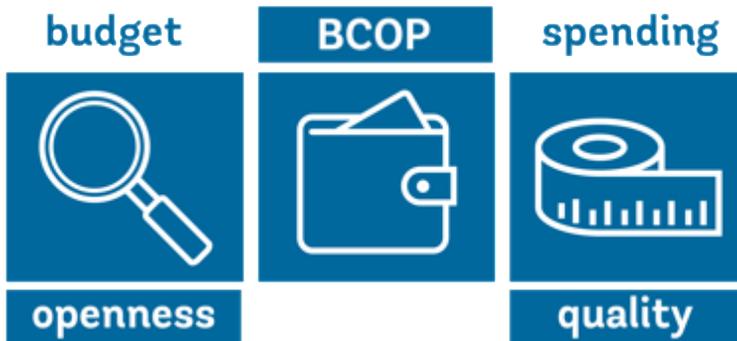




# PERFORMANCE BUDGETING AND SPENDING REVIEWS



PEMPAL Budget Community of Practice (BCOP)  
Program and Performance Budgeting Working Group (PPBWG)  
May 28, 2020 Videoconference Discussion Summary

**MAY 2020**

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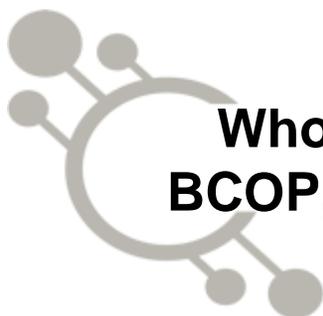
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## Who are PEMPAL, BCOP, and PPBWG?

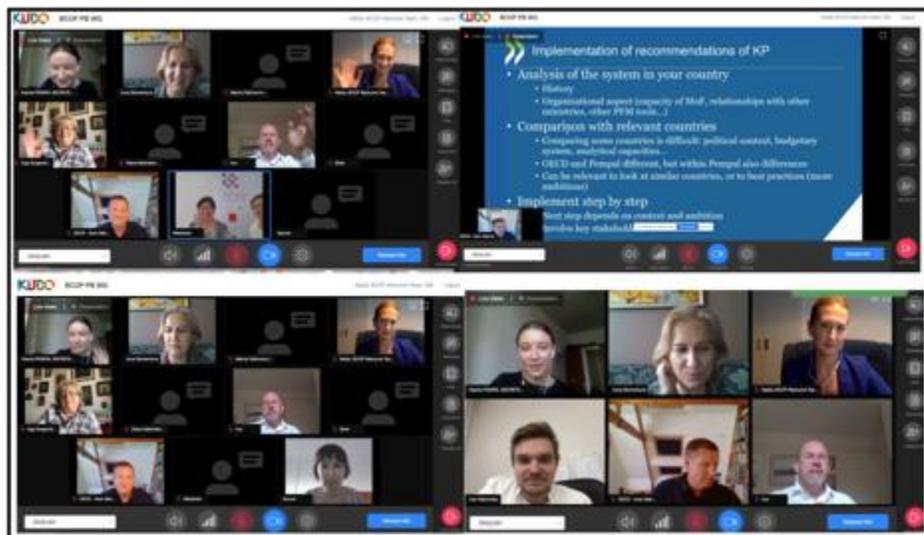
Public Expenditure Management Peer Assisted Learning (PEMPAL) is a network that facilitates exchange of professional experience and knowledge transfer among public financial management practitioners in countries across the Europe and Central Asia (ECA) region. There are three PEMPAL thematic communities of practice: Budget Community of Practice (BCOP); Treasury Community of Practice (TCOP); and Internal Audit Community of Practice (IACOP). The key donors and development partners to PEMPAL are the Swiss State Secretariat for Economic Affairs, the Ministry of Finance of the Russian Federation, and the World Bank.

The main overall objective of the BCOP is to support member country Ministries of Finance (MOF) in reforms to improve budget effectiveness and accountability. The BCOP Program and Performance Budgeting Working Group (PPBWG), focuses on design and implementation of program and performance budgeting and spending reviews with the aim of improving spending effectiveness. The group was formed in 2016 and its membership includes 17 of 21 BCOP member countries: Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Kosovo, Kyrgyz Republic, Moldova, Republic of North Macedonia, Russian Federation, Serbia, Turkey, Ukraine, and Uzbekistan.

After initial stock taking of practices in members countries, review of best global practices, examination of country cases, and analyses of performance indicators used in PEMPAL countries, in the last two years PPBWG deepened its focus and collected new and more detailed data to take a stock of current practices and challenges in member countries benchmarked to OECD countries in performance budgeting and spending reviews. Analyses of collected data and additional data and information collected and shared by the PPBWG are used for development of the PPBWG knowledge product on performance budgeting and spending reviews in PEMPAL countries, which was discussed in this meeting.

This document provides a summary of discussions from a PPBWG videoconference (VC) meeting held on 28 May 2020 to finalize afore-mentioned PPBWG knowledge product.

## Introductions



**Ms. Shcherbyna, BCOP Resource Team Coordinator and Senior Public Sector Specialist, World Bank, welcomed participants to the meeting**, noting that 28 participants attended, of which 19 representatives from 12 BCOP member countries (Azerbaijan, Belarus, Bulgaria, Croatia, Georgia, Kazakhstan, Kosovo, Kyrgyz Republic, Russia, Turkey, Ukraine, and Uzbekistan). The meeting was supported by experts from the World Bank and the OECD.

### The objectives of the meeting are:

- i) to finalize the PPBWG knowledge product *Performance Budgeting and Spending Reviews: Current Practices, Challenges, and Recommendations*;
- ii) to share information from OECD and the World Bank on their current activities in the field of performance budgeting and spending reviews and reflections on how Covid-19 crises may impact the reforms; and
- iii) to discuss the next tasks of the PPBWG.

**Ms. Scherbyna also provided an overview of the agenda.** The agenda consists of three sections. During the first section, Ms. Naida Carsimamovic Vukotic, consultant and member of the BCOP Resource Team, the World Bank, will provide an overview of the PPBWG knowledge product, as well as proposed new tasks of the PPBWG. During the second session, peer-reviewers of the PPBWG knowledge products will provide their comments and recommendations. Mr. Ivor Beazley, Senior Public Sector Specialist from the World Bank will provide

his reflections on the PPBWG knowledge product and the impact of Covid-19 crisis on reforms in this area, while Mr. Axel Mathot, Senior Policy Advisor from the Public Management and Budgeting Division from the OECD will inform about the impact of Covid-19 crisis on reforms in this area, as well as information on the recent OECD work on spending reviews, in addition to his comments on the PPBWG knowledge product. The roundtable part of the agenda will then be held in which participants can: ask presenters any questions arising from their presentation, provide final comments on the knowledge product, and discuss new topics and approaches for the development of a new PPBWG KP.

## 1. Overview of PPBWG Work, the Knowledge Product, and Next Tasks

The first session of the meeting provided an overview of the PPBWG work and process of development of the knowledge product (KP) on performance budgeting and spending reviews (PB&SR); gave an outline of the KP content and summary of recommendations; and laid out proposed next steps on finalizing this KP and the new tasks of the PPBWG. Ms. Carsimamovic Vukotic, BCOP Resource Team member who provides thematic advice to the PPBWG, reminded that the PPBWG is led by Nikolay Begchin, Head of the Department of Program Planning and Effectiveness of Budget Expenditures Ministry of Finance of the Russian Federation. PPBWG active work reflects the BCOP members' continuous identification program and performance budgeting as a priority budget reform over last several years.

**Summary of PPBWG activities since its formation are shown in Exhibit 1.** Ms. Carsimamovic Vukotic explained that after initial stock taking of practices in members countries, review of best global practices, examination of country cases, and detailed analyses of performance indicators used in PEMPAL countries, in the last two years PPBWG deepened its focus and collected new and more detailed data to take an updated stock of current practices and challenges in member countries benchmarked to OECD countries in performance budgeting and spending reviews. Analyses of collected data and additional data and information collected and shared by the PPBWG were used for development of the knowledge product ***Performance Budgeting and Spending Reviews in PEMPAL Countries: Current Practices, Challenges, and Recommendations***, which is discussed in this meeting.

**The objectives of this knowledge product** are to present data on current status of PB&SR in PEMPAL countries, to benchmark the practices in PEMPAL

countries to those in OECD countries, and to provide some recommendations and food for thought for PEMPAL countries on what to take into consideration in their performance budgeting and spending review systems. Quantitative data sources used in the knowledge product are OECD Performance Budgeting (PB) Survey and an internal BCOP survey of PEMPAL countries on spending reviews (SRs).

**Exhibit 1: Overview of PPBWG Activities, 2016-2020**



The knowledge product has gone through extensive and participative process of development, including extensive inputs from the PPBWG Leads, other PPBWG members, and external peer reviewers. In addition to extensive data collected from PBWG countries in the two surveys, inputs from the PPBWG lead and members also included a major drafting role of the PPBWB lead and co-lead countries of Russia and Bulgaria; as well as feedback and additional inputs and updates from 14 countries given in the PPBWG workshop and in written in November 2019-February 2020 (including country case updates of current and planned activities for Croatia, Bulgaria, and Russia). Ms. Carsimamovic Vukotic presented main elements of adjustments and expansions in the current version of draft KP compared to the version from November 2019 workshop. She also presented the outline of the content and annexes.

The knowledge product offers detailed 22 blocks of challenges specific to PEMPAL countries with recommendations, all grouped around the seven areas of OECD Good Practices in Performance Budgeting. Exhibit 2 provides the summary of recommendations.

## Exhibit 2: Summary Recommendations from the PBBWG Knowledge for Systems of Program and Performance Budgeting and Spending Reviews in PEMPAL Countries



**The knowledge product will be finalized after this meeting.** Ms. Carsimamovic Vukotic explained that the updated and expanded draft report circulated within the materials for this meeting, was earlier sent for peer review to colleagues in OECD and the World Bank, who will next present their key reflections on it. PPBWG members are invited to provide any final comments during the roundtable discussion or via email by June 5, 2020. Detailed comments received in written form from the OECD and the World Bank, as well as any final comments received from the PPBWG members will be incorporated, finalizing the report. She explained that the main suggestions from the WB and OECD in terms of organization of the report that will be incorporated include addition of the Executive Summary and breaking down longer paragraphs into two and bolding additional important findings.

**Based on PPBWG's earlier decision, PPBWG will in the next fiscal year, FY21, focus on developing a new knowledge product to examine in detail on spending reviews (SRs).** Ms. Carsimamovic Vukotic presented that, based on the feedback collected from 15 countries in November 2019 -February 2020, common suggestions for what to include in this next KP on SRs can be grouped into two blocks. The first block would focus on systematic review of global good practices in SRs grouped by main elements. Elements proposed by the members include regulatory framework, methodologies, SR phases, usage of performance information in SRs, and specificities about different types and options of SRs depending on objectives, data availability, and progress level. The second block would focus on the key challenges in PEMPAL countries and how to address them. Specific challenges mentioned by the members include how to ensure that SR recommendations feed into the budget preparation, how to build SR capacities of senior and operational civil servants, how to define cost saving measures by efficiency gains vs. strategic cost savings, how to manage and organize the SR process and SR team composition, including roles of the ministries of finance versus line ministries, how to design optimal way for procedures for selecting SR areas, how to link SRs with PB for specific sectors, how to motivate LMs to adequately engage in SRs, how to entice political will and publicity, and how to ensure practical application of improvement in defining expected results and performance indicators based on SRs. Potential annexes would include examples/summary of SRs for specific sectors/programs and a review of current regulatory framework and methodologies in PEMPAL countries.

## 2. Peer Review of the PPBWG Knowledge Product

### Peer Review from the World Bank

#### PPBWG Knowledge Product

**Mr. Ivor Beazley, Senior Public Sector Specialist, World Bank congratulated the PPBWG on its useful work on this KP.** He noted that the PPBWG KP is a solid piece of analysis with thoughtful conclusions, and a practical set of recommendations consistent with the OECD Good Practices but adapted to the circumstances in PEMPAL countries. Due to diverse nature of PEMPAL countries, it is important that each country carefully considers the recommendations within the context of its own country specificities. Mr. Beazley proposed several presentational improvements to be made to the KP, including the addition of an Executive Summary, highlighting additional key findings from the survey, shortening longer paragraphs and key sentences, and adding country-by-country information on some key graphs.

**Observations on several findings were given.** Some of these include the more distributed responsibilities for defining performance indicators in PEMPAL countries compared to OECD countries; more centralized control and use of performance information; marked differences in the extent of capturing cross-cutting objectives; and the bigger gap between the expectations and impacts of performance budgeting in PEMPAL countries. Mr. Beazley also remarked that within the key challenges, it should be highlighted that budget is fundamentally a political document, thus political considerations normally outweighs considerations of technical efficiency or performance.

**Mr. Beazley gave several observations and suggestions on KP recommendations** and commitment cannot be manufactured, in its absence, expectations should be adjusted downwards and some building blocks should be put in place in intermediate term, such as a quality program structure. He also discussed the recommendations related cross-cutting priority budgeting initiatives, suggesting. For example, he suggested to expand the recommendation on political leadership in PB reforms to add that since strong political leadership that the recommendation could be refocused to clarify that the cross-cutting objectives have been a long standing issues in the PB and that in budgetary terms this means that cross-cutting performance objectives should flow through to individual programs.

## Fiscal Implications of Covid-19 on PMF and Implications for Performance Budgeting and Spending Reviews

### Mr. Beazley reflected on short- and medium-term fiscal impact of Covid-1.

Short-term expenditure policy responses include ensuring continued functioning of essential sectors, providing resource to those directly or indirectly affected by the containment measures, helping business avoid insolvency and maintain their workforce, and tax relief measures. Medium-term fiscal implications are likely to include shifting of focus towards pro-growth expansionary fiscal policies and spending rationalization; promoting fiscal resilience; boosting sustainable and including growth through green fiscal policy and medium-term comprehensive taxation reform; broadening of revenue bases and revenue systems; and unwinding the support to the private sector and management of associated fiscal risks.

**The crisis will have likely particular implications for performance budgeting and spending reviews, including negative implications in the short run, but positive implications in the longer term.** Exhibit 3 shows the implications presented by Mr. Beazley.

### Exhibit 3: Potential Covid-19 Implications for PB and SRs

#### Short-term

- Emphasis on SRs to re-prioritize expenditure
- Dialing back on budget reform efforts, including PB

#### Longer-term

- Performance and VFM considerations more important for budgeting post COVID-19
- Accountability and transparency important in relation to fiscal support measures, especially to support business
- Increased focus on cross cutting issues – social inclusion, safety nets, resilience, management of external risks such as pandemics and climate change

## Peer Review from the OECD

### PPBWG Knowledge Product

**Mr. Axel Mathot, Senior Policy Advisor from the Public Management and Budgeting Division from the OECD, thanked the PPBWG for inviting him to review its knowledge product, noting that it is very useful and interesting.**

He in particular noted that from his perspective of having had the role of a budget director in Flanders, Belgium, the KP has a great practical value and immense relevance. He stressed that the KP's strength is that assembles a lot of practical information and advice, while at the same time being presented as food for thought to be considered through the lenses of each individual country's specificities and in a step-by-step approach, rather than as a "mathematical equation" that can be all copied and pasted in an overnight approach to any country. The KP's limitations are the limitations applicable to all analyses based on the surveys and examining a group of countries (including surveys of OECD countries) and they relate to self-assessment and subjectivity in countries' survey responses and interpretations, as well as the potential loss of country-specific nuances when regional results are averaged. However, these limitations are clearly identified in the KP, country level information is often provided, and it is clear in the KP's recommendations are not one-size-fits-all (which is important for all budgeting reform areas but especially for the performance budgeting and spending review areas).

**Suggestions for implementation of KP recommendations for each individual country are to analyze the country system** (historical and organizational aspects), **analyze both best practices and practices in similar countries, and implement step-by-step with the involvement of key stakeholders.** Mr. Mathot also highlighted some PEMPAL countries' challenges identified in the KP and gave additional suggestions on approaches to address these challenges from his experience. This includes the issues of advancing from presentational to performance informed budgeting; ensuring stronger roles of the line ministries and overall more balanced relationships between the Ministry of Finance and line ministries; and optimizing programs and performance indicators.

### Covid-19 Implications for Performance Budgeting and Spending Reviews

**Mr. Mathot gave his reflections on potential implications of Covid-19 crisis on reforms in performance budgeting and spending reviews.** COVID-19 will have a significant impact on fiscal balance and given the limited space for increasing taxes, it will necessitate savings and reallocation of expenditures. Performance budgeting and spending reviews can be very useful in this sense, as they are an important tool for reprioritizing expenditures. All spending

categories can be examined (including tax expenditures).

**The decisions that will need to be made post crisis will not only be about the efficiency gains but also about the fundamental choices on expenditure allocation, for which PB and SR tools are useful.** In this aspect, it can be expected that the spending reviews in particular can be used in this process, as their purposes in not only for short term spending cuts. Usefulness of these tools in the post-crisis will depend on maturity of the system; however, the expected circumstances are likely to provide a momentum for improvements of the performance budgeting and spending review systems and their integration into the overall PFM systems.

### Current OECD Work in the Area of SRs

**OECD is currently working on good practices in spending reviews in OECD countries, expected to be completed by end year.** Overall, spending reviews and its definition, as laid out in the PPBWG KP, have evolved. The previous definition of spending reviews used by OECD was that a spending review is a process of developing and adopting savings measures, based on the systematic scrutiny of baseline expenditures. Current working definition is that a spending review is a political and administrative process of developing and adopting saving measures by systematically scrutinizing baseline expenditures relative to the government's budgetary objectives and priorities. Spending reviews are increasingly seen as an instrument to improve the efficiency and reallocation of expenditures according to priorities. Within this new definition, the purposes of spending reviews are to create fiscal space to give the government improved control over the level of aggregate expenditure; to improve the prioritization of expenditure within a sector and/or across government; and to improve efficiency of programs and policies.

**The OECD is analyzing the practices in OECD countries and has identified preliminary best practices, broadly connected to the areas of good practices in performance budgeting.** Exhibit 4 shows these preliminary good practices in spending reviews considered by the OECD.

#### Exhibit 4: Preliminary Good Practices in SRs Identified by the OECD (within its ongoing work on SRs)



### Spending Reviews: best practices

- Clear objectives and scope of spending reviews
  - From the start
  - Scope can be narrow, broad or comprehensive
  - Can be cyclical or annual
- Good governance throughout the review process
  - Strong political leadership
  - Clear roles for each actor (CBA at the heart, strong ownership in Line Ministries)
  - Clear institutional set-up
- Alignment with the budget process
  - Results must be available at decision making stages of budget process
  - Alignment with multi-annual framework
  - Underpins informed decision making

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### Spending Reviews: best practices

- Capacity and alignment with existing frameworks
  - Building up capacity among civil servants (resources and skills), outsourcing for filling gaps
  - Alignment with performance budgeting and performance information (increase the stock of analysis and performance information)
- Accountability and transparency
  - Implementation and monitoring in coordination with CBA
  - Findings must be publicly available for independent oversight
  - Role for Parliament and NAO
  - Necessary for follow-up



### 3. PPBWG Roundtable Discussion

**This final session of the meeting included roundtable discussions** during which attending representatives of the member countries posed questions to the speakers; provided additional feedback on the PPBWG current knowledge product; and shared their views on the next steps for the group's work and the next knowledge product, all within the context of the countries' progress and activities on the reforms in this areas.

**Within the discussion on the current knowledge product**, members from Russia and Bulgaria expressed their satisfaction with the quality and usefulness of the knowledge product and thanked the OECD and World Bank peer reviewers

for their valuable contributions. As these countries provided extensive inputs and comments in the earlier drafts of the knowledge product, they noted that they have no further comments. Members from Belarus and Uzbekistan also noted that the knowledge product is relevant and useful and thanked the PPBWG leads and the Resource Team on their work.

**Discussion was held on the next tasks of the PPBWG on the knowledge product to examine in detail spending reviews.** Participants confirmed that the topic of spending reviews remain very important for them and that they support the proposed approach presented in this meeting, reiterating in particular the interest in identifying different options and tools for SRs so that countries are able to choose those most applicable given their specificities and data availability, as well providing details on regulatory frameworks and methodologies used in different countries. An additional proposal was made to also include a step-by-step analysis (sending area selection, team selection and composition, work process, methodologies, data collection and analyses, defining recommendations, adoption, implementation) of a SR approach in an advanced country on one specific SR example. Mr. Mathot noted that the discussion in PEMPAL on spending review challenges, as proposed to be examined in the next PPBWG KP, is similar to the discussion among the OECD countries, including the challenges on setting up the process and implementation challenges. The OECD is currently conducting a project to introduce or improve the use of SRs in the OECD countries.

**Additional discussion on the next steps for the PPBWG was also held on the potential alternative approach to the development of the PPBWG knowledge products.** Participants discussed two possible ways - developing one large analytical knowledge product as originally planned versus dividing it to a few smaller notes on targeted subtopics. Advantages and disadvantages of both approaches were discussed. The traditional approach of developing large flagship products took quite a lot of time due to comprehensiveness of KPs. However, the need for and usefulness of some specific resource is urgent, while the process of desk research, collecting and analyzing data, and developing a comprehensive analytical knowledge product is a lengthy process; meanwhile some member countries could need timely advices to support their reform. Participants discussed whether it is possible to add additional smaller targeted KPs and still keep the development of the comprehensive one. Ms. Shcherbyna explained that the BCOP resources are limited, thus it would not be possible to work on both large analytical knowledge product and the multiple smaller knowledge products in FY21. Based on the proposal from the member of Uzbekistan, the intermediate approach for developing the next knowledge product on spending reviews was also discussed, in which a series smaller

knowledge papers would be produced on spending review subtopics to subsequently form a knowledge volume on spending reviews. Mr. Beazley proposed that some more targeted topics related to Covid-19 responses could be covered by a recently established World Bank facility that provides technical assistance for the Covid-19 responses, and the results could be shared with the BCOP and PPBWG, at no cost to PEMPAL. Ms. Scherbyna thanked Mr. Beazley for this proposal on behalf of BCOP and offered BCOP's inputs if needed.

**During the roundtable, members also posed several questions to the speakers.** This included the questions on ways to decompose high level government objectives to lower level objectives from Russia (given the challenges in translating the highest level national projects to the programs) and the best way to determine the scope of a program from Belarus (given that PB is a relatively new tool in Belarus and that it is currently moving to the second stage of expanding program coverage). Mr. Mathot explained that the starting point should be policy priorities based on which the logical framework should be developed to determine theory of change and causal chain, as also laid out in PPBWG KP. This should then be mapped against the institutional framework. In some cases, these exercises and overall performance budgeting will indicate where institutional frameworks should change, as was for example the case in France. Mr. Beazley noted that the overall, the trend is movement to fewer programs of larger scope.

## 4. Closing Remarks

Ms. Carsimamovic Vukotic invited to send any final comments on the knowledge product to the Resource Team by June 5, 2020.

Ms. Iryna Shcherbyna thanked PPBWG member countries and leads, the speakers from the OECD and the World Bank, the translators, and the BCOP Resource Team and Secretariat, including Ms. Ksenia Malafeeva for the meeting's administrative and logistical support and Ms. Carsimamovic Vukotic for her leadership during the development of the KP. She noted that the next face-to-face meeting of the PPBWG is tentatively planned in Brussels in November 2020 during BCOP's annual plenary meeting, during which the work on the PPBWG's next knowledge product is expected to kick off. In meantime, the current knowledge products discussed in this meeting will be finalized and BCOP Resource Team, Executive Committee, and the PPBWG leads will hold discussions on the approach to developing the next PPBWG KP on spending reviews and potential shorter knowledge notes/bulletins on specific subtopics, as stand-alone notes and/or integral parts of a more comprehensive KP, as per the discussions from this meeting.

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