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Contents

Who are PEMPAL, BCOP, and PPBWG? ................................................. 4
Objectives and Structure of the Meeting ............................................. 5
Overview of the Draft Knowledge Product on Conducting Rapid Spending Reviews to Identify Measures for Budget Balancing .............. 6
Conclusions and Next Steps for Finalizing the Knowledge Product... 13
Who are PEMPAL, BCOP, and PPBWG?

Public Expenditure Management Peer Assisted Learning (PEMPAL) network is a multilateral effort to facilitate exchange of professional experience and knowledge transfer among public financial management practitioners in countries across the Europe and Central Asia (ECA) region. The PEMPAL network has three thematic communities of practice (COP): 1) Budget Community of Practice (BCOP); 2) Treasury Community of Practice (TCOP); and 3) Internal Audit Community of Practice (IACOP); and its key donors and development partners are the Swiss State Secretariat for Economic Affairs (SECO), the Ministry of Finance of the Russian Federation, the European Commission (EC), and the World Bank (WB).

The BCOP main objective is to support member countries’ 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. Since its inception in 2016 to today, its membership has expanded to 17 of 21 BCOP member countries: Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Kosovo, Kyrgyz Republic, Moldova, North Macedonia, Russian Federation, Serbia, Turkey, Ukraine, and Uzbekistan.
Objectives and Structure of the Meeting

On November 5, the PPBWG convened a discussion on the first draft of a new knowledge product (KP) *Conducting Rapid Spending Review to Identify Measures for Budget Balancing*. The meeting was held via videoconference, and was chaired by Ms. Iryna Shcherbyna, BCOP Resource Team Coordinator and WB Senior Public Sector Specialist. The meeting presented a first draft of the above PPBWG KP and engaged the BCOP participants to provide their inputs/comments on the draft KP. The meeting’s materials are available on the PEMPAL.org website.

In her opening remarks, the chair noted that 29 participants attended, of which 24 were representatives from 14 BCOP member countries (Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Belarus, Bulgaria, Croatia, Georgia, Kazakhstan, Kosovo, Moldova, Russia, Ukraine, and Uzbekistan). The chair also commended the progress made to date on the preparation of the draft PPBWG KP led by Ms. Nina Hajoyan, WB expert, and thanked all twelve PEMPAL countries that provided inputs to this KP earlier this year for their contributions.
Overview of the Draft Knowledge Product on Conducting Rapid Spending Reviews to Identify Measures for Budget Balancing

The first session of the meeting provided an overview of the first draft of the KP. The draft is based on a desk research, supported by some expert interviews and two mini surveys of PEMPAL countries conducted by BCOP in July/August and October 2020. Ms. Nina Hajoyan presented the proposed outline for the KP as shown in Exhibit 1.

Exhibit 1: Proposed Outline of the KP on Rapid Spending Reviews

Outline of the Draft Knowledge Product

- **PART 1.** Spending reviews: key characteristics, types and success criteria
  - A brief history, objectives and types of spending reviews (both traditional and rapid), uses and success criteria
- **PART 2.** Implementation of rapid spending reviews
  - Methodologies, processes and tools; links with the budget; focus and scope
- **PART 3.** Aggregate fiscal control: complementary and alternative fiscal measures (including extrabudgetary measures)
- **PART 4.** Conclusion and Recommendations
  - Recommendations on process and tools and areas to focus; concluding remarks
- **ANNEXES:** case studies, examples, templates

Objectives

The KP’s objectives are to assist member countries in developing methodologies and tools for the implementation of quick spending reviews as a rapid response to fiscal crisis such as the current one caused by the COVID-19 pandemic. The examples of tools and templates that will be included in this KP can be customized by each country considering specific needs, circumstances, institutional setup and capacities, and data availability.
The concept of rapid spending reviews used in this KP differs from the traditional spending reviews because of the urgency and time limitations to respond to fiscal pressure in some circumstances. However, there are also similarities in terms of the process, including in involving line ministries and needed leadership of the Chief Executive/Government Cabinet/President’s or Prime Minister’s Office. While they are less detailed than traditional spending reviews and use less sophisticated methodologies, rapid spending reviews differ also from typical expenditure analysis undertaken by the ministries of finance in the regular budget planning process.

Key objectives of traditional spending reviews are also applicable for rapid spending reviews. This is the case of i) aggregate expenditure control through savings and efficiency gains, and ii) improved prioritization, i.e. achieving greater impact of expenditures through greater alignment with Government’s strategic priorities. Canada, New Zealand, France, the UK, Ireland, and the Netherlands achieved remarkable improvements in fiscal and debt position, as well as in public sector optimization by using spending reviews. Exhibit 2 shows types of general spending reviews and the distinct features of a rapid sending review.

Exhibit 2: Characteristics of Spending Reviews and Rapid Spending Reviews

Types of spending reviews

<table>
<thead>
<tr>
<th>Dimension / factor</th>
<th>Types of SR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coverage</td>
<td>Comprehensive vs selective</td>
</tr>
<tr>
<td>Regularity</td>
<td>Regular or ad hoc</td>
</tr>
<tr>
<td>Selection of topic</td>
<td>Discretionary or automatic</td>
</tr>
<tr>
<td>Links with the budget</td>
<td>Cyclical or mainstreamed into the budget process</td>
</tr>
<tr>
<td>Span</td>
<td>Horizontal or vertical</td>
</tr>
<tr>
<td>Focus</td>
<td>Efficiency or strategic</td>
</tr>
<tr>
<td>Time factor</td>
<td>Traditional or rapid</td>
</tr>
</tbody>
</table>

**Note:** Possible and useful to combine different types: comprehensive and selective, horizontal and vertical, efficiency and strategic. Efficiency reviews alone can deliver a maximum of 2% savings.

The three distinct features of a rapid SR

1. Must be completed within a short period of time
2. No time for ‘deep-dive’ analysis, use less sophisticated tools
3. The processes are simple and streamlined

To illustrate this concept, the presenter used a notable example of a
spending review from the New Zealand's 1991 budget. Although the process was not as quick and streamlined as what would be considered a true rapid spending review (and it was repeated over three-year period), the New Zealand approach had some specific elements that, along with the necessary adjustments based on country needs and circumstances, could be used in a rapid spending review exercise. Large savings were needed, the process was transparent, open, and equitable, with a buy-in from public officials under a strong leadership role of the Cabinet. All line ministries were asked to review their baseline expenditure and present scenarios for 5 percent, 10 percent, and 15 percent expenditure cuts with their suggestions. At the same time, for some specific sectors, additional deep dive analyses were conducted. Three different committees reviewed the measures proposed by the line ministries, including a higher-level Cabinet committee for political decisions. After this round of spending reviews, New Zealand recorded fiscal surpluses until the 2008-2009 global financial crisis. At the time, they added a baseline adjustment process into the regular budget planning cycle, by which line ministries had to fill out a brief template to identify policies which do not sufficiently contribute to current government priorities.

**Implementation Elements**

During the discussion, several tools that can be used to conduct spending reviews were presented. These tools need to be relatively simple and streamlined due to limited time available for rapid spending reviews. Some simple tools include budget composition and trends analysis (components of budget expenditures by functions, sub-functions, programs, economic categories, and development dynamics), budget deviation analysis (reasons of over- and under-spending), analysis of policy options at different alternative levels (including analysis of risks related to potential expenditure cuts and possible impact on outcomes and outputs), benchmarking (comparing unit costs of services/interventions across different providers/agencies), logical frameworks, decision trees, and so on. Several examples of templates that could be used as part of rapid spending reviews were showed during the presentation, including for saving proposals, program review decision tree, and analyses of nonfinancial performance consequences of reducing different expenditures. Exhibit 3 shows an example of benchmarking review conducted in Canada.
In terms of scope and focus, usual first types of targeted expenditure areas for a rapid spending review are potential redundant expenditures, followed by horizontal types of costs spanning across the government/public sector. In the current COVID-19 environment, some examples of potential redundant costs would entail travel and accommodation, celebrations, mass cultural and sport events, on-site training costs, promotion, and so on. Next, horizontal reviews are usually applicable for rapid reviews, including administration/maintenance costs, procurement, benefits and transfers, debt servicing costs, as well as public service wage bill and capital projects, noting that special caution must be implemented if considering the latter two. Connected to this, the presenter gave an example of cost-cutting tiers based on the practices in private sector. In this example, the first-tier costs are those largely invisible to employees and clients/beneficiaries such as reducing management’s travel budget, cancelling some low-priority events, curtailing vehicle fleet and maintenance costs, deferring purchase of new computers and plans for facility expansion, etc. The second-tier cuts would have consequences on employees and main clients/beneficiaries such as hiring freezes, potential unproductive employee cuts, cutting some high-level salaries, and reviewing subcontracting arrangements. The third-tier cuts are the deepest and hardest cuts such as major employee cuts and considering potential agency closing or restructuring. However, as noted earlier, an extreme caution should be exercised when considering potential reductions in wage bill/public sector employment especially
in the context of rapid spending reviews. International organizations urge governments to be extremely careful with such potential measures in the current COVID-19 environment, given the imbalances this can cause under current economic and social vulnerabilities, as well as potential implications stemming from collective agreements for public sector employment in wages in some countries. Thorough functional reviews of civil service and institutional reviews would need to be done to restructure and streamline the public sector employment, and this cannot be done solely on the basis of a rapid spending review.

The presenter advised to take a very selective and careful approach for adjustments of capital investment projects within rapid spending reviews, given the economic, social, and environmental considerations. While cutting some capital investment for fiscal space needs may be appropriate especially in case of immature projects, this must be balanced with the need to increase economic growth. Therefore, the introduction of friendly capital investments can support countercyclical economic policy measures. Exhibit 4 shows the illustrative criteria for two types of considerations when it comes to capital investment projects: for potential cutting and for expediting/increasing.

Exhibit 4: Illustrative Criteria for Deciding on Capital Projects for Cutting Versus Expediting/Increasing Investment

<table>
<thead>
<tr>
<th>Basic Decision Matrix</th>
<th>Postpone</th>
<th>Cancel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project approved, not initiated</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Project initiated, less than 10% cost incurred</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Project under implementation, B/C of completion &gt;1.5</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Project under implementation, B/C of completion &lt;1.5</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Project under implementation, B/C of completion &lt;1.0</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Additional considerations</th>
<th>Postpone</th>
<th>Cancel</th>
</tr>
</thead>
<tbody>
<tr>
<td>High employment creation</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Significant synergies with other projects</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>High cost of project cancellation</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>High social and environmental risks</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

Illustrative Criteria for Expediting/Increasing Capital Projects in a Stimulus Package

<table>
<thead>
<tr>
<th>Principle</th>
<th>Illustrative Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Timely</td>
<td>Possible to implement the projects in the required timeframe. A significant share of projects should be available for immediate implementation.</td>
</tr>
</tbody>
</table>
| Targeted           | High benefit/cost ratio (B/C >1.5)  
- Additional positive impacts (beyond B/C estimate):  
  - Economic  
  - Social  
  - Environmental  
- High employment creation potential  
- Significant synergies with other projects, including SNGs and private sector  
- Leverage concessional financing |
| Temporary          | The projects should have a strong long-term growth impact but limited long-term fiscal impact. They should not require significant funding beyond the fiscal stimulus period. |
In addition to presenting on rapid spending review exercises, the presenter talked about additional complementary/alternative measures that can be considered in emergency needs. These include so called below-the-line measures such as equity injections, asset purchases, loans, and debt assumptions, including through extra-budgetary funds. Contingent liabilities in the shape of guarantees, and quasi-fiscal operations could also be considered, including non-commercial operations of SOEs on behalf of government (subordinated and concessional loans, guarantees, support packages and stabilization funds). While such alternative measures can assist to spread the fiscal impact over years, recording these transactions associated fiscal risks and potential sustainability issues should be done properly and transparently.

The meeting discussed the results of the mini surveys conducted by the BCOP in July/August and October 2020. In this survey, a total of 12 PEMPAL countries shared their experiences and considerations regarding budget balancing measures and challenges. The respondents were from Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Serbia, Kosovo, Moldova, Russian Federation, and Kazakhstan. As the survey showed, some of the budget balancing measures implemented by the survey respondents included: review of programs and performance targets; considerations for optimization of public investments; set-up of a reserve fund; and revision of the methodology for calculating the limits for baseline expenditures, as well as borrowing. In addition, respondents also considered or implemented cuts on expenditures related to state agency administration, maintenance costs, new funding requests, discretionary expenditures, sport and cultural events and celebrations, and certain public investments. Some of the common challenges in conducting analyses to identify budget balancing measures mentioned by PEMPAL countries are time pressure, lack of capacity, lack of methodology and supporting tools, resistance and lack of cooperation from line ministries, and lack of regulatory framework that would validate and support efficiency and strategic review processes.

The meeting presented the KP’s preliminary recommendations for consideration while developing methodology and conducting rapid spending reviews (Shown in Exhibit 5).

The mid- to longer-term perspective that should be considered in the aftermath of rapid spending review include: i) strengthening ICT capacities and expand the use of digital solutions; ii) strengthening performance budgeting and management framework to fill data gaps and improve data quality; iii)
establishing reserves for unforeseen expenditures and replenish them regularly during more normal times; iv) strengthening public investment management and prioritization framework; v) strengthening internal and external audit function to support the much needed ex-post accountability on COVID-19 related spending; vi) making a plan for getting back on a sustainable fiscal track and improving the fiscal management framework, and vii) considering the feasibility of conducting a public sector optimization exercise as things get back on track. This presentation was followed by a roundtable discussion as part of session 2 of the meeting.

Exhibit 5: Preliminary General Recommendations

Recommendations: Process and Tools

Recommendation 1: Ensure high-level political support for the key stages of the expenditure review process.

Recommendation 2: Engage line ministries in a dialogue with the CBA and Government.

Recommendation 3: Mainstream rapid spending review into the regular budget process, institutionalize some simple policy review tools in budget analysis.

Recommendation 4: Establish and communicate budget priorities at the outset of the process, set aside low priority areas to be considered for potential cuts and a target for expenditure reduction.

Recommendation 5: Consider more extensive use of digital solutions in budget planning and implementation.

Recommendation 6: Involve external experts.

Recommendation 7: Consider a temporary relaxation of formal processes, authorities and delegations in case of the need of rapid expenditure cuts or re-allocations.

Recommendation 8: Establish a mechanism for clear political oversight of the process, ring-fence expenditures for COVID response and institute enhanced transparency and monitoring arrangements.

Recommendation 9: Incorporate mandatory strategic and efficiency questions in budget proposals, consider conducting targeted (vertical) sector reviews with a comprehensive or horizontal review.

Recommendation 10: Consider the use of guarantees, direct and non-direct budget loans, below the line and quasi-fiscal measures to mitigate the immediate fiscal impact of the crisis.

Recommendations: Areas to Focus

Recommendation 11: Consider using a comprehensive but relatively superficial approach in the implementation of rapid spending review.

Recommendation 12: Focus on horizontal expenditure reviews without a ‘deep dive’ analysis, using relatively simple analytical tools.

Recommendation 13: Use a selective approach in the decisions to cut or delay capital spending.

Recommendation 14: Consider temporary and progressive measures for reducing public sector employees’ pay bill.

!!! But note possible restrictions and negative impacts in most PEMRIPAL countries, particularly in the times of COVID. As far as a rapid review is concerned, possibilities might be limited to hiring freeze and, in rare cases, to bonuses and voluntary waivers by higher level officials.

Recommendation 15: Look into the maintenance costs of state agencies to identify savings or expenditure cuts: they can potentially be the least painful.

Recommendation 16: Consider commissioning targeted reviews in the area of social assistance: improvements in the administration, delivery channels and targeting of social transfers can generate significant fiscal space.
Conclusions and Next Steps for Finalizing the Knowledge Product

The second session of the meeting included roundtable discussions. The following conclusions and next steps for adjustments/expansions of the next version of the KP were agreed:

1. **The next version of the KP should clearly acknowledge and explain the essential differences in the timing and process for conducting a rapid spending review versus conducting a traditional spending review, as well as the differentiation between rapid and overview (reviews) conducted by the ministries of finance in routine budget cycles.** To this end, it should be explained in the KP that the spending review examples from New Zealand and Canada presented in the draft KP were quite lengthy in both processes and scope; thus they do not fit entirely under the rapid spending reviews as defined by the PPBWG for this KP, however they had certain elements that could be applicable for the rapid spending review. Amongst the differences between the traditional and rapid spending reviews, the KP should stress that one of the essential differences is in the design stage. In a traditional spending review exercise, the design is sophisticated and takes up to 3 months to decide on. Furthermore, the KP should make a clearer differentiation between rapid reviews and regular budget cycle analyses and have less focus on traditional spending reviews and more on clear definitions and advice for rapid spending reviews. Difficulties in conducting a rapid spending review should also be addressed, as the need may not come in an appropriate budget cycle stage.

2. **The next version of the KP should acknowledge and explain the need for the scope of expenditures typically covered under rapid reviews and compositions of committees/groups conducting and overseeing rapid spending reviews to be simple and realistic to implement in a short time available for conducting a rapid spending review.** This should include a clear explanation that in terms of the expenditure scope, conducting any deep dive analysis for specific sectors/functional areas may not be realistic under the current circumstances. The KP should also explain that, given fiscal space needs, most or all sectors would likely need to be a subject of a wide (but relatively shallow compared to deep-dive) review; while in some examples, selected types of expenditures could be singled out as being exempt from reviews, but these would likely be narrowly defined, as opposed
to covering whole sectors\(^1\). Alternatively, depending on the scale of fiscal space needs, some countries could consider exempting entire sectors from reviews, such as health, education, support to private sector (due to effects of pandemic on these sectors), while all other sectors would be a subject of a wide (and shallower compared to deep-dive) review. Another option may be selecting specific targeted areas of expenditures to be reviewed within a rapid spending review, but with narrowed scope and a more streamlined methodological approach\(^2\). This should be included in the KP.

3. **Further additions to the KP can include**: templates with listed specific questions for line ministries to answer in the process of proposing savings/reprioritization under a rapid spending review process, as well as additional templates for analyses to be conducted by a ministry of finance; a general standard methodology regarding the institutionalization of rapid spending review, alongside an explanation that developing such a methodology takes time, and may limit further flexibility since specific circumstances may require different tools.

4. **The KP’s chapters should be restructured and revised in the next version.** The report should first include briefer information on traditional spending reviews with clear definitions and differentiations between traditional spending reviews, rapid spending reviews, and regular expenditure reviews conducted in routine budget cycles. Further chapters should include recommendations for conducting rapid reviews, identify roles and processes, recommend specific templates and standardizes questions/forms, some methodological elements or draft instructions (and noting that risk analysis discussion should remain and be included in the templates).

5. **Next procedural steps were agreed.** This includes revising and updating the draft report to incorporate comments from this discussion, as well as additional written comments that will be provided by the Resource Team and Mr. Ivor Beazley, WB Senior Public Sector Specialist and reviewer of the KP. The next version of the report will be sent to the PPBWG members for their written comments. An additional VC meeting will be considered before finalization of the KP, if needed.

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\(^1\) For example, in Russia, a comprehensive rapid review was conducted earlier in 2020 in which savings were defined in all functional areas and sectors; while some specific expenditures were exempt, such as social support measures for certain categories of citizens.

\(^2\) Russia used such an approach in another rapid review conducted in 2020, focusing on costs related to development institutions. It was suggested to elaborate on composition of the committees/groups working and overseeing a rapid spending review.
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