



Country Cases: Thinking about spending reviews in EU new member states (NMS): design choices



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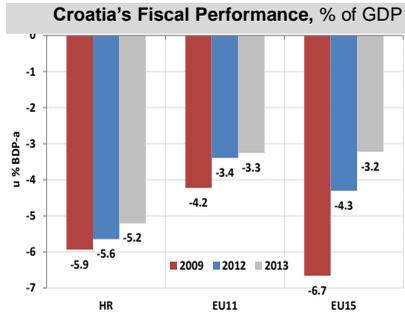
Outline of Presentation

1. Objectives of Spending Reviews in NMS
2. General design Issues in NMS
3. Four design issues in NMS
4. Summary observations



Global crisis exposed macroeconomic imbalances e.g. Croatia

- Output loss over the last five years - 12% of 2008 GDP
- Unemployment rate more than doubled (17% in 2013); youth unemployment at above 40% and the lowest labor force participation in EU (51% in 2013).
- Fiscal deficits increased to an average of 6% since 2009 and public debt doubled to 76% of GDP in 2013
- External debt stayed elevated at 105% of GDP



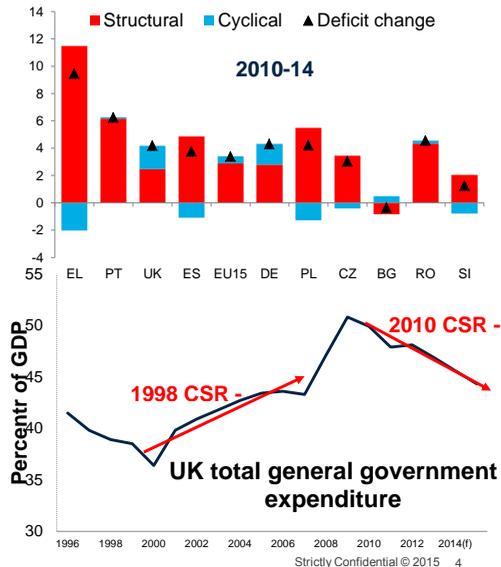
Source: Eurostat, World Bank.

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Fiscal context – need for structural savings

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



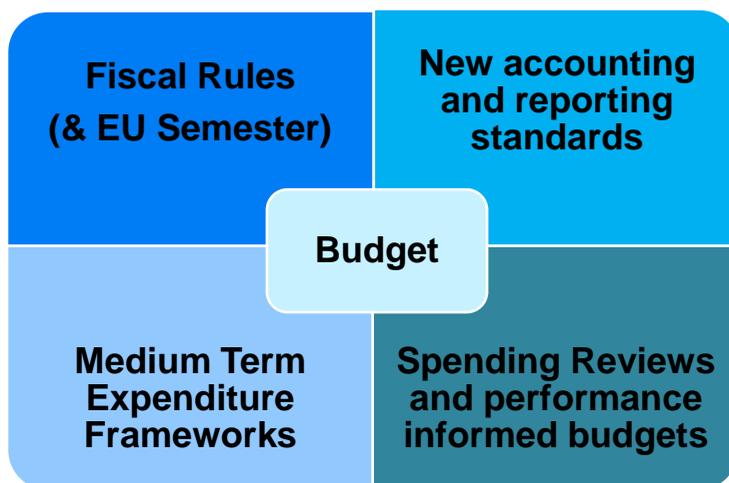
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Fundamental reform of fiscal & spending frameworks across EU.....

- EU Stability and Growth pact (SGP) sets deficit and debt limits
- Medium Term Objective (MTO) sets cyclically-adjusted general government budget targets
- Semester aligns review of fiscal frameworks across EU
- New minimum standards for national budgetary frameworks (i.e. *ESA2010*)
- Excessive Deficit Procedure (EDP): sets structural adjustment targets
- Expenditure rules: expenditures must not rise faster than medium-term potential GDP growth
- Budget to be based on independent macroeconomic forecasts



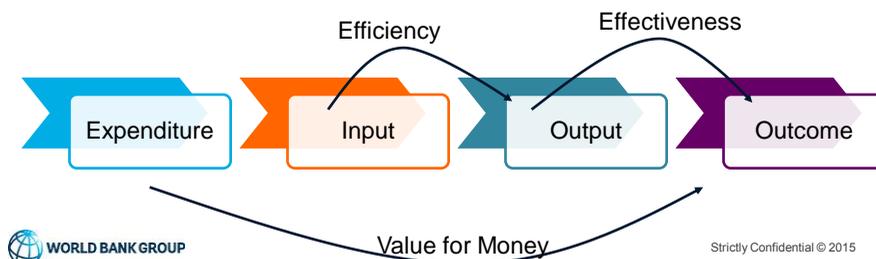
.....with a focus on strengthening the Budget as a public policy tool



Spending Reviews (SR)

– tool to evaluate policy and identify savings (sustainably)

- SR – instrument for policy evaluation
- Focus on existing expenditures (not new) and combine breadth (comprehensive) with depth (selective)
- SR Goals, to:
 - define and measure public intervention and its impact
 - provide evidence on whether a public intervention is a success or failure
 - improve intervention (i.e. via resource adjustments through the budget)
- SR criteria: (i) Effectiveness; (ii) Efficiency; (iii) Value for Money



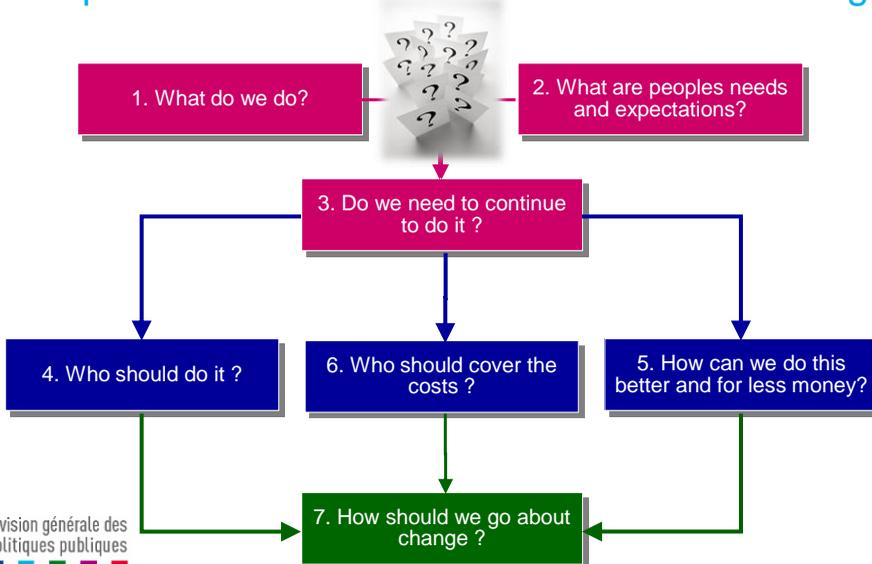
2. General design issues in NMS

Range of Spending Review Approaches

Basic spending review models...

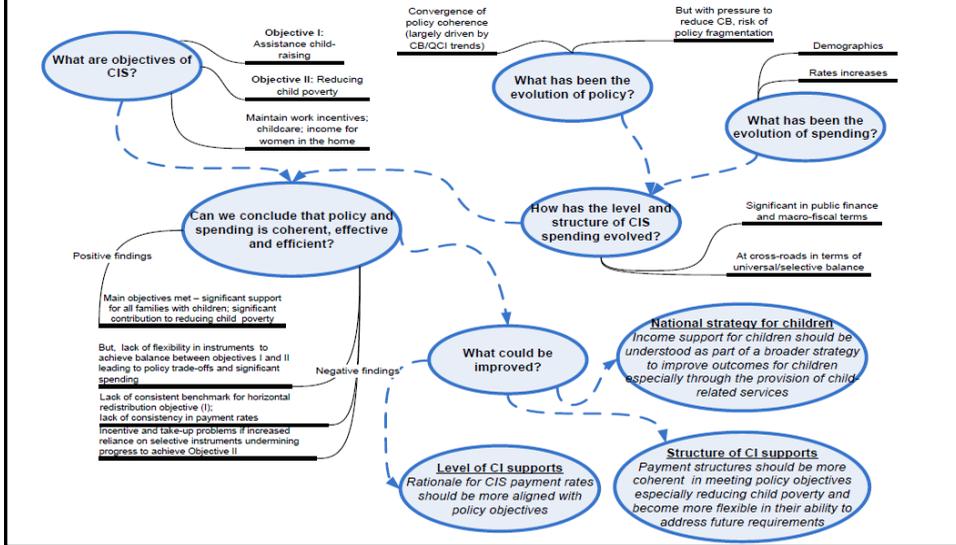
		SCOPE	
		Targeted	Comprehensive
FREQUENCY	Annual	Strategic Reviews: Australia: 2007- Spending Reviews: Netherlands 1981- Program Evaluations: Korea: 2006-	Zero Base Budgeting: USA: 1970s Activity-Based Costing: USA: 1980s
	Periodic	Value for Money Reviews (Various NAOs) UK Spending Review (UK: e.g. 2011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

Basic questions to be asked in a SR – the Challenge



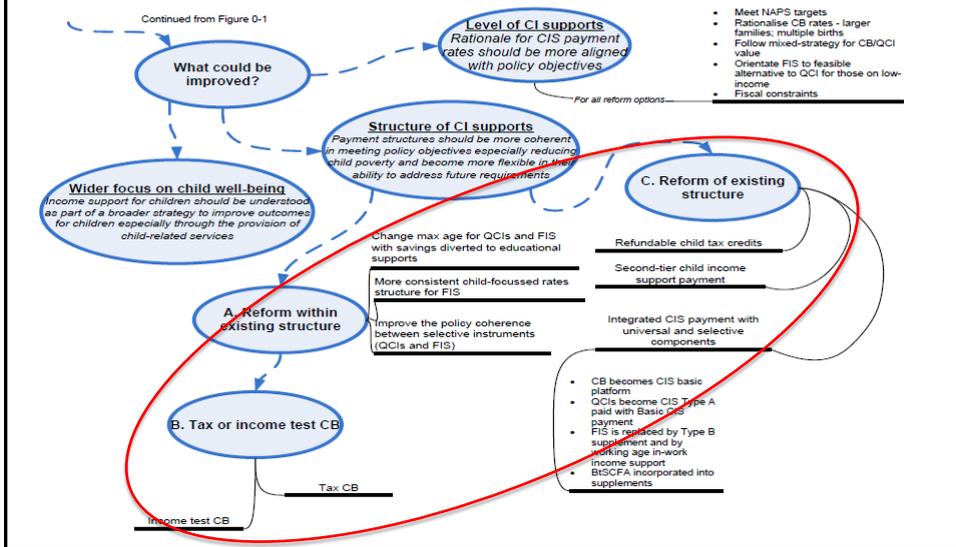
Design: Objective vs spending: Example from Ireland (Child Income support)

Figure 1: Analysis of CIS spending against objectives



Conduct: What actions could SR inform? Coming back to Irish example

Figure 2: Link between analysis and conclusions

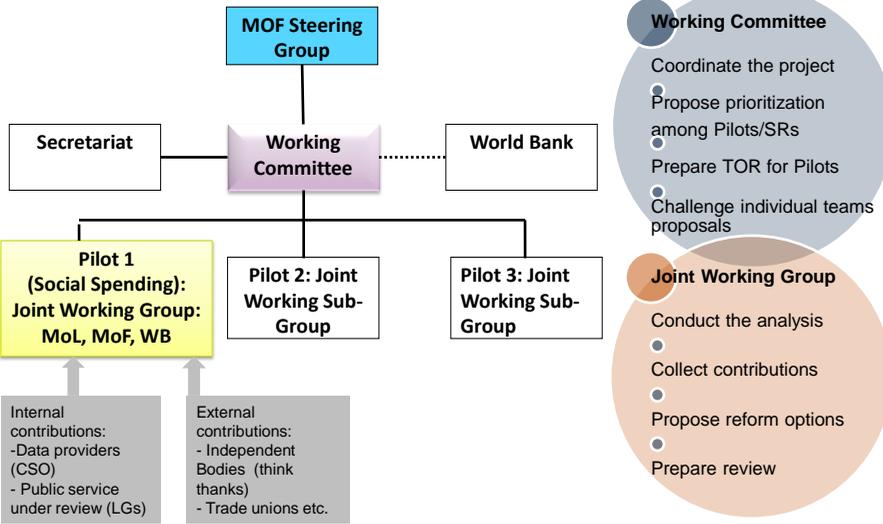


2. Four design issues in NMS

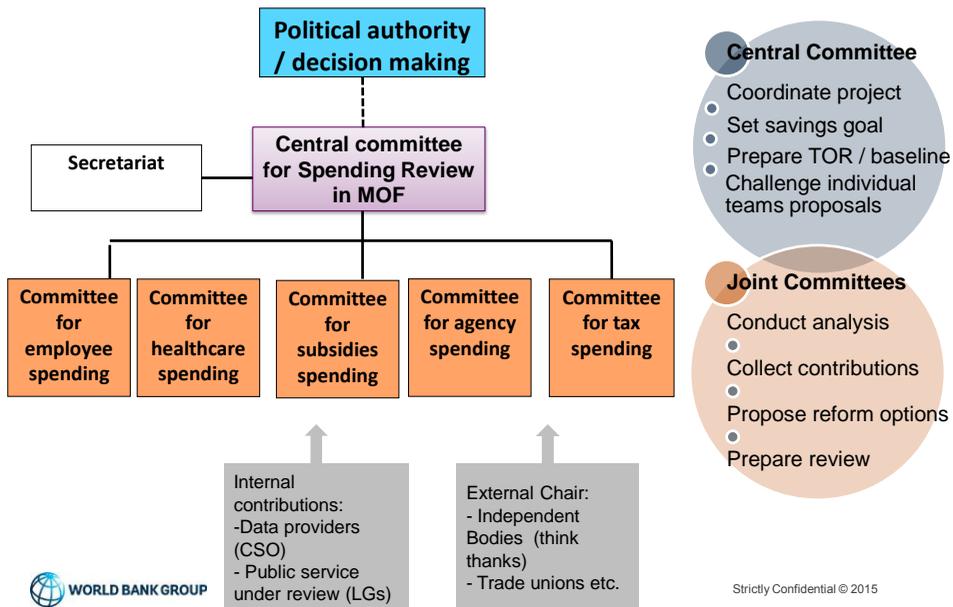
#1: Managing and Organizing SR

1. Civil service vs. outsiders?
 - Disadvantages of dependence on review by outsiders
 - Continuity and inside knowledge from civil service review
 - Private sector specialists more useful for efficiency review
2. Bureaucratic leadership by MOF
 - Plus other relevant central agencies
 - MOF staff must have the right skills
 - Demanding of MOF/central agency staff time
3. Overcoming spending ministry resistance
 - Political pressure; Targets; Reallocation options
4. Political leadership
 - Essential to success of SR
 - Setting the framework, objectives and target
 - Making final decisions on savings options (especially strategic)

Poland pilots: about efficiency savings, not cuts



Croatia: asked to identify 10% cuts



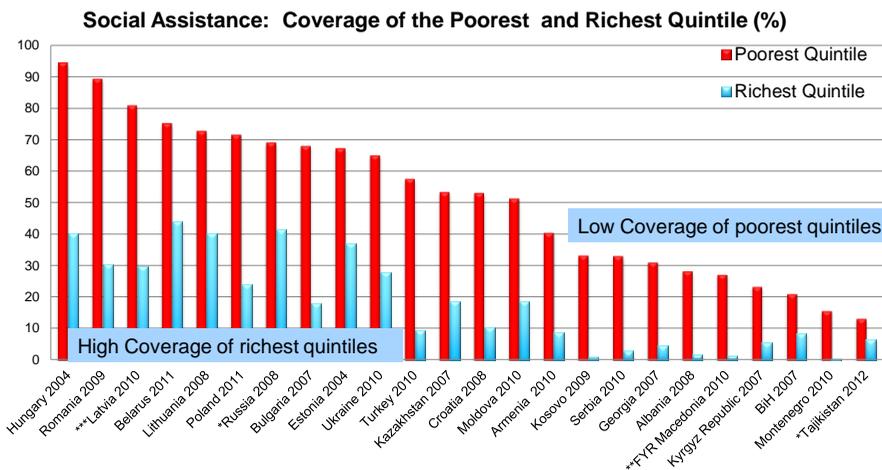
#2: set clear targets and costing options

- Ministry of Finance usually sets the baseline:
 - New programs are normally dealt with separately
 - Recognize underlying spending pressures
 - Guidance on 'discretionary' versus 'non discretionary', admin and capital spending
 - Consistent guidance on costing is needed—e.g. wages, pensions
- Preventing 'gaming': options must be
 - Specific—measureable, costed, schedule for actions
 - Technically and politically feasible—e.g. treatment of collective wage agreements?
 - Beware of backloading results, spending today for promised savings tomorrow, or simply cutting capital spending
- Revisit rules (the 'game' adapts)



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Example: Identifying potential inefficiencies in coverage of the overall social assistance system

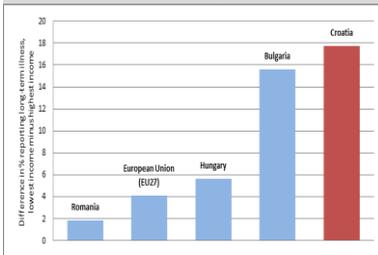


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Example 2: Health in Croatia

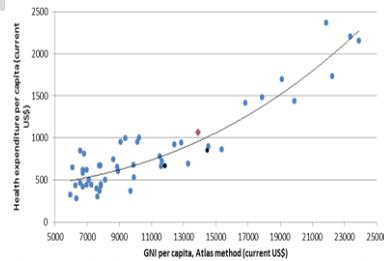
- Good health outcomes but at high cost (9% of GDP compared to 5.4% of GDP on average in the EU10)
- Rapid aging of the population → non-communicable, chronic diseases and morbidity will continue increasing, with need for additional health and LTC.
- Chronic arrears (1% of GDP at the end-2013 or 15% of their revenues)
- Socio-economic and geographic disparities in health indicators in Croatia

Inequality in Reported Long-term Illness in Croatia and Selected EU Countries, 2010



Source: Eurostat, EU SILC
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Health Expenditure and GNI per capita, 2010



Source: WHO, Global Health Expenditure Database. Croatia is red-shaded diamond.
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Poland pilot: Evaluating social spending (example)

SR objective

Evaluating social spending

- Effectiveness to meet policy objectives in the most cost-efficient way

Each area of social spending requires a tailored analytical approach

Area	Objective
Last resort social assistance and family support benefits	Immediate poverty alleviation and medium-term self-sufficiency
Active and passive programs to support employment	Labor market integration and income support for transient income-poor
Social services for the vulnerable population	Social inclusion, reducing root-cause of poverty
Benefits and services for disabled people	Income support, social inclusion if possible



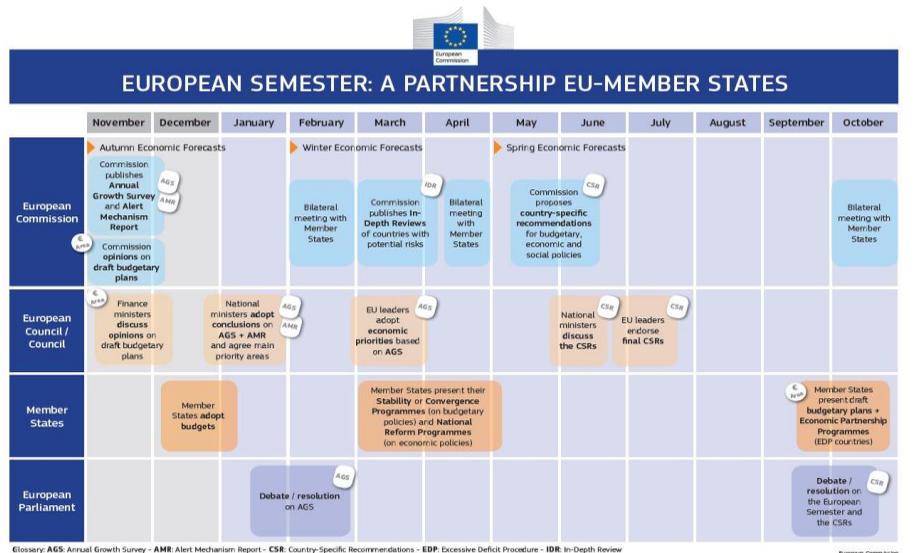
#3: Spending Reviews need integrate with annual and medium-term budget frameworks.....

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



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.....within the European Semester

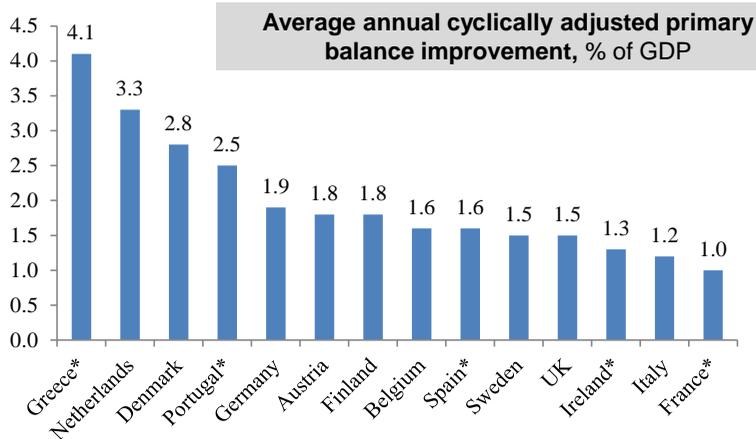


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#4 – Building and embedding a culture of appraisal and evaluation will take time

- Spending 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
- Can conflict with need to managing short term pressure on resource allocation and staff resources
- Therefore, need to focus on where impact maybe highest and build an ongoing process

Can it be done?



Source: EUROSTAT, World Bank staff calculations

4. 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. Setting clear Spending parameters and 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. Integrating Spending Reviews with budgets and MTEFs**
 - Is consistent with new EU framework, but is complex
 - Line ministries have information and knowledge, no one size fits all
- 4. Consider capacity and capabilities**
 - Combining external expertise with internal knowledge is challenging
- 5. Delivering Better Outcomes takes time and effort**
 - Need to set realistic performance trajectories—not too many, and then closely follow up on performance



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Thank you

