

**PEMPAL BCOP Participation in the Meeting of the OECD's Network for Senior Budget Officials from Central, Eastern, and Southeastern Europe (OECD SBO CESEE) – June 24, 2021, Videoconference**

1. **On June 24, the PEMPAL Budget Community of Practice (BCOP) attended the 16<sup>th</sup> annual meeting of the Organization for Economic Development and Cooperation Network for Senior Budget Officials from Central, Eastern, and Southeastern Europe (OECD SBO CESEE).** BCOP resource team, consisting of Naida Carsimamovic Vukotic, World Bank Consultant, BCOP Resource Team Member and PEMPAL Network-level Advisor; and Ksenia Malafeeva, Program Assistant, PEMPAL Secretariat, facilitated the participation of the BCOP participants and delivered a presentation. BCOP also provided the translation to PEMPAL languages, including the translation of materials and simultaneous translation during the meeting. The agenda of the meeting and materials are available at <https://www.oecd.org/gov/budgeting/sbo-cesee-virtual-meeting-24-june-2021.htm> and <https://www.pempal.org/events/bcop-participation-meeting-oecd-senior-budget-officials-central-eastern-and-southeastern-0>.
2. **BCOP established a close and valuable partnership with the OECD, primarily through this network (CESEE SBO).** Cooperation with OECD provides an important opportunity for PEMPAL countries to share and benchmark their progress and challenges in budgeting reforms with OECD and CESEE countries on a regular basis and to learn and discuss the newest trends in budgeting areas.
3. **A total of 51 BCOP members attended this meeting, representing the Ministries of Finance of sixteen member Governments from the Europe and Central Asia (ECA) region** (Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Kazakhstan, Kosovo, Kyrgyz Republic, Moldova, Russian Federation, Serbia, Turkey, Ukraine, and Uzbekistan). In addition, representatives from the Ministries of Finance from Australia, Czech Republic, Germany, Greece, Hungary, Latvia, Lithuania, Malta, the Netherlands, Poland, Slovak Republic, and the United States also attended the meeting, as well as the representatives from the OECD Secretariat, World Bank, IMF, UN, and Centre of Excellence in Finance from Slovenia also attended the meeting.
4. **The meeting was chaired by Allard Postma, Head of Budget Policy from the Ministry of Finance of the Netherlands, and opened by Mr. Jon Blondal, Head of the Public Management and Budgeting Division of the OECD Directorate for Public Governance.** Mr. Blondal gave opening remarks in which he thanked PEMPAL BCOP for excellent partnership with the OECD, remarking that this represents the cooperation between international institutions at its best. He noted that the Covid crisis has highlighted the critical role of PFM and its capacity to respond quickly and effectively to shocks. There have been massive global government spending increases

and a rise in public debt to support households and firms throughout the crisis. Most countries are now entering a new phase in most countries where the role of PMF is to facilitate recovery. The fiscal consolidation phase will inevitably follow, where PFM will need to focus on budget repair to build fiscal capacity to respond to a future crisis at the end of the cycle. One of the clear lessons from the Covid crisis is that the countries that came in a better shape into the crisis were in a better position to respond to it. Spending reviews, which are the topic of this meeting, are a useful tool for governments to take a critical look at the effectiveness and efficiency of their baseline expenditure to assist the government in both recovery and consolidation phases.

**4. The first session of the meeting was devoted to a draft of OECD Best Practices for Spending Review.** This draft was developed by the OECD based on the compiled lessons learned from the OECD countries over the past decade. The Best Practices offer insights in designing and executing robust spending reviews processes. Given a continuous evolution of spending reviews, OECD revised the definition of the spending review. Spending reviews are defined as a collaborative process of developing and adopting policy options by analyzing the government's existing expenditure within defined areas and linking these options to the budget process. The purposes of a spending review include enabling the government to manage the aggregate level of expenditure; aligning expenditure according to the priorities of the government; and improving effectiveness within programs and policies. The following eight draft best practices were presented and discussed:

1. The objectives and the scope of a spending review are determined at the beginning of the review process.
2. Senior political and administrative leaders perform a complimentary yet distinct role in the spending review process.
3. Spending reviews have well-developed governance arrangements throughout the review process.
4. Spending reviews conclude with recommendations for political leaders to decide on in the budget process.
5. Spending reviews complement tools designed to improve performance orientation, including medium-term budget frameworks and performance budgeting.
6. The results of a spending review are implemented and monitored in a transparent manner.
7. Spending reviews are reported in a transparent manner.
8. The spending review process is reviewed periodically to reflect new developments.

**5. The second meeting session was devoted to the results of the surveys on spending reviews (SRs) in OECD countries and PEMPAL countries conducted in late 2020/early 2021.** Preliminary survey results for the OECD countries were presented by Mr. Axel Mathot, Senior Policy Analyst from the OECD Public Management and Budgeting Division, while Ms.

Carsimamovic Vukotic from the BCOP Resource Team presented the preliminary results from the survey of PEMPAL countries. SRs have been widely introduced and practiced in OECD countries but still growing in importance in PEMPAL countries. Total of 31 out of 37 OECD countries having conducted spending reviews and four additional countries considering its introduction. On the other hand, the number of PEMPAL countries conducting spending reviews increased from 1 in 2016 to 8 in 2020. In addition to these 8 PEMPAL countries which report having SRs, 8 other PEMPAL countries report that they are considering introducing SRs. Thus, in total, out of 17 surveyed PEMPAL countries, 16 countries report to have conducted spending reviews or are considering their introduction. Presentations of results for OECD and PEMPAL countries were delivered jointly, following the same structure and focusing on SR evolution and objectives, the institutionalization of SR, organizational structures, coverage and scope of SR, SR impact, and challenges. Based on survey results for both OECD and PEMPAL countries, the presenters highlighted some key potential issues of interest for further examination going forward. These include:

- a. SRs are a flexible tool where the main objectives can vary according to necessities
- b. Options exist for developing standing legal and methodological bases, while also ensuring flexibility
- c. There is a need to balance roles of civil servants and political level in SR organizational arrangement
- d. Advantages exist in creating an SR Unit with options for its composition and responsibilities
- e. The SR process should be closely aligned with the regular budget process
- f. Assessment mechanisms for SR impact should be fostered, ensuring that SR objectives are met, including reallocation stemming from alignment to government priorities
- g. The use of performance information in SRs is important

**6. The third and final meeting session was devoted to the presentation of two country cases on spending reviews: Croatia and Poland.** Ms. Hana Zoricic from the Treasury of Ministry of Finance of Croatia presented the experience and lessons learned from the Croatian first spending reviews initiated in 2014. Croatia conducted these spending reviews based on the recommendations from the EU Council within the condition of excessive budget deficit in Croatia. The World Bank and the IMF assisted the Ministry of Finance in the early stages of the process by delivering workshops for the Ministry of Finance and line ministries' staff on spending review methodologies and on implementation tasks for the spending review working groups. The process was driven largely by the Ministry of Finance and the scope was large, necessitated by the large savings needs. Some of the lessons learned included the need for stronger political support in the implementation of spending reviews, the implications of the timing of spending reviews relative to government's mandate; challenges related to the need to include in the work on spending reviews the best civil servants, who simultaneously have the heaviest workloads;

the advantages of combining external and internal expertise; the importance of publishing spending review reports; and the importance of taking a medium-term perspective in spending reviews. Based on the lessons learned and the current circumstances and needs, Croatia has now moved to more targeted spending reviews. Ms. Joanna Stachura from the Department of Public Expenditure Effectiveness and Accounting in the Ministry of Finance of Poland presented the lessons learned from previous spending reviews in Poland and the subsequent considerations for improvements going forward that are currently under the considerations by the Ministry of Finance. SRs were introduced in Poland in 2015, as a part of broader budget reform. The plan was to review all public expenditure over several years and the main objective for reallocation/reprioritization (rather than savings). Some of the lessons learned included the need for a strong legal framework to ensure adherence of all actors (including line ministries) to the SR process and implementation; a possibility to use strong linkage with the budgetary process as an incentive for more dedication to SRs; the need for more active roles of Ministry of Finance budgetary departments and line ministries in accessing and analyzing data and later in the implementation of findings; and the need to strengthen the implementation and monitoring phases. Based on the lessons learned, there are now plans to include SRs in the Public Finance Act and to develop strong guidelines. The SR process will also be redesigned, after which two pilot SRs will be conducted under the new design. Some of the elements that will be redesigned include separation of political and administrative level within the Sr structure (working group, steering group, and the political level), stronger linkage with the budget, strengthening the role of the Ministry for Finance budgetary units, producing policy options (rather than a list of recommendations) in spending review reports; publication of Sr report; and designing a system for SR monitoring.