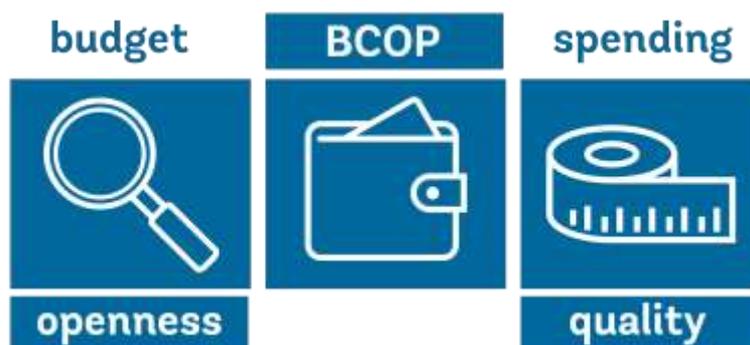


SPENDING REVIEWS:

Trends in PEMPAL Countries Benchmarked to Trends in OECD Countries



Knowledge Product prepared by
the Program and Performance Budgeting Working Group (PPBWG)
of the PEMPAL Budget Community of Practice (BCOP)
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ABBREVIATIONS

ARM	Armenia
AUS	Australia
AUT	Austria
AZE	Azerbaijan
BEL	Belgium
BCOP	Budget Community of Practice
BUL.	Bulgaria
BiH	Bosnia and Herzegovina
BLR	Belarus
CAN	Canada
CHE	Switzerland
COP	Community of Practice
CRO	Croatia
DEU	Germany
DNK	Denmark
ECA	Europe and Central Asia
ESP	Spain
FIN	Finland
FRA	France
GBR	Great Britain
GEO	Georgia
GRC	Greece
IMF	International Monetary Fund
IRE	Ireland
ITA	Italy
JPN	Japan
KAZ	Kazakhstan
KGY	Kyrgyz Republic
KOR	South Korea
KOS	Kosovo
LUX	Luxemburg
MOL	Moldova
MEX	Mexico
MoF	Ministry of Finance
NLD	Netherlands
MAC	North Macedonia
NOR	Norway
NZL	New Zealand
OECD	Organization for Economic Cooperation and Development
PEMPAL	Public Expenditure Management Peer Assisted Learning
PFM	Public Finance Management
PM	Prime Minister
PPBWG	Program and Performance Budgeting Working Group
PRT	Portugal
ROM	Romania
RUS	Russia
SER	Serbia
SWE	Sweden
TAJ	Tajikistan
TUR	Turkey
UKR	Ukraine
UZB	Uzbekistan

BACKGROUND INFORMATION, OBJECTIVES, AND METHODOLOGY

- 1. Public Expenditure Management Peer Assisted Learning (PEMPAL) is a network that facilitates the exchange of professional experience and knowledge transfer among public finance management (PFM) practitioners across Europe and Central Asia (ECA) countries.** The network was launched in 2006¹. The network is organized around three thematic communities of practice (COPs), one of which is the Budget Community of Practice (BCOP), which aims to strengthen budget methodology, planning, and transparency in member countries. BCOP members represent 21 ECA countries². BCOP activities are driven by member-led action plans that address key budgeting priorities of member countries. BCOP activity plans include sharing and creation of knowledge through face-to-face and virtual meetings, learning visits, exchanges with other networks, and the development of knowledge products. BCOP operates two working groups, one of which is the Program and Performance budgeting Working Group (PPBWG).
- 2. The PPBWG focuses on the design and implementation of program and performance budgeting and spending reviews with the aim of improving spending effectiveness.** The group was formed in 2017 and its membership includes 17 of the 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. The PPBWG has close cooperation with the Organization of Economic Cooperation and Development (OECD) and with the World Bank, which provides content contribution to the work of this group.
- 3. The topic of spending reviews has been examined by the PPBWG over the years and has gained in importance and interest of PEMPAL countries.** This included examination of several country cases and initial collection of limited data on spending reviews in PEMPAL countries within the PPBWG flagship knowledge product on *[Performance Budgeting and Spending Reviews: Current Practices, Challenges, and Recommendations](#)* (2020). In 2021, the deeper focus has been to give his topic, including the development of the knowledge product *[Conducting Rapid Spending Reviews for Identifying Budget Balancing Measures](#)* and collection of more extensive data on practices and challenges in spending reviews in PEMPAL countries. In 2022, an additional knowledge product on this topic is being developed, taking a deep dive into one example of spending review in an advanced country (specifically, spending review of child support in the Netherlands).
- 4. This knowledge product represents a brief general stock taking and benchmarking report.** Its objective is to briefly review the current practices in spending reviews in PEMPAL countries as of 2021, benchmark to the current practices in OECD countries, and to gain a better understanding of the design, implementation, and challenges. Where data permits, comparative analysis and monitoring of changes

¹ Refer to www.pempal.org for more information.

² Albania, Azerbaijan, Armenia, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Kazakhstan, Kosovo, Kyrgyz Republic, Republic of North Macedonia, Moldova, Montenegro, Romania, Russian Federation, Serbia, Tajikistan, Turkey, Ukraine, and Uzbekistan.

over time is provided, based on previous PPBWG data on SRs in PEMPAL countries. Moreover, in its concluding chapter, this knowledge product discusses summary trends and some key potential issues of interest to PEMPAL countries in the area of spending reviews going forward.

5. **Data used in this report are from the Survey on Spending Reviews conducted among PEMPAL countries in Spring 2021.** The questionnaire for PEMPAL countries was broadly based on the questionnaire used by the OECD Secretariat for collecting data for OECD countries (which focuses in more detail on spending reviews compared to previous iterations of the OECD Performance Budgeting Surveys). The OECD questionnaire was adjusted and expanded for PEMPAL countries, including their specificities and interests in peer-learning. The comparability for the key questions with the OECD questionnaire was maintained to enable benchmarking. Other knowledge exchanges and discussions held within BCOP events on spending reviews also inform this knowledge product, as well as materials of the OECD Working Party of Performance and Results also inform this report, including *Draft OECD Best Practices for Spending Review* (2021), report on *Spending Reviews in OECD Countries* (2021), which summarizes the results of the survey on spending reviews for OECD countries, and presentations on spending reviews from the 2021 meeting of the OECD network of the senior budget officials from central, eastern, and south-eastern European countries.
6. **Survey data for 16 PEMPAL countries was used for this report.** Armenia, Azerbaijan, Belarus, BiH, Bulgaria, Croatia, Georgia, Kosovo, North Macedonia, Moldova, Russia, Tajikistan, Turkey, Ukraine, Uzbekistan filled out the PEMPAL survey, while Romania filled out the survey directly through OECD Secretariat.
7. **The main limitation for the data analysis in this report stems from the self-reporting nature of the surveys.** Data is based on PEMPAL countries' own self-assessment. While some data cleaning was conducted to ensure internal consistency of countries' individual survey responses, data has not been verified. In addition, potential terminology limitations and inconsistencies remain. Although expanded definitions and usual characteristics of spending reviews were provided in the survey glossary to help ensure the proper understanding of spending reviews, there are still indications that the self-reported data on spending reviews may include analyses that do not qualify as a spending review by international definition and/or include analyses undertaken fully by international organizations with limited involvement of Ministries of Finance in some cases.

SPENDING REVIEW DEFINITION AND TYPICAL CHARACTERISTICS

8. **Spending reviews are defined by the OECD as tools for developing, assessing, recommending, 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: i) enabling the government to manage the aggregate level of expenditure; ii) aligning expenditure according to the priorities of the government; and iii) improving effectiveness within programs and policies. Spending review practices differ greatly across countries. They may be comprehensive in nature and focus on the total government expenditures, or they may be more specific and focus on expenditures in specific sectors or areas. They also vary in frequency and duration³.
9. **Spending reviews are not standardized globally; however, there are some typical joint characteristics of these exercises.** Objectives, methodologies, and formats of spending reviews have evolved over time globally and countries adjust spending review specificities to their own circumstances and needs. Moreover, spending reviews are a new concept in some PEMPAL countries. Thus, in the glossary accompanying the survey conducted for this knowledge product, some typical key characteristics of sending reviews were included, in the effort to ensure that PEMPAL countries report only on spending reviews, rather than other expenditure analyses exercises. There are some typical characteristics associated with spending reviews in terms of roles/process, types of recommendations, types of expenditures to be reviewed, link with budgeting, type of data used, and methods for data analysis. The link with budgeting is the key and it is what distinguishes spending reviews from other tools such as evaluations. This is also important in the context of countries using spending reviews for broader purposes in cases of a less urgent need for fiscal consolidation.
10. **A spending review is in most cases conducted in a collaborative process including roles of different bodies/institutions, which differentiates them from regular analyses conducted within the budget process by the Central Budget Authority/Ministry of Finance (MoF).** Spending reviews are typically initiated (directly or based on MoF's proposal) by the Government/Cabinet (or Chief Executive – Prime Minister or President), which is also the final decision-making body, adopting specific recommendations/policy options proposed in spending reviews to be implemented and included in the budget. Line Ministries in spending areas being reviewed have a key role and they submit data and propose policy options/recommendations, while the MoF has a coordinating role and usually sets overall methodology, has an analytical role in the process of SR being conducted and performs a challenge role in scrutinizing the Line Ministries' proposals and inputs. Line ministries whose expenditures are being reviewed cooperate with the MoF, provide data, participate in the reviews, and implement the spending review results. In addition to these institutional roles, specific bodies for spending reviews are commonly established, usually a steering group overseeing the process, supervising the work of the working group, ensuring that the terms of references for the spending reviews are

³ OECD, OECD Working Party of Performance and Results: *Draft OECD Best Practices for Spending Review* (2021).

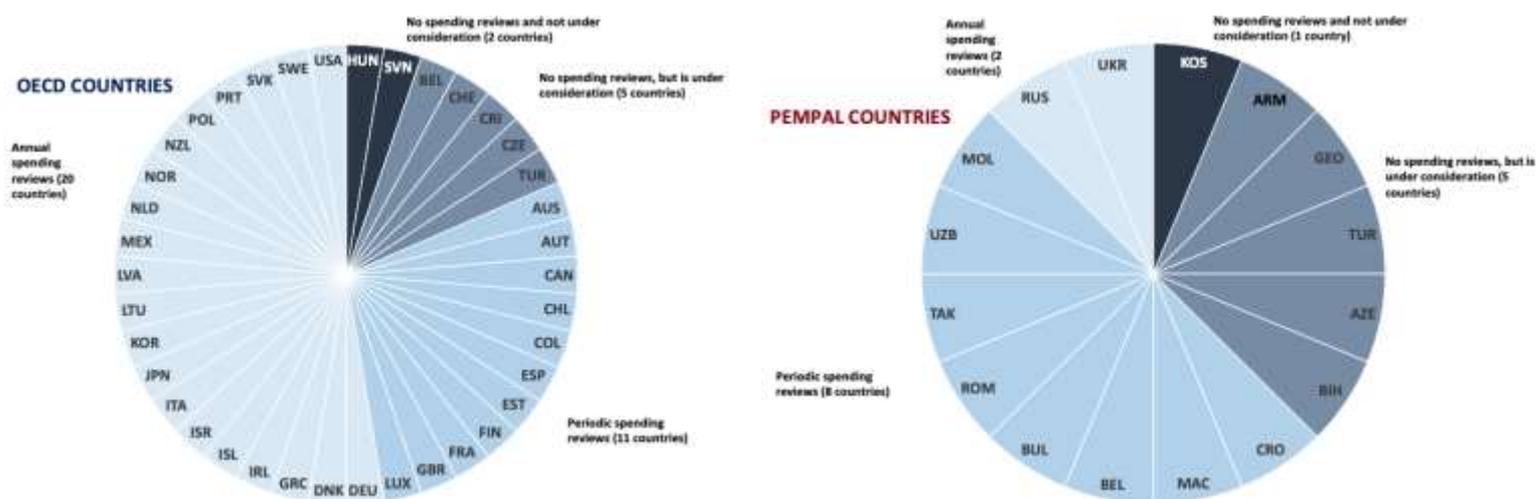
executed, and resolving any arising issues); and a working group managing day-to-day operations and conducting the spending review. External subject-matter experts are often engaged to assist in conducting the review. Parliament should take the spending reviews findings into account when approving the budget. Notwithstanding what is described in this paragraph, if the capacities are low, the spending review process may be less cooperative and/or with fewer institutions included.

11. **The outcome of a spending review is a menu of policy options and recommendations.** The working group should develop recommendations within the spending review report and submit them to the steering group and/or the Chief Executive, including specifying policy options on which the political leaders should decide. Thus, the spending review report provides recommendations on policy options going forward, which differentiates spending reviews from backward-looking policy evaluations.
12. **Spending reviews analyze existing expenditures.** While the analyses conducted within a regular budget planning process focus mostly on new spending requests, spending reviews analyze existing expenditures in spending areas that are being reviewed. This makes spending reviews essential for governments to have in place.
13. **There should be a systematic link between spending reviews and the budget process.** Adopted recommendations and policy options from spending reviews feed into the budget allocations. The timeline of spending review development and adoption of the spending review policy options should be planned in accordance with the budget calendar.
14. **A spending review uses available financial and performance data and applies different methods for data analyses based on available data and on the focus/objectives of the spending review.** However, in some cases where the data availability is low, new data for spending review may need to be collected, while taking into account the time limitations, given that spending reviews are typically prepared within a short period (within one budget cycle). Spending reviews in addition to examining effectiveness under current funding levels can also examine the consequences for outputs and outcomes of alternative funding levels.

WHICH COUNTRIES CONDUCT SPENDING REVIEWS AND WHAT IS THE FOCUS OF THEIR SPENDING REVIEWS?

15. **The use of spending reviews is on the strong rise in both OECD and PEMPAL countries; 16 out of 17 surveyed PEMPAL countries⁴ report having conducted spending reviews or planning to do so in the future.** The number of PEMPAL countries that report having conducted spending reviews increased from 1 in 2016 (Croatia) and 4 in 2018 (Bulgaria, Croatia, Moldova, and Russia) to 10 in 2020 (i.e., 63% of surveyed PEMPAL countries, which is around half of all PEMPAL countries). Of these ten, eight countries report having conducted full spending reviews: Bulgaria, Croatia, Moldova, North Macedonia, and Romania, Russia, Ukraine, and Uzbekistan. Belarus and Tajikistan had expenditure reviews conducted by the international organizations, who also assisted in some of the other above-listed countries, based on self-reported data. Among OECD countries, 31 out of 37 countries (around 85%) report having conducted spending reviews, with additional 4 countries reporting plans to conduct spending reviews in the future. This compares to 16 out of 32 countries (50%) conducting spending reviews in 2011. Spending reviews are now most commonly an annual exercise in OECD countries, while in PEMPAL countries only Russia and Ukraine report having annual reviews.

Exhibit 1: Use of Spending Reviews in OECD and PEMPAL Countries

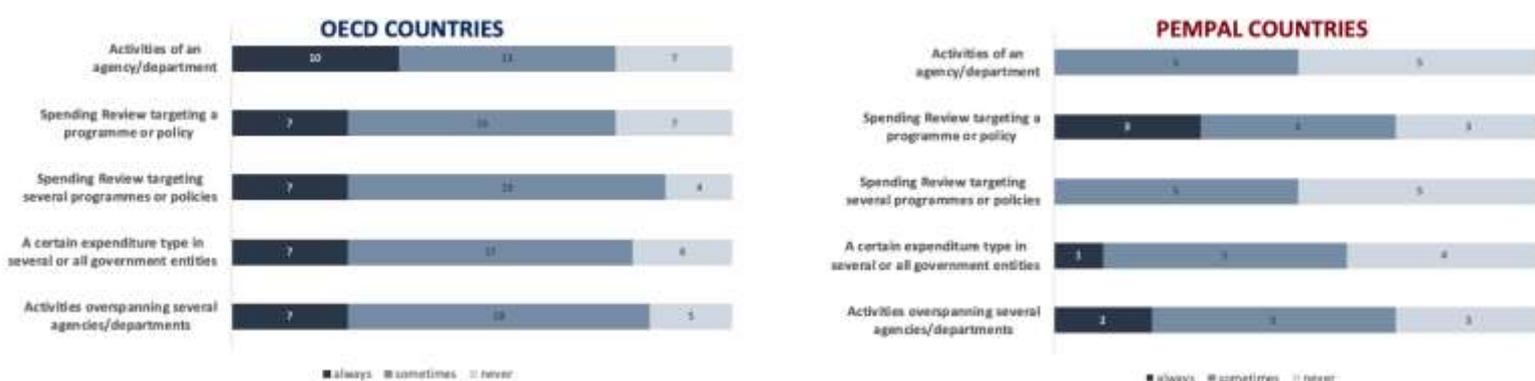


16. **There has been a clear shift of primary focus of spending reviews from savings to also include effectiveness and reprioritization.** This is evident for both groups of countries. Objectives of spending reviews also adjust based on economic and fiscal conditions. While spending efficiency and short-term budget cuts remain an important objective, efforts to align expenditures to government priorities and improve effectiveness become an equally or more important focus of current spending reviews. The number of countries that reported alignment of expenditure to government priorities doubled from 10 OECD countries prior to 2017 to 20 and increased from 3 PEMPAL countries in 2018 to 8 in 2021.

⁴ All but Kosovo.

17. **Scope and coverage of spending reviews vary greatly among countries, with some trends towards medium size reviews.** Narrow (0-5% of total expenditures), medium (5-20%), and comprehensive (20-100%) scope spending reviews are now equally represented in OECD countries. There is a shift from mostly comprehensive reviews in OECD countries in 2008, to a growing share of medium scope reviews. In PEMPAL countries, spending reviews also mostly have a medium-size scope: Bulgaria in 2016, Croatia in 2020, North Macedonia in 2018, in Romania in 2016 and 2017, Russia in 2019 and 2020, and Ukraine in 2019 and 2020. Two cases of comprehensive coverage were reported: Belarus in 2017 and Uzbekistan in 2019. The remaining cases of spending reviews in PEMPAL countries on annual basis (7) are narrow in scope. Overall, there seems to be some tendency toward medium coverage in most recent years in PEMPAL countries. Coverage of spending reviews in terms of whether it reviews one or more institutions/departments, and one or more programs varies among countries, as shown in Exhibit 2. In OECD countries, reviews most frequently target several programs/policies across several agencies/departments, but almost equally frequent are reviews of only one agency/department costs and one program/policy. PEMPAL countries report that reviews of one program/policy and activities spanning several agencies/departments are most frequent.

Exhibit 2: Use of Spending Reviews in OECD and PEMPAL Countries



18. **A total of 66 spending reviews were reported by 10 PEMPAL countries in 2016-2021; the most common recent spending review topics in PEMPAL countries were in the broad area of economic affairs (17 spending reviews), including most frequently in agriculture and transport.** The second most common area was education (13 spending reviews), including research and development, while the third most common area is social protection (8 spending reviews), including welfare and pensions. This is shown in Exhibit 3. In the OECD surveys, OECD countries reported on examples of their recent spending reviews topics. Most examples reported by the OECD countries were in the areas of health, social protection, education, and economic affairs.

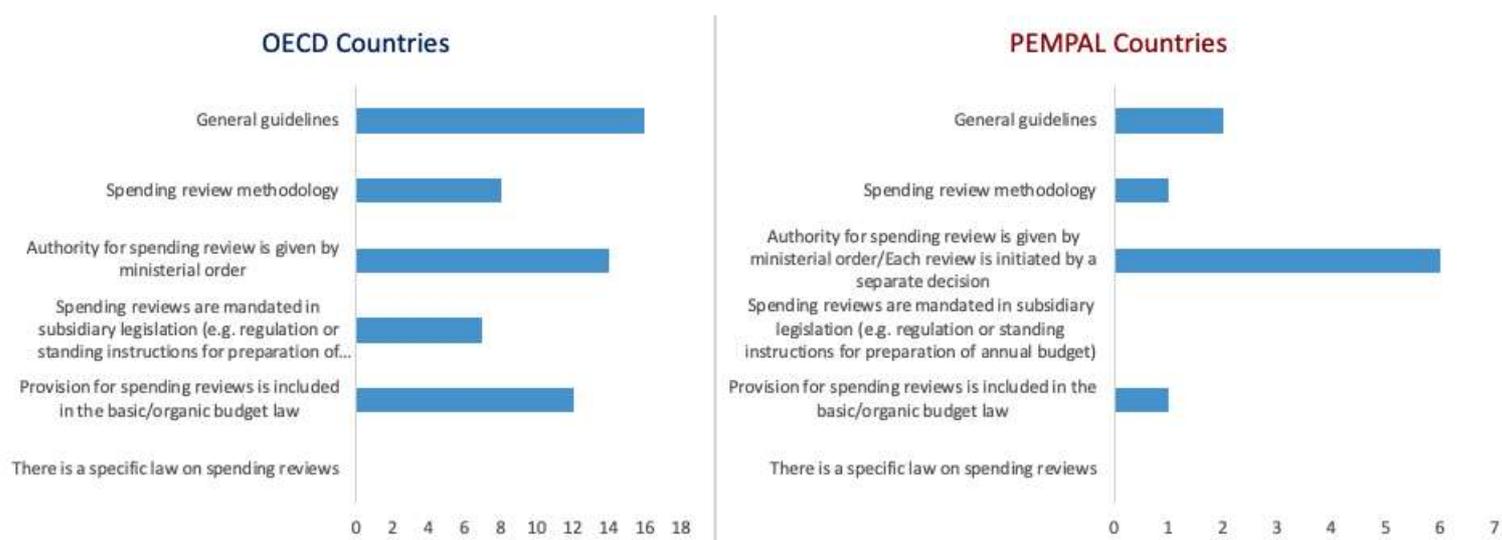
Exhibit 3: Reported Topics of Recent Spending Reviews in PEMPAL Countries

Belarus	Fiscal policy; debt policy; education sector funding; health sector funding; social protection system sustainability; pension system sustainability
Bulgaria	External affairs; waste management; wage bill; maintenance costs; public safety
Croatia	Waste management; water management; maintenance
North Macedonia	Dividends to state-owned enterprises; wage bill; travel costs; financial support to municipalities
Moldova	Vocational education; higher education
Russia	Energy, agriculture, and fisheries; subsidies; SOE support; research, development, and technology; communications services; material and technical support; IT systems and introduction of digital technologies; healthcare; environment and nature protection; international obligations/projects; civilian industry; justice sector/prisons; costs of Ministry of Digital Development, Communications, and Mass Media
Ukraine	Regional transport infrastructure; regional development; agro-industrial support; expenses for the coal industry; road safety; construction, reconstruction, repair and maintenance of highways; scholarships and grants; professional development of personnel in education; scientific research; health protection; training and advanced training of specialists and personnel in health care; centralized procurement of medicines, medical devices and services; financial support for cultural and sports institutions; waste management; judiciary sector; pensions; social protection of children; affordable housing
Uzbekistan	Healthcare; education

WHAT ARE REGULATORY, METHODOLOGICAL, AND INSTITUTIONAL FRAMEWORKS FOR SPENDING REVIEWS?

19. **The regulatory and methodological basis for spending reviews is less developed in PEMPAL countries compared to OECD countries.** There are no countries in either of the country groups with separate specific legislation devoted to spending reviews. However, 15 OECD countries (around half of 31 OECD countries that have spending reviews) have a legal basis for spending reviews within the organic budget law and/or within subsidiary legislation (Canada, Chile, Estonia, France, Germany, Greece, Italy, Japan, Korea, Latvia, Mexico, New Zealand, Portugal, Slovak Republic, and the United States of America). For these countries where spending reviews are mandated by law, it is frequently the case that the spending reviews are highly integrated into the budget process⁵. Among PEMPAL countries, only Ukraine has a legal basis for spending reviews, within the organic budget law (i.e., the Budget Code). In the remaining PEMPAL countries that conduct spending reviews, the authority is given by a ministerial order or by a government decision/decreed for each spending review (Bulgaria, Croatia, Moldova, Romania, Russia, and Uzbekistan), as shown in Exhibit 4. Overall, there is not one specific way for establishing the regulatory basis for the spending reviews and each country should design its approach based on its specificities, needs, and capacities. For example, a stand-alone spending review legislation may be the best choice in one country, while more informal procedures may work better in another country.

Exhibit 4: Regulatory and Methodological Basis for Spending Reviews in OECD and PEMPAL Countries



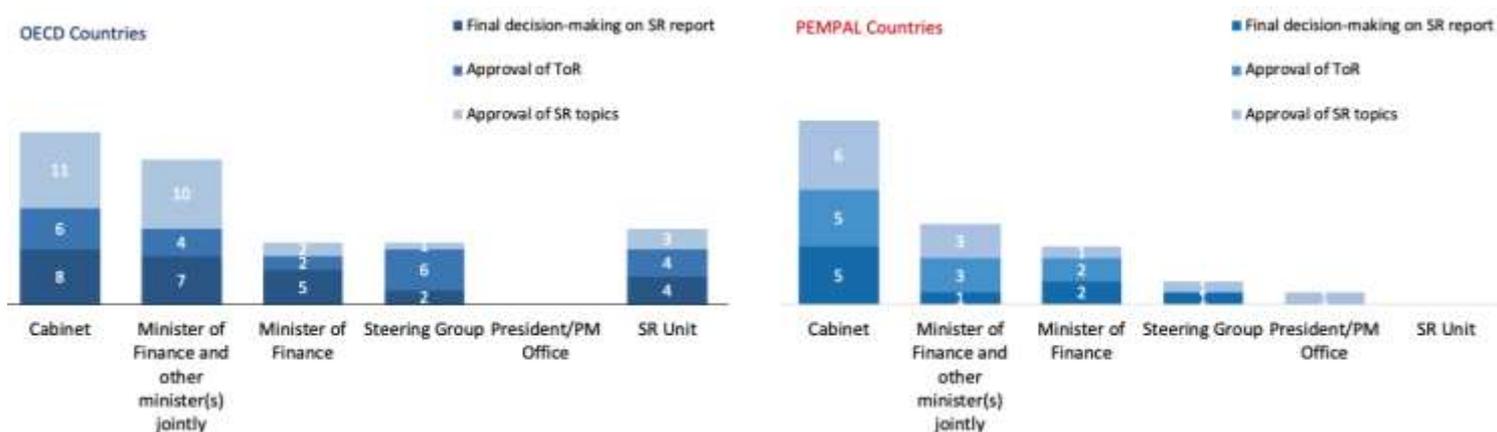
20. **Methodological framework for spending reviews is also weaker in PEMPAL countries than in OECD countries.** Over two-thirds of OECD countries (18) have standing spending review methodology applicable to all spending reviews and/or general guidelines applicable to all spending reviews (Chile, Colombia, Costa Rica,

⁵ OECD, OECD Working Party of Performance and Results: *Spending Reviews in OECD Countries* (2021).

Denmark, Germany, Greece, Ireland, Israel, Japan, Korea, Lithuania, Mexico, the Netherlands, New Zealand, Norway, Poland, United Kingdom, United State of America). Among PEMPAL countries, Romania reports having the standing general guidelines applicable to all spending reviews; Russia has some standing standard principles and procedures specified in several government/ministerial decrees/orders. Ukraine reports having a standing methodology applicable to all spending reviews. This is shown in Exhibit 4. Other PEMPAL countries that conduct spending reviews do not have a standing methodological framework applicable to all spending reviews.

21. **The Cabinet/Government, MoF, and ministers of line ministries whose expenditure is being reviewed typically play the most active role in decision-making in the spending review process in OECD countries.** This is also the case in PEMPAL countries, where there has been an increasing role of government/ministers since 2018. However, overall, in PEMPAL countries the line ministries have a less active role compared to OECD countries, while MoF has a more active role. Most OECD countries (24 countries, i.e., around 85% of OECD countries that have spending reviews) reported having a spending review unit that organizes and coordinates the process of spending reviews. These are in some cases ad hoc teams, however, in many cases, these refer to a standing institutional unit responsible for spending reviews specifically. These are mostly located in MoF or Ministry of Economy or in more rare cases in the Presidency/Prime Ministers’ Office. In PEMPAL country, only Romania reports having a stand-alone spending review unit; MoF units conduct these duties in other PEMPAL countries. While the typical role of the steering group in the technical process includes supervision and review of reports, in some OECD countries, the steering group also participates in formulating recommendation and/or policy options (10 OECD countries: Canada, Denmark, Germany, Iceland, Korea, Latvia, Luxemburg, Norway, Poland, and the United Kingdom).

Exhibit 5: Decision-making Actors in Key Stages of Spending Reviews



22. **Most countries that conduct spending reviews have both steering group and working group for spending reviews.** In OECD, 20 countries (around two thirds) have a working group, and 18 countries have a steering group. In PEMPAL countries, Bulgaria, Croatia, Moldova, North Macedonia, Romania, Russia, Ukraine, and Uzbekistan (80% of surveyed PEMPAL countries that have spending reviews, i.e., around 40% of all PEMPAL countries) have working groups when conducting spending reviews. All of these countries except for Ukraine and North Macedonia also

have a steering group for spending reviews. Belarus and Tajikistan do not have working groups or steering groups. A steering group is a standing body for all spending reviews only in Romania and Russia, while in other countries, a separate steering group is formed for each review. A steering group is comprised of high-level officials in Bulgaria, Croatia, and Moldova, while in Romania, Russia, and Uzbekistan, the political level (ministers or deputy ministers) is included in the steering group. In Bulgaria, the steering group is formed by a decision of the Minister of Finance, comprising high-level officials (usually Deputy Ministers or Secretary Generals) of line ministries/agencies and MoF. In Russia, the role of the steering group is performed by the Government Commission on Optimization and Improvement of the Expenditure Effectiveness, formed by a government decree, comprising Deputy Chairman of the Government, Minister of Finance, representatives of the Federal Treasury, the Administration of the President, the Federal Tax Service, the Accounts Chamber, the MoF, the Ministry of Economic Development, and line ministries/agencies. In Croatia, Croatia, senior civil servants from MF and line ministries/agencies, appointed by the Government, are in the steering group. In Moldova, the steering group is comprised of high-level managers from MF and line ministries/agencies, formed by a government decision. In Uzbekistan, the leadership of MoF and line ministries/agencies, including from the Cabinet of Ministers, are in the steering group, appointed by the Deputy Prime Minister. Finally, in Romania, there is the Inter-ministerial Government-level Spending Committee, where the prime minister is president, minister of finance is vice president, and additional nine ministers are included. Working groups comprised of representatives from MoF and line ministries in all these PEMPAL countries that have working groups. In Bulgaria, Croatia, Romania, Russia, and Ukraine external experts are also included in the working groups. There is a large variation in the compositions of spending review groups in terms of balance between MoF and line ministries in PEMPAL countries, as shown in Exhibit 6.

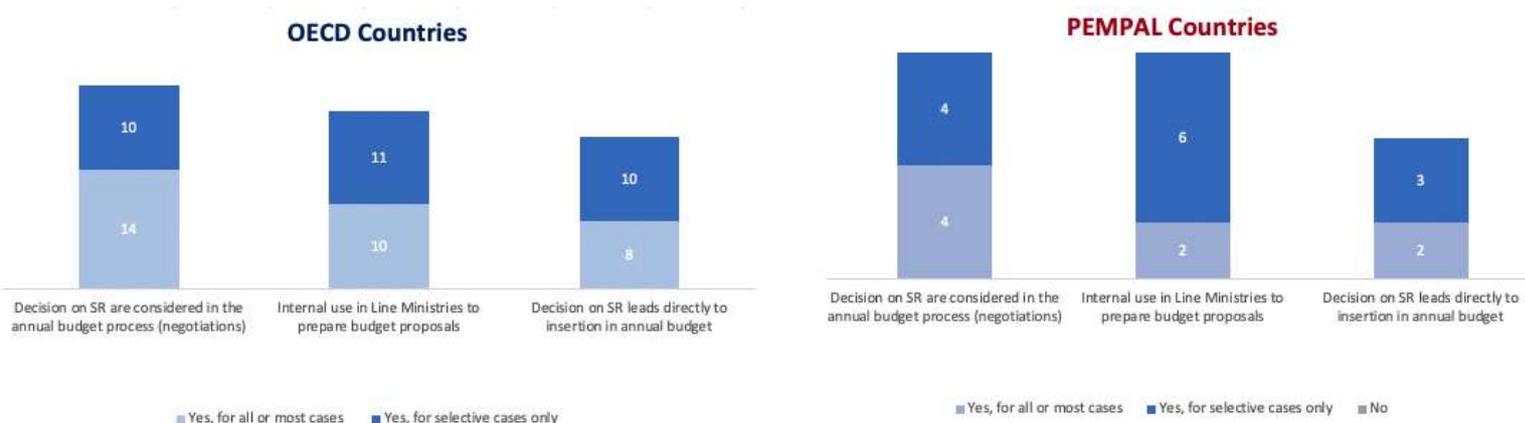
Exhibit 6: Composition of Spending Review Working Groups in PEMPAL Countries

<i>WG composition</i>	Bulgaria	Moldova	Uzbekistan	Russian Federation	Ukraine	Romania	average
Line ministries/agencies whose expenditures are being reviewed	20%	70%	50%	30%	49%	40%	43%
MoF	60%	30%	50%	30%	51%	40%	44%
External experts	20%	0%	0%	10%	0%	10%	7%
Other	0%	0%	0%	30%	0%	10%	7%

HOW ARE SPENDING REVIEWS USED AND WHAT IS THEIR CONTENT?

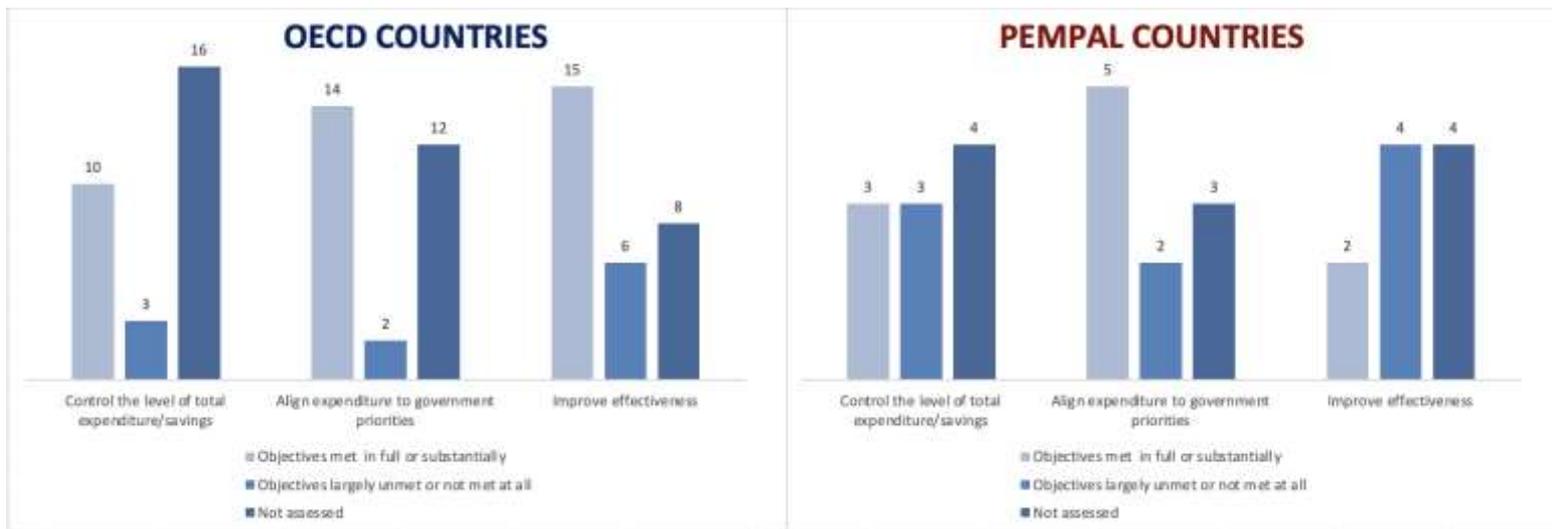
23. **Types of usages of spending reviews vary and overall use increases in both OECD and PEMPAL countries; most commonly the spending review decisions are considered in the annual budget process, i.e., in budget negotiations.** Twenty-four OECD countries and eight PEMPAL countries report this usage of spending reviews. However, while in OECD countries, this is the case for all or most cases, in PEMPAL countries this is relevant in selected cases only. In both groups of countries, the most common practice is line ministries' internal use to prepare budget proposals. Spending review decisions lead to direct insertion into the annual budget in all or most cases in 8 OECD countries (Chile, Denmark, France, Italy, Japan, Portugal, United Kingdom, and the United States of America) and in 2 PEMPAL countries (Ukraine and Uzbekistan). It should be noted, however, that some PEMPAL countries reported that in several cases the spending reviews were either not endorsed/adopted or not implemented.

Exhibit 7: Link between Spending Reviews and the Budget Decision-Making Process



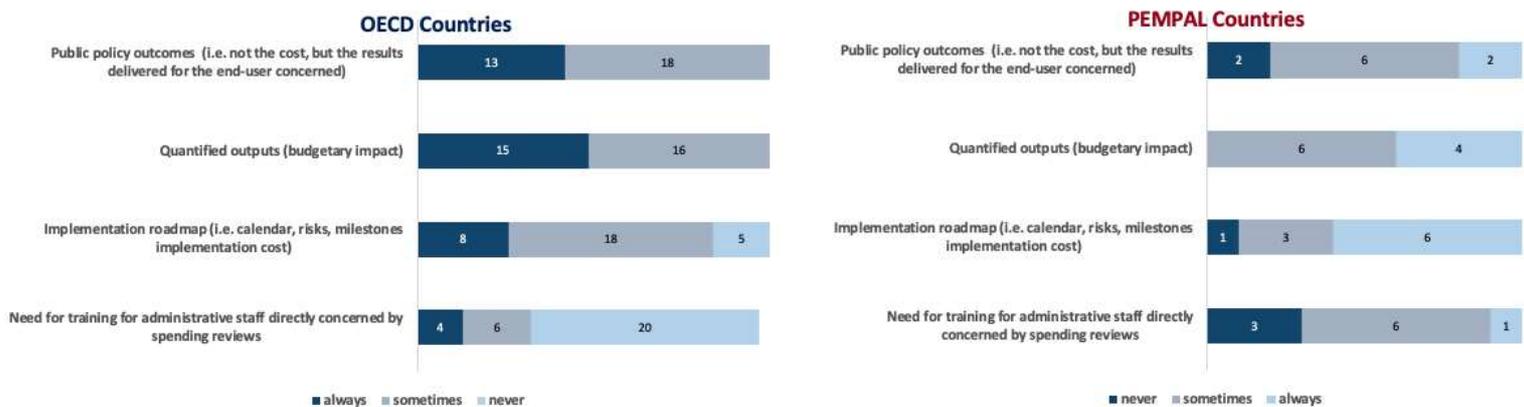
24. **Overall, the impact of spending reviews is often not assessed, although the assessments are more frequent compared to 2018; but most countries report that spending review decisions led to budget reallocation.** In OECD countries, in the case where there are assessments, spending review objectives are most frequently met in terms of improvement of effectiveness. For PEMPAL countries, an even higher share of countries reports that impacts are not assessed. In a case where there are assessments, spending review objectives are most frequently met in terms of reprioritization in PEMPAL countries, as shown in Exhibit 8. Effectiveness objective has been met the least so far; but is now ranked as the top priority spending review objective of PEMPAL countries. In PEMPAL region, six out of ten countries (Ukraine, Bulgaria, Belarus, Tajikistan, Uzbekistan, and North Macedonia) report that alignment to priorities led to some reallocations in 2017-2019, in most cases within the remit of the same minister. Thirty out of 32 OECD countries that conduct spending reviews report that alignment to priorities led to reallocations in 2017-2019, mostly within the remit of the same minister (13 countries), but also from one minister's budget to another minister's budget (9 countries), and within the same program (8 countries).

Exhibit 8: Countries' Self-Assessment of Impact of Spending Reviews



25. **Spending review key contents include quantified outputs, i.e., budgetary impact; public policy performance outcomes for end-users; implementation roadmap; and needs for staff training in OECD countries.** The first two are practically present in spending reviews of all OECD countries. The content is similar in PEMPAL countries, as shown in Exhibit 9.

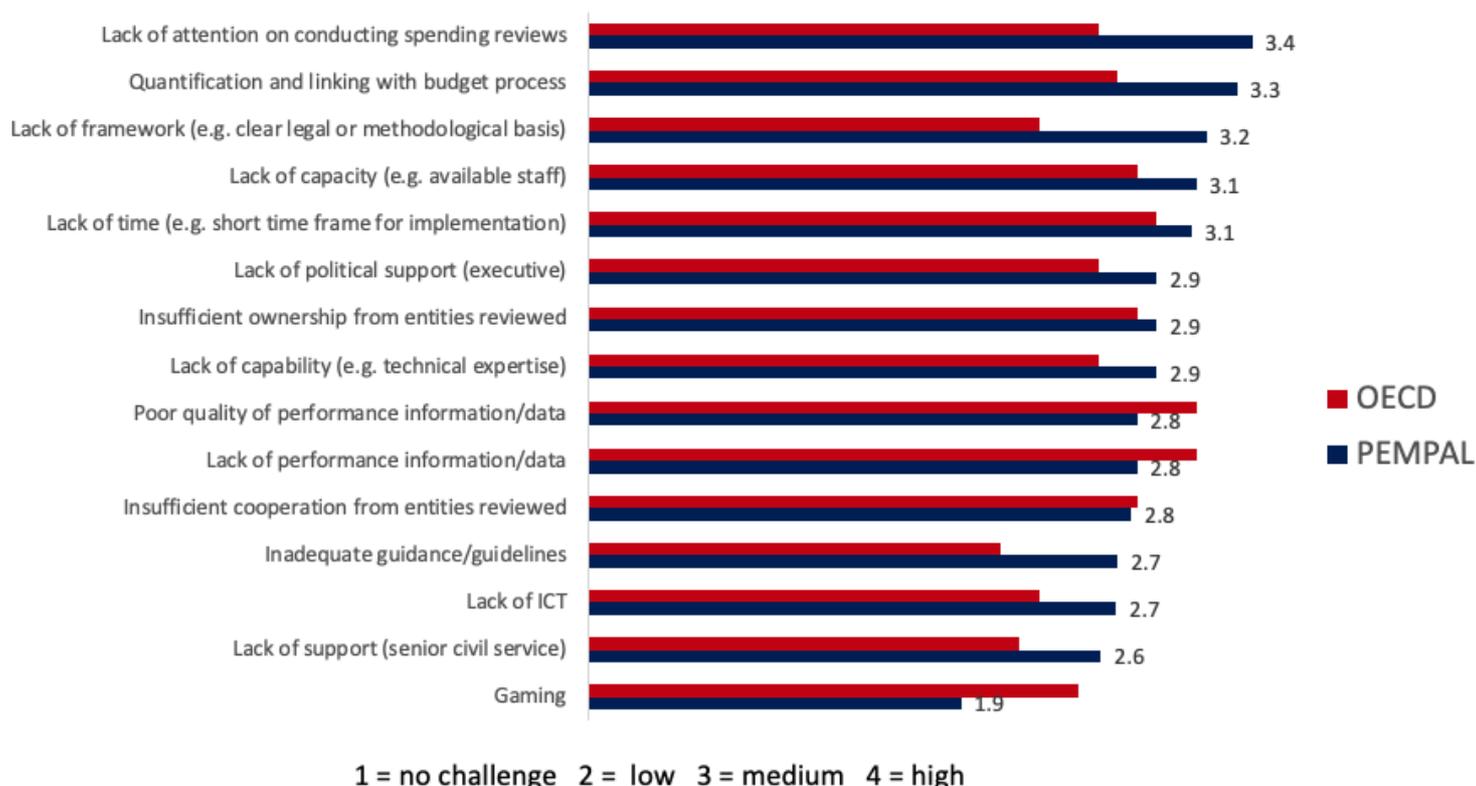
Exhibit 9: Spending Review Report Content



WHAT ARE THE KEY CHALLENGES IN SPENDING REVIEWS?

26. **PEMPAL countries face greater challenges in conducting spending reviews compared to OECD countries and the top identified challenges are associated with the early stages of implementation.** These refer to the attention devoted to conducting spending reviews and issues related to methodological framework and political and institutional support, as shown in Exhibit 10.

Exhibit 10: Challenges in Conducting Spending Reviews



27. **Challenges in OECD countries are similar; however, the top challenges relate to the quality and availability of performance data in those countries.** This likely reflects the fact that the importance of using performance data in spending reviews is more recognized by OECD countries and the overall smaller use of performance data for decision making in PEMPAL countries. As PEMPAL countries increase their use of spending reviews and performance budgeting tools, it is expected that their focus in spending reviews will also turn more to performance data quality. OECD countries also identify challenges in implementing the results of spending reviews as high, which is expected given their more advanced progress in conducting spending reviews.

KEY TAKEAWAYS AND POTENTIAL ISSUES OF INTEREST TO PEMPAL COUNTRIES IN SPENDING REVIEWS GOING FORWARD

28. The following takeaways and potential interest to PEMPAL countries in spending reviews going further can be highlighted:

- i. Spending reviews are growing in importance in PEMPAL countries. Their continued and increased use in OECD countries testifies to their usefulness. Further sharpening of this tool is expected in PEMPAL member countries.
- ii. Spending reviews are a flexible tool where the main objectives can vary according to necessities and political and economic challenges and priorities. PEMPAL countries should customize their approach in spending reviews based on their specificities, capacities, data availability, and needs. It is important to define clear objectives and scope of spending reviews, considering needs, data availability, and capacities for each spending review.
- iii. Options exist for developing standing legal and methodological bases, while also ensuring flexibility. PEMPAL countries would benefit from a stronger legal and methodological basis for spending reviews overall while taking careful consideration to allow flexibility on a case-by-case basis for each separate spending review. In addition, the methodological framework should be revisited periodically to adjust to changing needs and to take into account lessons learned from previous spending reviews.
- iv. Governance structures for spending reviews should be clear. There are advantages in designating a unit responsible for spending reviews, noting that there are different options for its composition and responsibilities depending on capacities and needs. There are also different options for its location, but the most common approach is to have such unit located in the MoF.
- v. Line ministries should have a strong role in spending reviews. While MoF should have a leadership and a challenge role, the burden of conducting reviews, identifying policy options, and ensuring implementation cannot be on MoF alone.
- vi. There is a need to align the spending review process with the regular budget process more closely.
- vii. Monitoring of spending review implementation should be conducted for all spending reviews and assessment mechanisms for spending review impacts should be fostered, ensuring that review objectives are met, including reallocation stemming from alignment to government priorities.
- viii. Capacities of staff, data, and information technologies for spending reviews should be built and continuously maintained and improved.
- ix. The use of performance information in spending reviews is important and the link with performance budgeting should be made where possible.
- x. Political support is essential for the credibility of spending reviews and the likelihood of implementation of spending review results. The success of spending reviews depends on political commitment. This includes strong role of the Government/Chief Executive in initiating the review and setting or confirming the topics (i.e., the spending areas to be reviewed), as well as in the final decision making to adopt specific policy options from the spending

reviews. Moreover, strong role of Minister of Finance and line ministers is important within the process of spending review preparation.

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