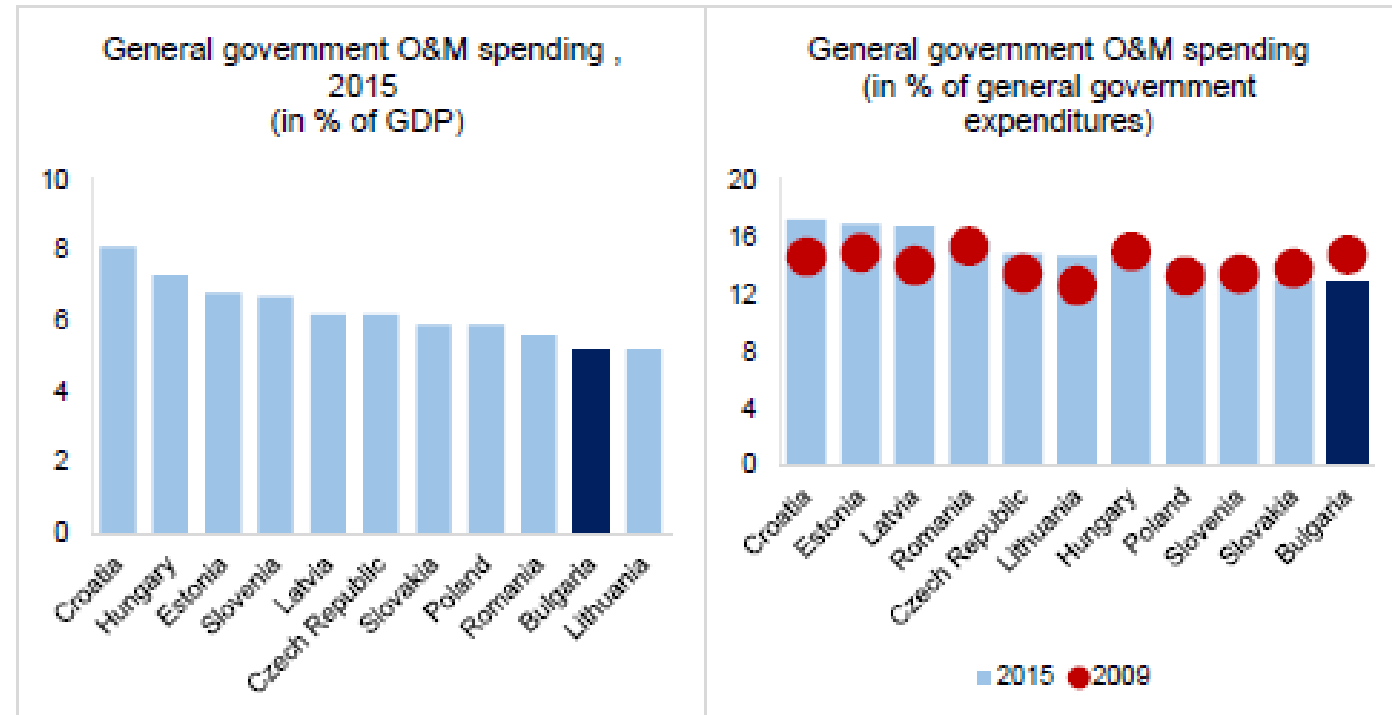
SELECT TYPE OF ANALYSIS AND DATA NEEDED TO ADDRESS THE QUESTIONS

Countries do not tend to carry out new surveys or collect new data for the SR.

World Bank can provide a manual for SRs with the list of different analyses, and data needed for each.

EXAMPLES – Benchmarking and Time Series

Bulgaria's spending on operations and maintenance is low internationally because its share in total spending has fallen over the previous 6 years unlike in other countries.

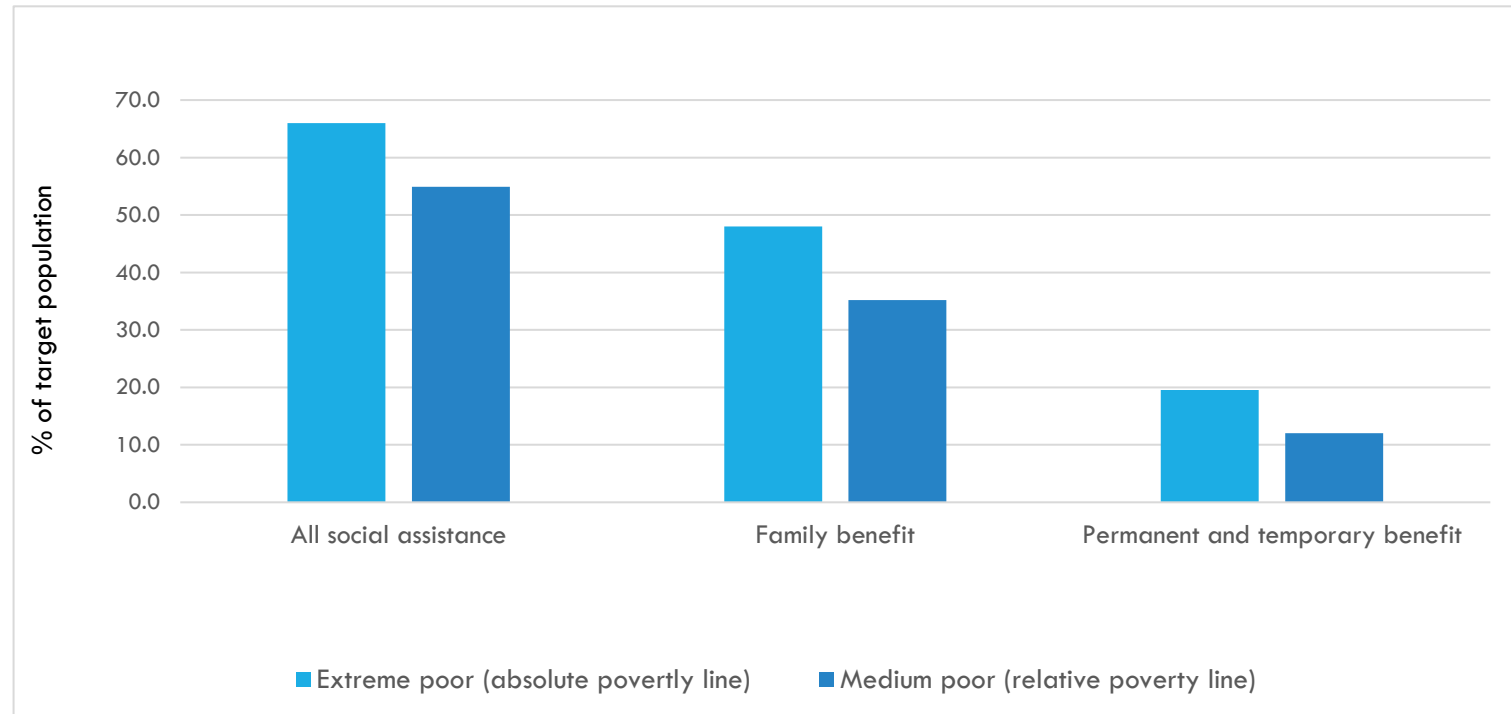


Source: World Bank (2018) based on Eurostat.
Note: O&M refers to operations and maintenance.

SELECT TYPE OF ANALYSIS AND DATA NEEDED TO ADDRESS QUESTIONS (CONTINUED)

EXAMPLE 1 of effectiveness of policies: Used to assess how effectively are resources being used on service delivery

Coverage of social protection policies in Poland

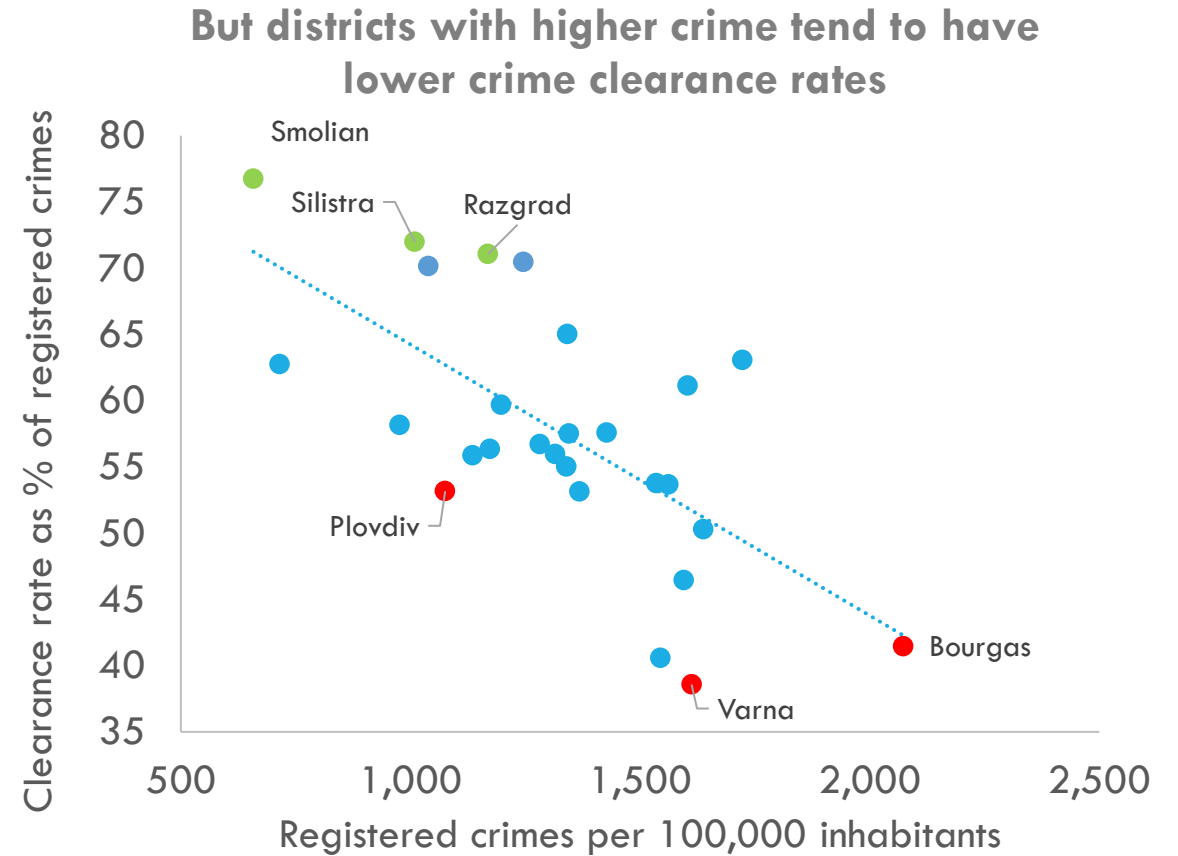
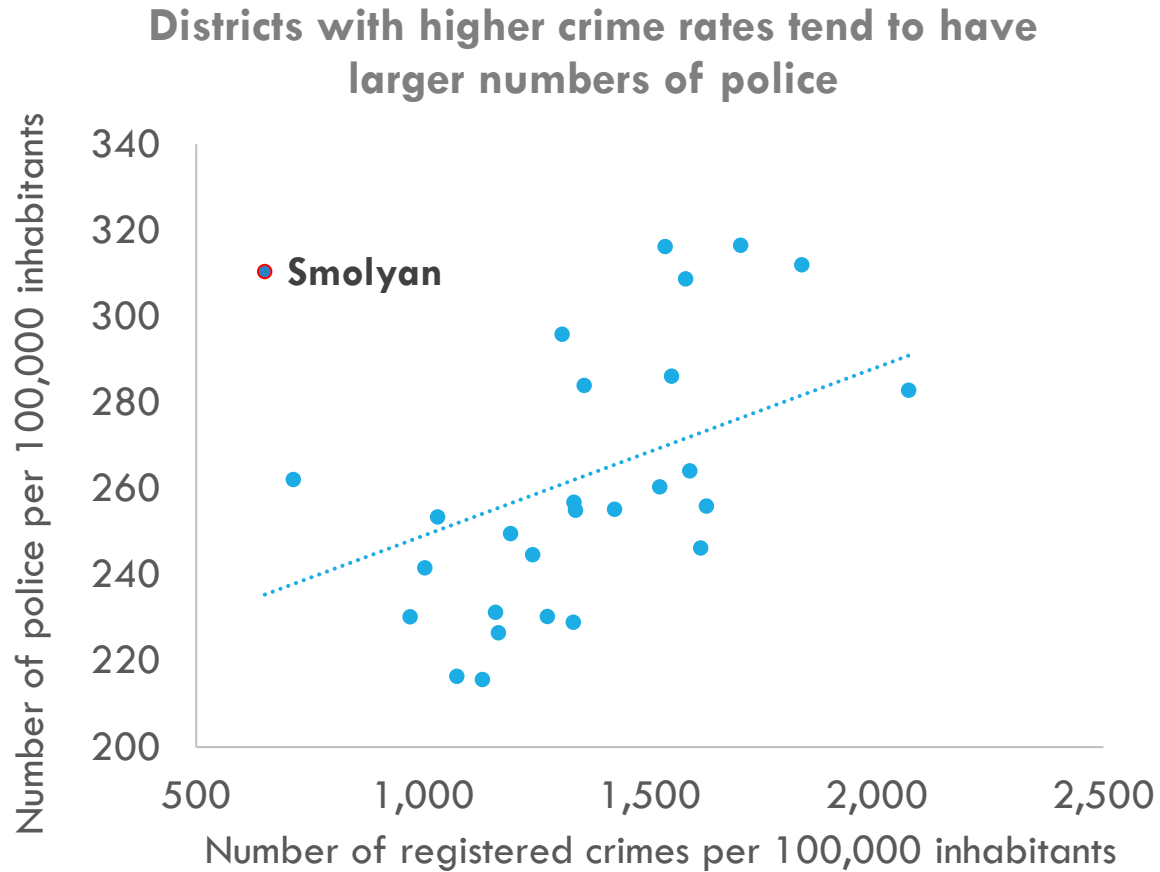


The family benefit and the Permanent and temporary benefit reach a small share of the intended population.

Source: Poland Spending Review (2015).

SELECT TYPE OF ANALYSIS AND DATA NEEDED TO ADDRESS QUESTIONS (CONTINUED)

Example 2 - Bulgaria: spending effectiveness across districts. Districts with more crime have more police, but lower crime clearance rates. This suggests police could be more effective at resolving crime.



Source: World Bank calculations based on MOI.

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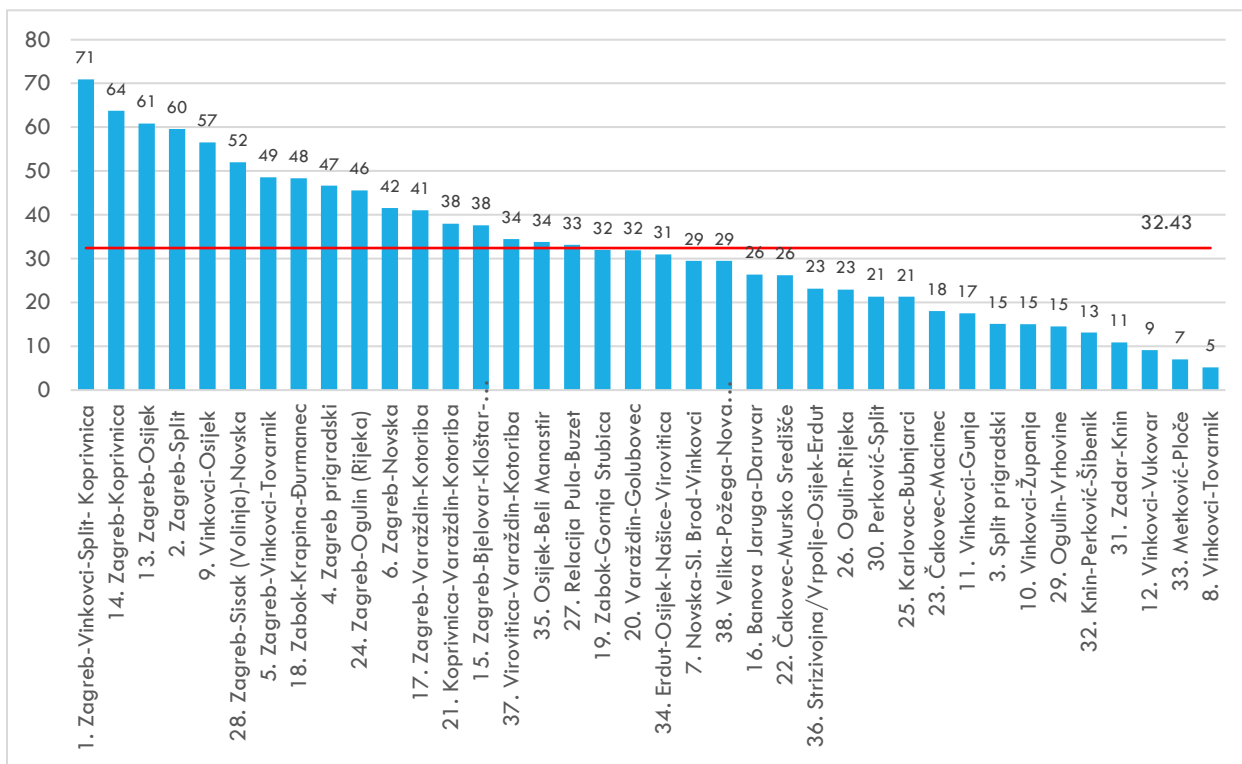
Note: Registered crime is not the perfect measure of actual crime, as some crime may not be reported. Since a better alternative is not available, this is the most common crime indicator.

Select type of analysis and data needed to address questions (continued)

Example 3 - Croatia: spending effectiveness

Croatia: Operating expenses coverage with revenues per rail line, HRK, 2014

Croatia: Ticket price and travel time per selected lines, 2015



Line	HŽŽP ticket price (HRK) (Fast train/IC)	Bus ticket price (HRK)	Travel time (Fast train/IC)	Bus travel time
Zagreb – Osijek	138.80/149.80	127.00 – 143.00	4.07 h	4.00 h
Zagreb – Rijeka	118.10/129.10	86.00 – 155.00	3.50 h	2.30 h
Zagreb – Split	197.00/208.00	146.00 – 196.00	6.15 h	5.00 h
Zagreb – Vinkovci	129.80/140.80	156.00 – 161.00	3.29 h	4.15 h
Zagreb – Varaždin	71.60/82.60	65.00 – 87.00	1.55 h (Koprivnica), 2.08 (Zabok)	1.20 h

Source: Central commission for conducting an in-depth analysis of the Republic of Croatia state budget expenditures



3. Implementation

THE IMPORTANCE OF MONITORING FOR RESULTS

Who tends to be responsible for monitoring?

Monitoring implementation of SR decisions is the responsibility of relevant ministry in co-ordination with MoF. They keep ministers informed of implementation progress. E.g.: Slovak Republic and UK.

Have SRs successfully reduced budget deficits?

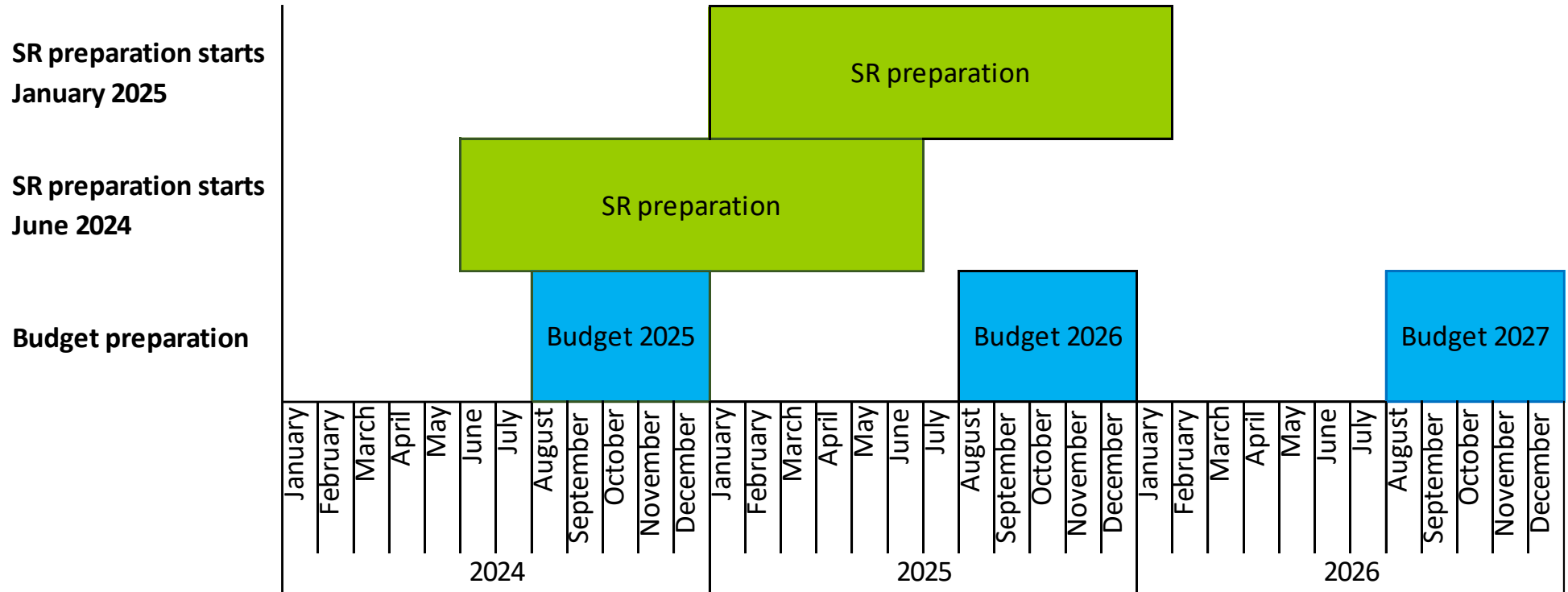
An SR facilitates the political process to carry out budget cuts because it provides information on how to make the cuts in a rational manner and provides analysis of different options.

The extent of the reduction in budget deficit is ultimately a political process, and inevitably only a small share of SRs recommendations are generally implemented.



4. Timeline

Timeline of a SR – An example





5. Overcoming challenges

CHALLENGES

- **“Our country is different”**: To address this usual reaction to international benchmarking, select appropriate comparator countries and use also domestic benchmarking (e.g., compare regions, ministries, etc.).
- **Opposition to reform**: Emphasize cost of not doing anything (e.g. Bulgarian pension not sustainable without reform) and point out “islands of excellence” within country. Emphasize that SR objective is value for money, rather than savings per se (savings can be reallocated)
- **SR “can’t see the forest for the trees”**: ERs that have too many descriptive statistics, no links between the different findings, no clear storyline, and no specific recommendations are not informative.
- **SR report is not completed in time to inform budget discussions**: Need to balance scope of the report with the timeline and consider phasing the work across several SR exercises.
- **MoF staff are not sufficiently involved in the SR**: To ensure strong engagement of MoF staff and the building of capacity, it is important to free up MoF staff time, assigning some staff on a full-time basis and others on a part-time basis.
- **Line ministries are not sufficiently involved in SR**: Rely on internal auditors, strategy preparation and budgeting teams from line ministries, report back on findings to the head of institution/Minister to collect feedback early.
- **Lack of strong support from the top leads to recommendations not being followed up**: High level ownership is required to overcome initial resistance to reform. Integrate SR into the budget.
- **Implementation requires buy-in**
- **No monitoring of implementation**: Important to set up a monitoring system to ensure agreed SR findings are implemented.



6. Technical support for the SR

World Bank engagement in SRs

World Bank (WB) has worked on SRs in more than 75 countries over the past 5 years.

Two types of involvement:

- a) WB performs the SR on behalf of the country
- b) WB co-leads the SR with government so that government teams learn the process and methodologies with the objective of govt. performing SRs on its own in the future (*Croatia 2014/2015; Poland 2015/2016; Colombia 2016; Vietnam 2017*).

Advantages of having the WB as a partner in institutionalizing SRs

- WB can advise on the organization of the SR: WB can work with MoF Secretariat, SR Steering Committee, and Working Groups to develop the SR Framework and Terms of Reference
- Supports the design of the SR based on government interests
- Brings international knowledge on data tools and conducts analysis together with government officials: **international/domestic benchmarking, interviews, and field visits**
- Builds capacity: WB helps **organize peer-to-peer training workshops, shares analytical methodologies, and helps develop manuals based on the country experience**
- Quality control: Supports SR Steering Committee in the review of outputs/final report.

PROVISION OF TECHNICAL SUPPORT ONCE SR IS INSTITUTIONALIZED

Some countries, like Ireland, Slovakia and South Africa, have established a separate permanent unit within MoF that is responsible for carrying out SRs.

This is motivated by a fear that MoF officials would be too overwhelmed by day-to-day budget work to devote adequate time and effort to the SR.

Technical unit should collaborate with MoF staff with budget expertise to avoid the unit losing touch with the budget process.

7. CONCLUSION

SR success requires high-level political ownership, secured and communicated before process begins

Clear mandate in terms of approach, objectives, scope, and time horizon

Detailed guidelines & responsibilities defined, establishment of SR groups with assigned leaders, and a well-defined deliverable for the SR

Active engagement of MoF and line ministry management and operational staff. Sufficient time and resources dedicated to the process, not forgetting broad capacity-building

Focus on reform options, specifying likely costs, possible risks, and a timeline. Choice of reform options needs to be made by senior decision makers

Monitoring implementation is the responsibility of relevant ministry in co-ordination with MoF

Communicate on objectives, process, results and decisions.

World Bank can support development of SRs and their institutionalization.

Thank You

