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Ministry of Finance of the Slovak Republic / www.finance.gov.sk/en/ifp



Spending Review in Slovakia

Martin Filko

Chief Economist and Director

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The Wire - Season 5 Episode 1

“We have to do *more*
with *less*.”

James Whiting



“The bigger the *lie*, the
more they *believe*.”

Bunk Moreland



| Motivation

- EU rules require further consolidation of 1.5 % - 2.5 % GDP
 - Tax increases unlikely due to political opposition
 - Improving efficiency of revenue collection is not sufficient
- Slovak public sector outcomes lagging compared to developed countries as well as regional peers.
- Lack of discussion on quality and efficiency of public expenditure. No real ex ante or ex post assessment of whether policies meet objectives.

Value for money

- Economic assessment of all public sector decisions
 - operations, investments, policies, regulations
- At the level of individual bigger projects/decisions, as well as a regular spending review
- Ex-ante by government agency and ex-post by an independent agency
- Emphasis on outcomes in public discussion (program budgeting)
- Benchmark against best at home and abroad
 - publicly, transparently and with reliable data
- Take into account possible alternative development and uncertainty

Categories of public policy decisions

Operations

- A pioneer project ESO (effective, reliable and open) – under development lack of capacities, unclear objectives

Investments

- No real standardized assessment in Slovakia – the only country in OECD
- Only formal duty and informal pressure (IFP, INEKO)

Policy

- Compulsory impact assessment (same for regulations)
- Government decisions with direct budgetary impact in areas of government competence – *tax system changes, transfers, subsidies, etc.*

Regulations

- Affects behavior of citizens and companies, not necessarily with (direct) budgetary impact
- Usually the competence of regulatory authorities (Regulatory Office for Network Industries, Regulatory Authority for Electronic Communications and Postal Services, Health Care Surveillance Authority, etc.)
- Example: *subsidies for solar energy, pharmaceuticals policy, various fees*

Spending review

- Comprehensive (and regular) review of effectiveness and efficiency of expenditures
- By sector or by a common topic (*IT, EU funds, etc.*)
- Different goals and combination of the goals:
 1. savings
 2. allocation efficiency
 3. better quality of service
- Should be part of budgetary process
- Commonly used in OECD countries - best practice in UK and NL
- Slovakia has no direct experience (partly WB 2007, IMF 2011, IFP, and some ad-hoc reviews)

Spending review in Slovakia - proposal

- Combination of all goals
 - Consolidation of costs
 - Better allocation (results)
 - Better services (efficiency)
- Executed – mainly internal capacities – analytical units in ministries, leadership by MoF
 - Internal analysis and methodology
 - Oversight (Council for budget responsibility, external organizations)
 - Transparent data and methodology
- Comparison basis is no-policy change scenario, not budget
- Pilot exercise now and ½ line ministries in 2017

I Objectives (next 12 months)

- Pilot Expenditure Review for Education and MoF
 - Proof of concept in four VfM categories
 - results by March 2016 in time for annual budget cycle
- Prepare templates in four areas of VfM and common methodology guidelines
- Establish a governance structure
- Political ownership

I Objectives (2017 onwards)

- Implement spending review as a regular exercise at all budgetary chapters
- Scale up to cover 90% of public expenditure
- Support development of analytical units at ministries
- Continue developing methodology
- Incorporate results in budgetary process

Toolbox

Cost-benefit analysis (CBA)

- Ideal but difficult to exercise in praxis, Everything is monetized
- Example: *construction of highways, airports, etc.*

Cost-effectiveness analysis (CEA)

- Financial costs vs. outcomes indicators (life expectancy, employment rate, greenhouse gases emissions)
- Example : *comparison of alternative interventions in healthcare or ecology*

Cost-utility analysis (CUA)

- Financial costs vs. utility
- Example : *in health care utility is measured by life expectancy (quantity) and life quality (quality-adjusted life-year - QALY)*

Cost-minimizing analysis (CMA)

- Only costs are assessed/affected
- Example : *a new hospital vs. reconstruction of the old one*

Benchmarking

- Internal (compares observed units with each other), external (for example international comparison)
- The best option: a combination of both internal and external (for example operational costs of hospital comparison)

Sophisticated analysis of efficiency

- Data Envelope Analysis, Stochastic Frontier Analysis, dynamic modeling, etc.

I Results-oriented public debate

- Need to change public debate from inputs and processes to results
- Performance based budgeting, programs evaluation non-existent in Slovakia
- Program budgeting as a tool for spending review operationalization, data collection and transparency
- Basis for discussion on outcomes – Indicators for each line ministry (IFP, 2013), National Reform Program

Structural policies outcomes

			2004	2005	2006	2007	2008	2009	2010	2011	2012	Target 2020
Fiscal policy and public finances												
1	Long-term sustainability indicator (GAP) (% GDP)	SK	-	-	-	-	-	9.5	9.2	6.8	-	0
		EU	-	-	-	-	-	-	-	-	-	-
2	VAT collection effectiveness (%)	SK	-	74.8	69.7	64.1	65.1	57.9	56.7	57.8	-	72
		EU22	-	71.4	72.9	73	71.1	66	66.9	66.9	-	-
Education, science, and innovation												
3	PISA (arithmetic average of the scores)	SK	-	-	482	-	-	488	-	-	-	505
		OECD	-	-	496	-	-	496	-	-	-	-
4	School drop-out rate (%, population aged 18 - 24)	SK	6.8	6.3	6.6	6.5	6	4.9	4.7	5	-	6
		EU	16	15.8	15.5	15.1	14.9	14.4	14.1	13.5	-	10
5	Citations per researcher (%, 100 = EU average)	SK	35	33	40	38	41	37	34	39	-	70
		EU	-	-	-	-	-	-	-	-	-	-
6	Tertiary education attainment (%, population aged 30 - 34)	SK	12.9	14.3	14.4	14.8	15.8	17.6	22.1	23.4	-	40
		EU	26.9	28	28.9	30	31	32.2	33.5	34.6	-	40
7	Gross domestic expenditure on R&D (GERD) (% GDP)	SK	0.51	0.51	0.49	0.46	0.47	0.48	0.63	0.68	-	1.2
		EU	1.83	1.82	1.85	1.85	1.92	2.02	2.01	2.03	-	3
8	High-tech export (% of total export)	SK	4.7	6.4	5.8	5	5.2	5.9	6.6	6.6	-	14
		EU	18,5	18.7	16.6	16.1	15.4	17.1	16.1	15.4	-	-
Employment and social inclusion												
9	Long term unemployment rate (% of active population aged at least 15)	SK	11.9	11.8	10.3	8.3	6.7	6.5	9.3	9.2	9.4	3
		EU	4.3	4.1	3.7	3.1	2.6	3	3.9	4.1	4.6	-
10	Employment rate (% of population aged 20 - 64)	SK	63.7	64.5	66	67.2	68.8	66.4	64.6	65.1	65.1	72
		EU	67.4	68	69	69.9	70.3	69	68.6	68.6	68.5	75
11	Population at risk of poverty and social exclusion (% of population)	SK	-	32	26.7	21.3	20.6	19.6	20.6	20.6	-	17.2
		EU	-	25.6	25.2	24.4	23.6	23.1	23.6	24.2	-	19.4



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How to evaluate big decisions

- Policy units involved in policy design identify alternatives
- Ex ante assessment of alternatives before decision
- Political decision based on the analysis
- Implementations by other dedicated units, not policy units
- Ex – post evaluation by independent bodies

Limitations: Capacity, data, transparency

Analytical units

- Like IFP – in every ministry, the Government office and the Supreme Audit Office
- Size:
 - GO and the Ministry of Labor 20 people
 - Bigger ministries 10-15 people
 - Smaller ministries 5-10 people
- EU funds support
- Main impediment is HR (lack of policy wonks)

Data

- Joint database from all institutions for analysts with emphasis on data security – superdatabase
- New data collection compulsory – legislative change required

Transparency

- Everything published on the internet, user-friendly
- Almost no data is state secret

Governance structure

- Role of political level
 - Political support crucial (prime minister and finance minister)
 - Ex ante agreement on policy areas and priorities to achieve
 - Identify policy alternatives that should be analyzed
 - Significant comprehensive component
 - Agree on policy options
- Informal technical working groups (civil servants from MoF + line ministry relevant to policy area + ?experts)
 - Generate options for assessment
 - Agree on a common methodology
- Independent bodies
 - Evaluation after publication and before decision is taken
 - Another evaluation after implementation

Ex-ante assessment

Policy categories

Ex-post assessment

Finance and interior ministries



Operations

e.g. toners, mandays, clean-up



National Audit Office

Finance, other ministries



Investment

e.g. hospitals, highways, helicopters



National Audit Office,
(Fiscal Council)

Finance, other ministries



Policies

e.g. contribution allowance,
Pensions, teachers' assistants



National Audit Office,
Finance ministry,
(Fiscal Council)

Finance, other ministries,
regulators



Regulation

e.g. solar energy, drugs



National Audit Office,
regulators



I Issues for discussion

- Pilot – one ministry vs selected topics
- Scaling up from pilot to 90% of expenditure
- Governance structure
- Role of MoF. Right incentives for line ministries
- Size of analytical capacity required at MoF and line ministries, role for external expertise
- Role of NGOs, local government, other budgetary chapters
- Dealing with data (un)availability
- Granularity of analysis

Thank you for your attention!

Martin Filko

Chief Economist and Director

Institute for Financial Policy

Ministry of Finance of the Slovak Republic

Tel: +421-2-5958 2513

E-mail: martin.filko@mfsr.sk