



WORLD BANK GROUP

Expenditure Reviews Objectives, Approaches and Recent Trends

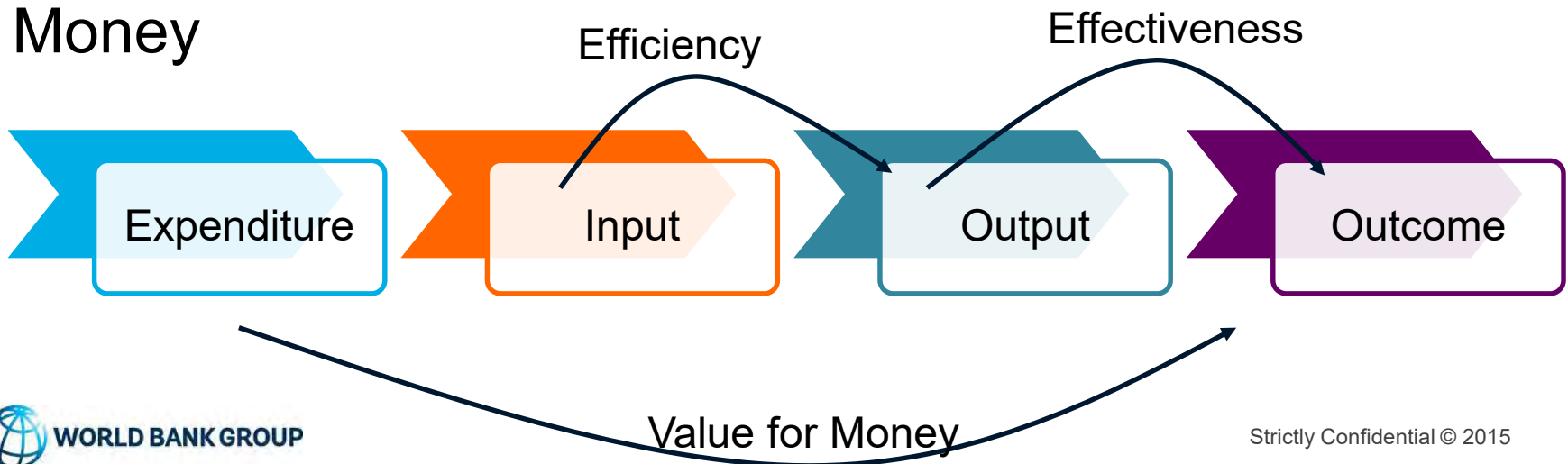
**Rafael Munoz
Economic Coordinator for Brazil
May 2018**

Outline of Presentation

1. Objectives of Expenditure Reviews
2. Design Issues
3. Five lessons from Success and Failure
4. Summary observations

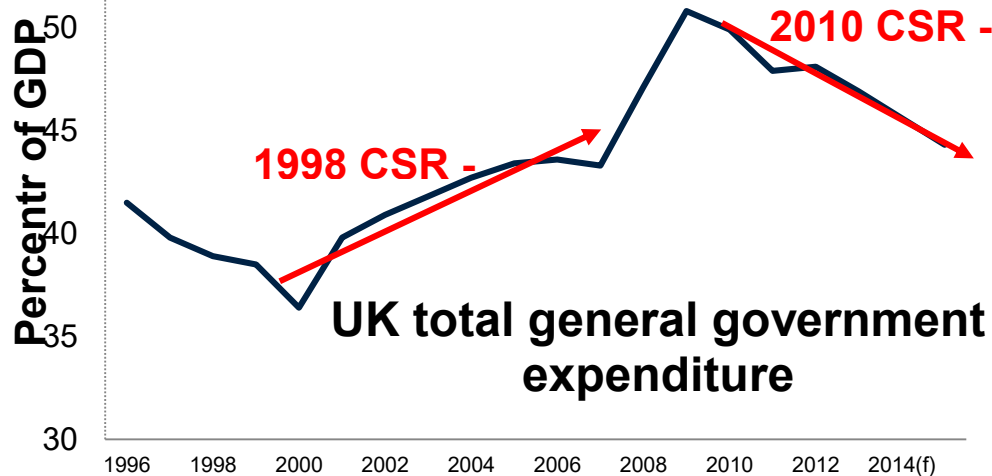
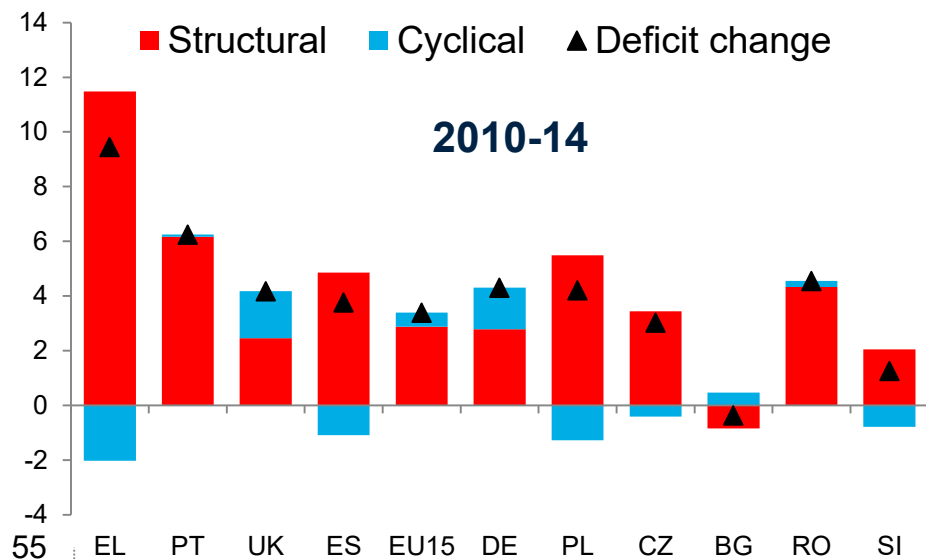
1. Expenditure Reviews (ER)

- ER – instrument for public savings
- Focus on existing expenditures (not new) and combine breadth (comprehensive) with depth (selective)
- ER Goals, to:
 - define and measure public intervention and its impact
 - provide evidence on whether a public intervention is a success or failure
- ER criteria: (i) Effectiveness; (ii) Efficiency; (iii) Value for Money



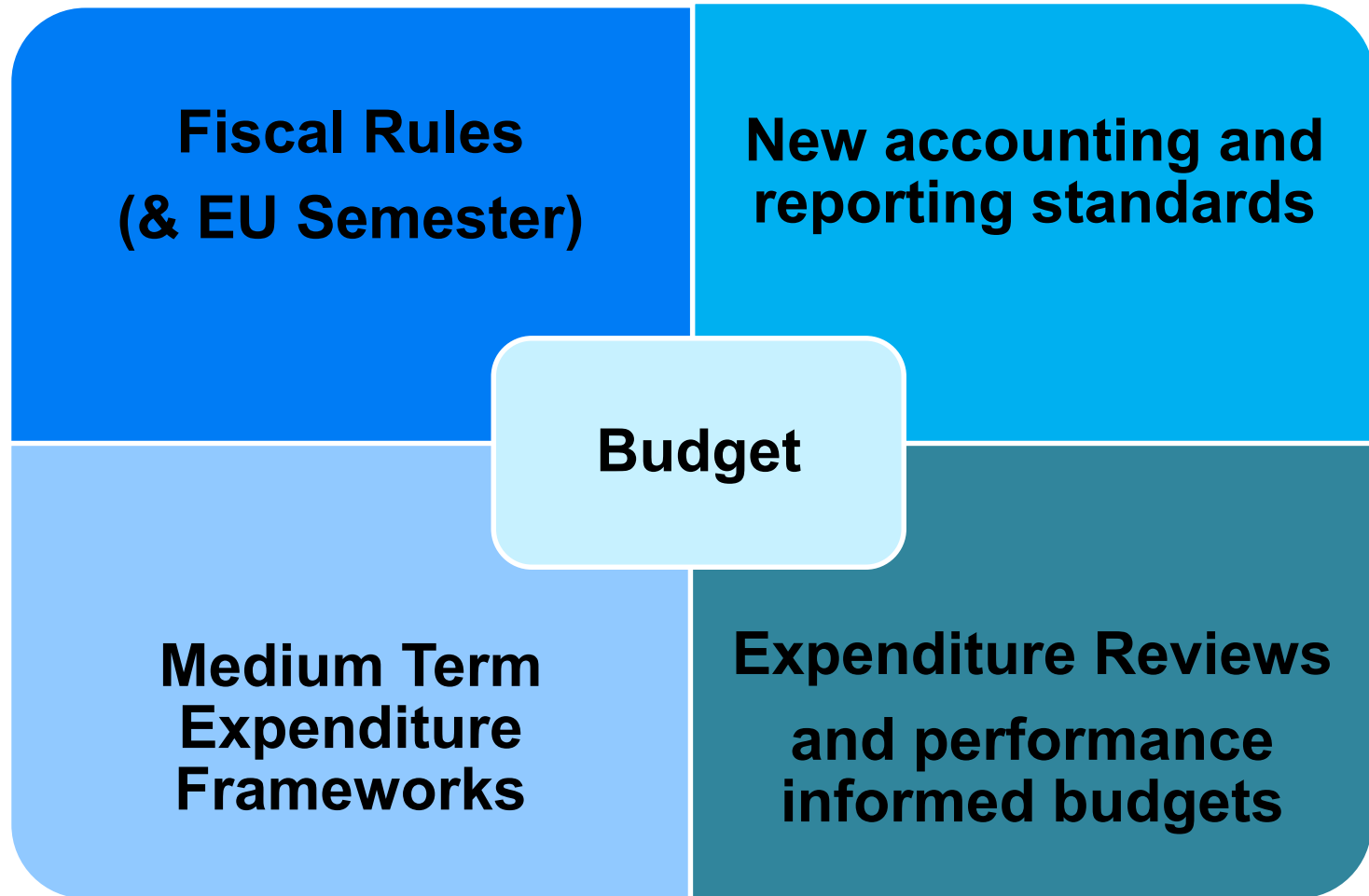
Fiscal context – need for structural savings

- Many countries have managed significant deficit changes through structural reforms
- Though expenditure reviews have been used in very different contexts



2. Design issues

Reforms have focused on strengthening the Budget as a public policy tool

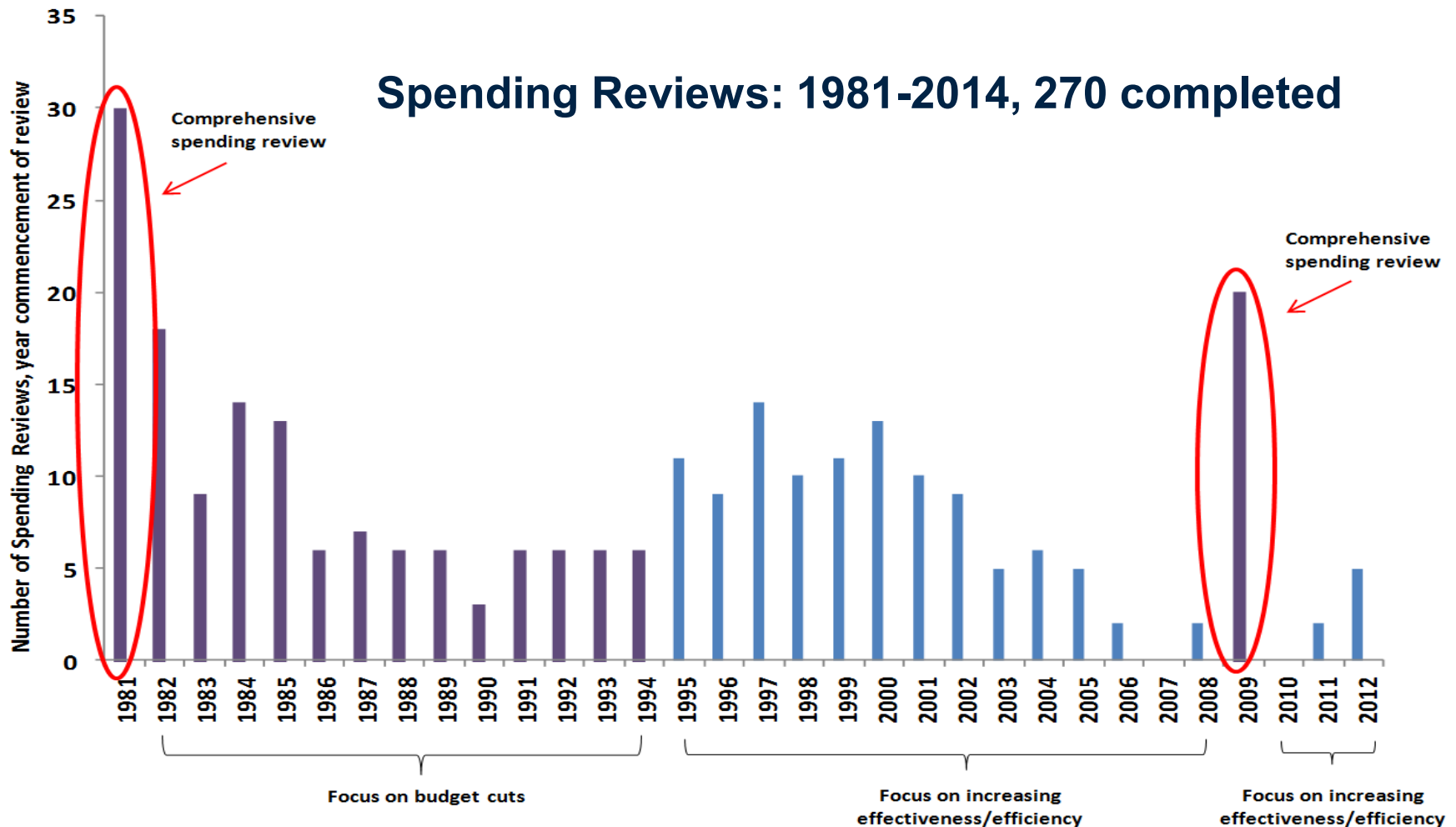


2b. Range of Approaches

Basic expenditure review models...

		SCOPE	
		Targeted	Comprehensive
FREQUENCY	Annual	Strategic Reviews: Australia: 2007- Spending Reviews: Netherlands 1981- Program Evaluations: Korea: 2006-	Zero Base Budgeting: USA: 1970s Activity-Based Costing: USA: 1980s
	Periodic	Value for Money Reviews (Various NAOs) UK Spending Review (UK: e.g. 2011 Defense Review)	CSR: UK 1997-, Australia 2007 Netherlands, 1981, 2009 Program Review: Canada 1994-98 Expenditure Review: Ireland 2011- RGPP: France 2008

Example: Netherlands Spending Review Reports



Basic questions to be asked in a ER – the Challenge



1. What do we do?

2. What are peoples needs and expectations?

3. Do we need to continue to do it ?

4. Who should do it ?

6. Who should cover the costs ?

5. How can we do this better and for less money?

7. How should we go about change ?

révision générale des politiques publiques

www.rgpp.modernisation.gouv.fr



Lesson #1: UK Spending Reviews are driven more by the Government

- The Finance Ministry (HMT) controls the timetable and parameter setting – major advantage
- Setting key parameters at the start manages expectations and provides certainty for Ministries and markets
- The negotiation around the margins. HMT sets headline budgets at spending reviews – line ministries have to plan the detail after the review
- Planning ahead – start work early on the next review

Political input is needed to establish priorities, but isn't the only driver

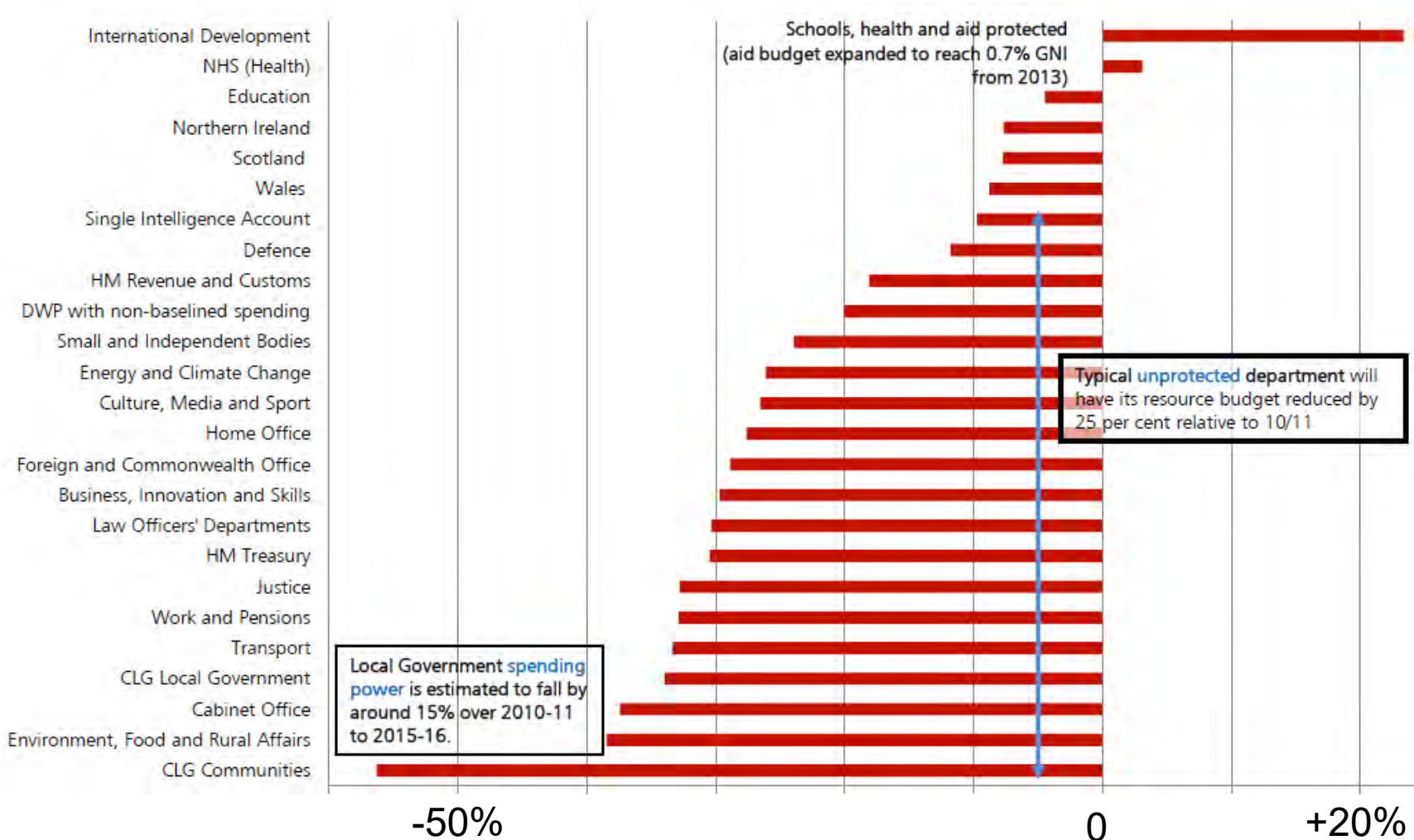
Dutch approach:

- Independent, non-political working groups (high-level civil servants and external experts);
- Reports have an objective, analytical, non-political status
- Clear distinction between reports and political decisions:
 - Reports describe options and their impact
 - Cabinet is principal of expenditure review, sends report to Parliament, proposes policy changes in response to ER

Lesson #2: Set clear targets and costing options

- Ministry of Finance usually sets the baseline:
 - New programs are normally dealt with separately
 - Clear methodology for costing is needed
 - Recognize underlying spending pressures
 - Guidance on ‘discretionary’ versus ‘non discretionary’, admin and capital spending
- Preventing ‘gaming’: options must be specific and realistic
 - Specific—measureable, costed, schedule for actions
 - Technically and politically feasible?
 - Beware of backloading results, spending today for promised savings tomorrow, or simply cutting capital spending

UK: Reductions in departmental spending



Percentage real-terms cumulative RDEL baseline reduction from 2010-11 to 2015-16

Lesson #3: Expenditure Reviews integrated with annual and medium-term budget frameworks

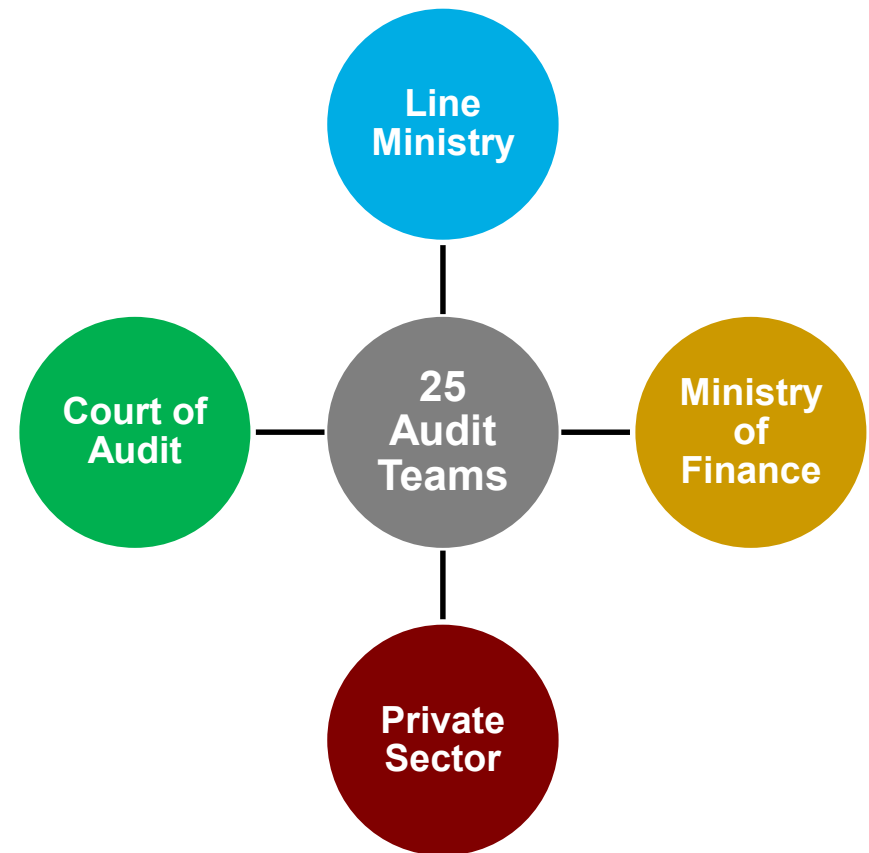
1. Policies are implemented through the budget, so calendar of review often links to the subsequent budget cycle
2. Sustainable structural reforms often take time to implement
 - Can set a trajectory for reform to be monitored and adjusted through successive budgets
3. Link to MTEF allows more ambitious savings to be realized
4. Avoids doing a Comprehensive Review annually which leads to:
 - a. Reform fatigue – ERs are data and capacity intensive!!
 - b. Expectation that the outcome will be reopened

Lesson # 4: Combine external expertise with internal knowledge

Expenditure Review Players

Actor	Strength	Weakness
President / PM's Office	Political commitment	Limited fiscal expertise
Ministry of Finance	Overview of public finances	Limited sectoral expertise
Line Ministries	Knowledge of their sector	Status quo bias
Outside Experts	Challenging ideas	Ignorance of public sector
Parliament	Legitimacy	Protective of constituency

France's RGPP Audit Teams



Lesson #5 – Building and embedding a culture of appraisal and evaluation will take time

- Expenditure Reviews require a range of tools and data
 - Performance budgeting
 - Economic Appraisal
 - Additional Evaluation
 - Programs and outputs of the right quality
 - Better data
- This can lead to a proliferation of measures and reporting fatigue
- Therefore, need to focus on where impact maybe highest
- It needs to be part of a broader effort on policy and program evaluation

Summary observations on success & challenges

1. Establishing clear Policy Priorities
 - Political input is needed to establish priorities, but within realistic constraints (but what about independence and elections?)
2. Set clear Spending parameters and establish trajectories
 - Central Finance Agencies set the overall spending parameters, but often with options for line ministries
 - Savings targets can be a useful anchor, if backed by deeper analysis
3. Integrate Expenditure Reviews with budgets and MTEFs
 - Relies on different levels of expenditure analysis
 - Line ministries have information and knowledge, no one size fits all
4. Consider capacity and independence
 - Combining external expertise with internal knowledge is challenging
5. Delivering Better Outcomes takes time and effort
 - Need to set realistic performance trajectories
 - Be part of a broader policy evaluation culture



WORLD BANK GROUP

MACROECONOMICS AND FISCAL MANAGEMENT

Thank you

