

# **Improving the quality of policymaking and government spending: A review of budgetary and regulatory instruments and the perspective of OECD countries**

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# Overview

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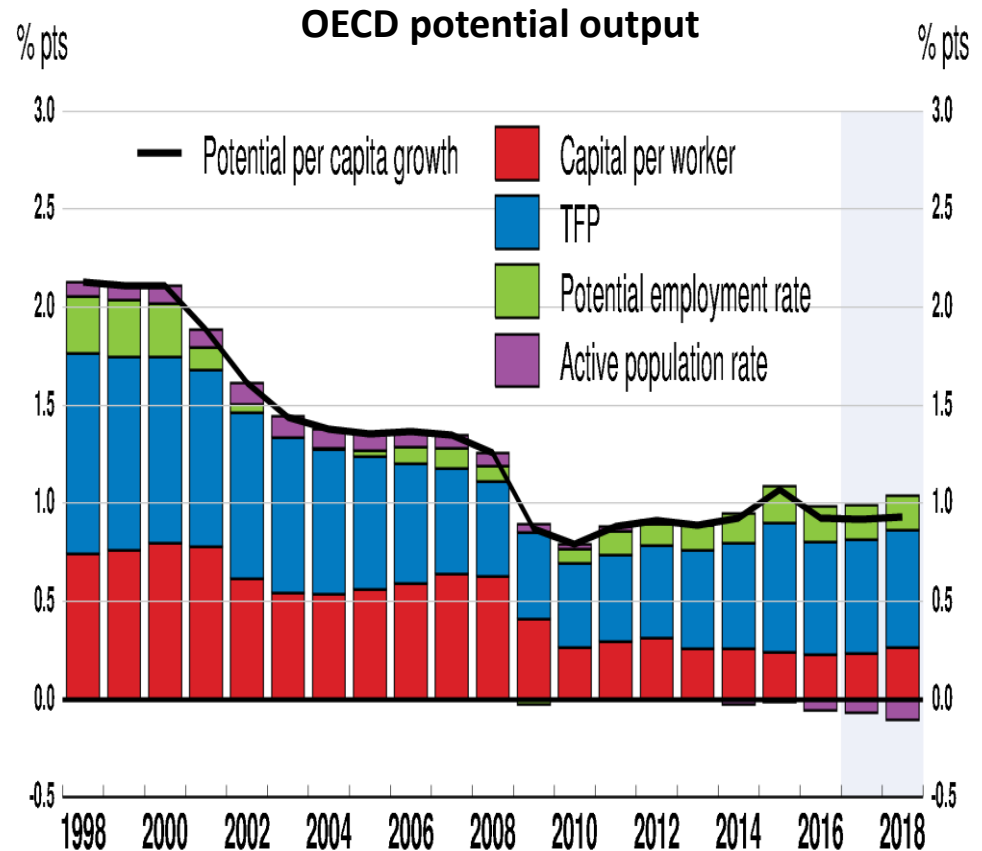
- A. Why achieving quality in policy-making is becoming more important
  
- B. The range of tools that policy-makers can use
  - Fiscal policy
  - Budgeting and public expenditures
  - Regulatory policy
  
- C. Relevance and challenges for Brazil

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## **A. Why achieving quality in policy-making is becoming more important**

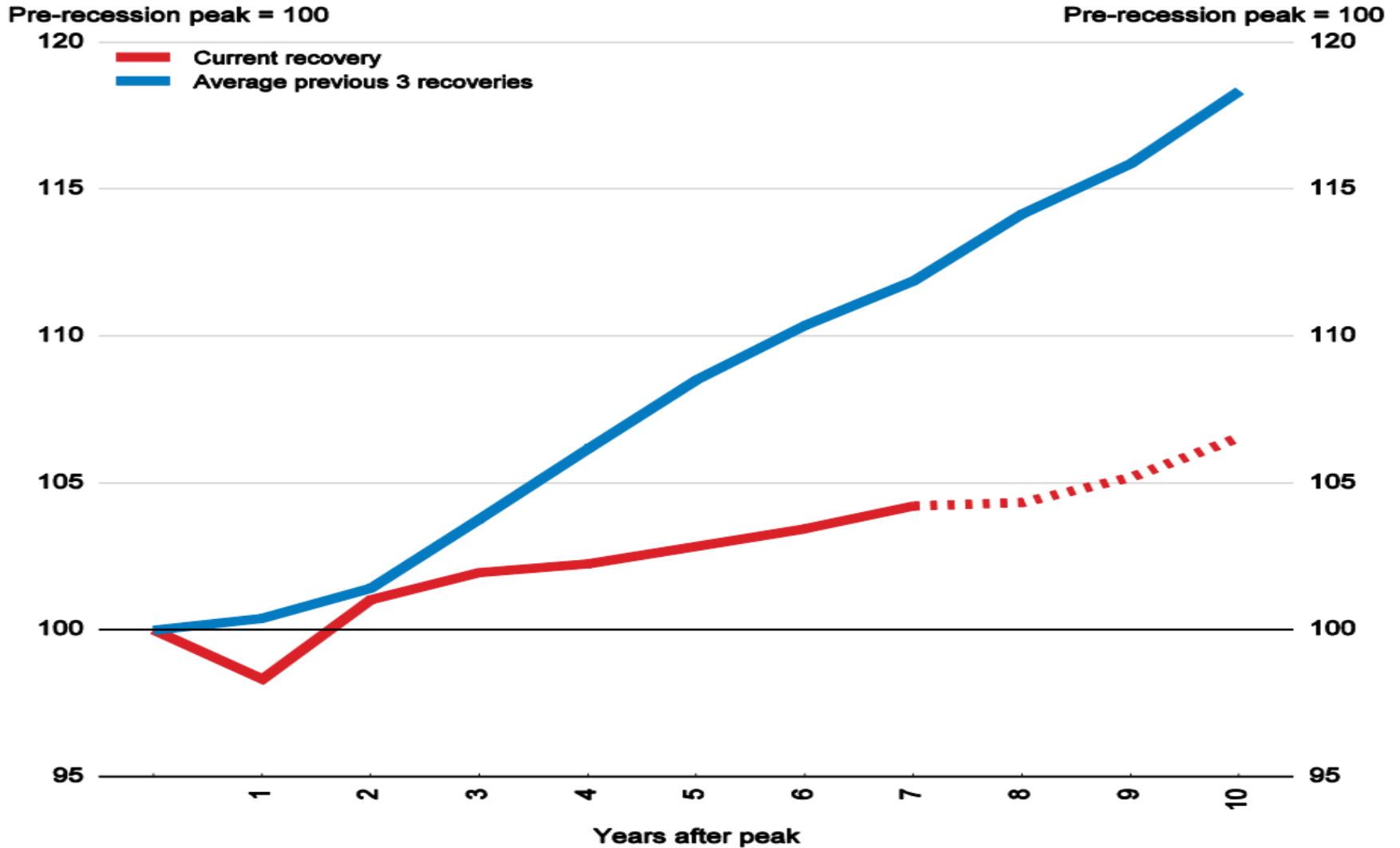
# Context

- Medium-term challenges: stagnant productivity growth and fragile public finances
- Megatrends: population ageing, infrastructure needs
- New disruptors: big data, social media
- Societal responses: low trust in public institutions

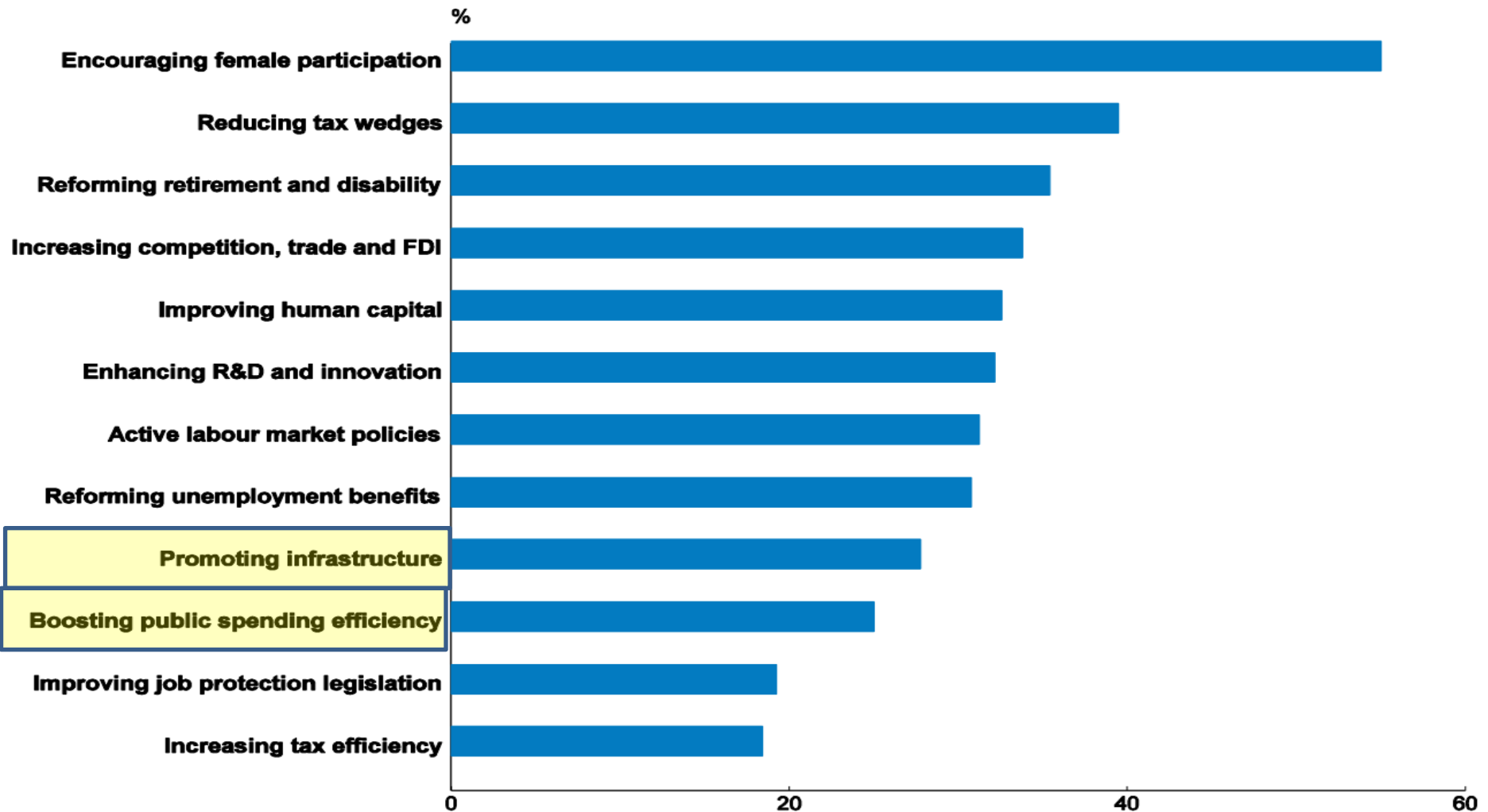


Source: OECD STEP 100 database.

# Productivity growth is slower than in the past...



# Indeed, spending efficiency is part of the solution, but it is not yet implemented in most countries

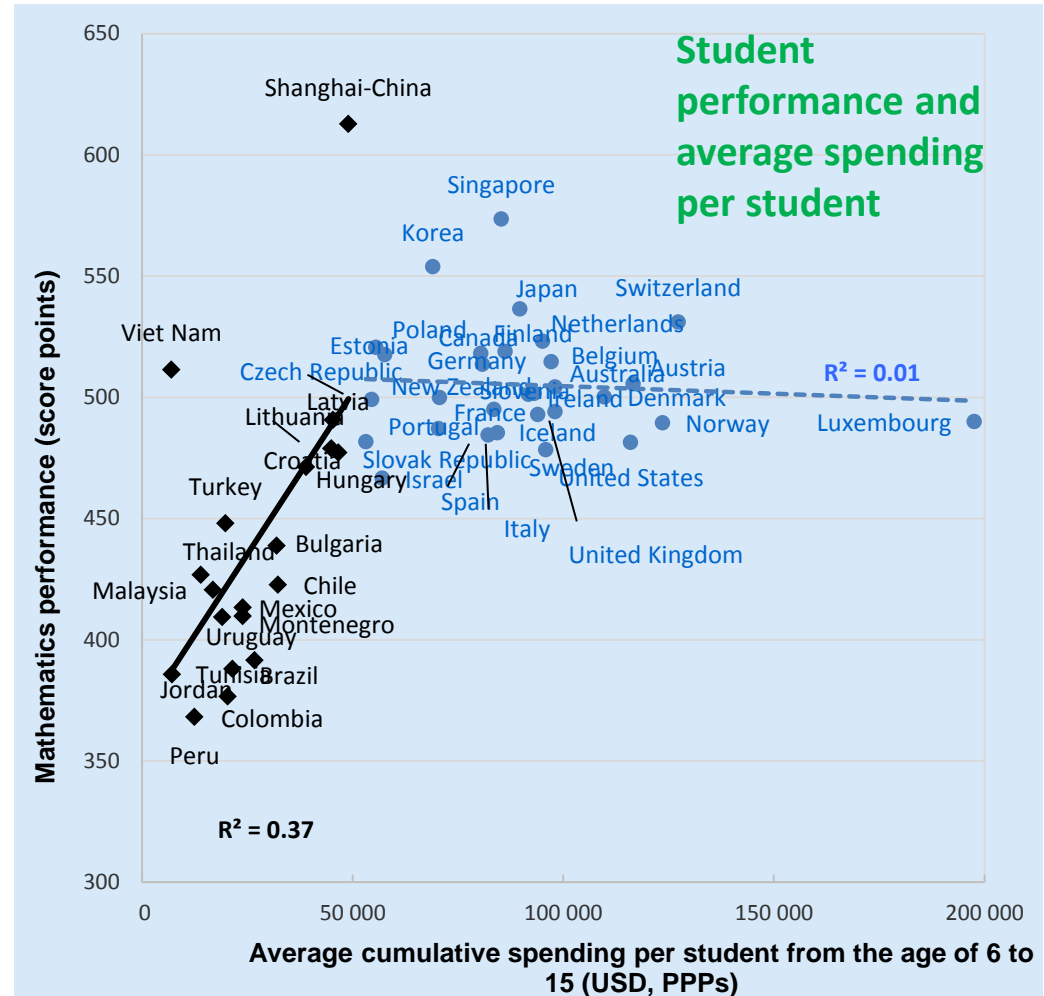


Source: OECD, Going for Growth, 2017 (forthcoming)

# Evidence: a simple example

- Spending levels are already high in many advanced economies
- Beyond a certain level, spending is a poor predictor of performance
- Quality, not only quantity, of spending affects performance

Education spending and student performance



Source: PISA 2012 Results: What makes schools successful? Resources, policies and practices, Volume IV.

# Key challenge?

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- Need to focus on policies that:
  - are aligned with public goals
  - engage citizens in an inclusive way
  - are effective in achieving results
- What tools can policy-makers use to meet these challenges?



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## **B. The range of tools that policy-makers can use**

# Overview: tools for policy-making

AIM	TOOL	INSTITUTION
Sound fiscal policy	Fiscal rule Expenditure cap	MOF; Congressional Budget Office
Setting policy goals	National Strategic Plan; KNIs; SDGs	Presidency; Congress
Aligning budgeting with planning	MTEF	MOF + gov't-wide
Achieving results	Performance budgeting  Monitoring & Evaluation	MOF + gov't-wide;  Evaluation service
Maximising fiscal space	Spending Review	MOF; Presidency + government-wide
Improve regulations	RIA, stakeholder engagement, ex post evaluation	MOF, ministries, civil society bodies

# AIM: Setting fiscal policy and goals

## TOOL: Fiscal targets and fiscal rules

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### Evolution of fiscal rules

- Need to manage budgets within clear, credible and predictable limits for fiscal policy
  - OECD Principles on Budgetary Governance
- Fiscal targets and rules make it easier to understand and anticipate the government's policy course
- Fiscal targets and rules help to identify policy trade-offs

First Generation	Second Generation
Deficit-Based	Spending-Based
Annual	Multi-Year
Pro-Cyclical	Counter-Cyclical
Cyclical Adjustments	Escape Clauses

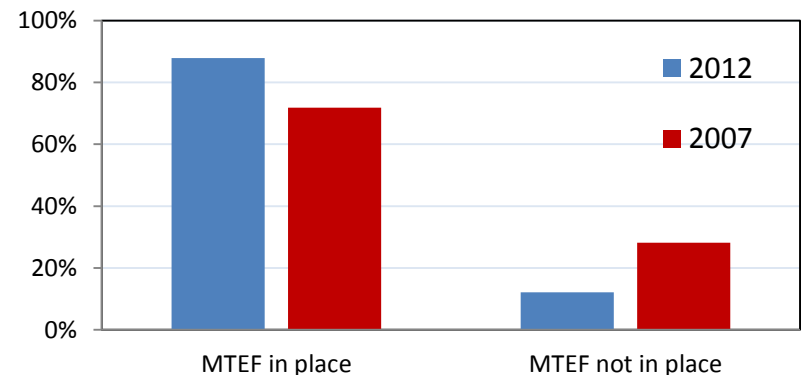
# AIM: Aligning budgeting and planning

## TOOL: medium-term expenditure frameworks

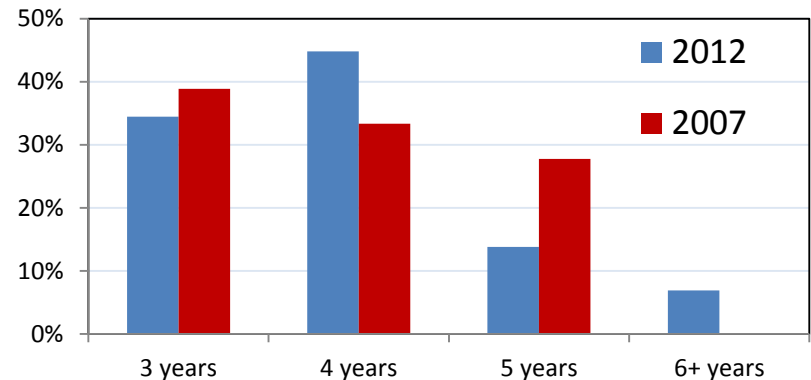
Key challenge is to reconcile differences in:

- **TIMESCALES**
  - Annual budget process v. multi-annual planning process
- **PEOPLE**
  - Ministry of Finance v. Ministry of Planning, Centre of Government
- **LANGUAGE**
  - Budget: line items, departmental allocations
  - Plans: strategic programmes, whole-of-government objectives
- **LEVELS**
  - Whole-of-government goals
  - Ministry objectives – outputs and outcomes
  - Personal accountability

OECD countries with MTEF in place



Length of MTEF ceilings



Source: OECD Budget Practices and Procedures, 2014

# What makes for an effective MTEF?

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- **MULTI-YEAR**
  - common frame of reference for budgets and plans
  - ambitions, objectives must match with resources available
- **CLEAR OBJECTIVES**
  - single, strategic approach to designing budgets and plans: away from “line items” towards strategic programmes
  - provides link to Performance-based Budgeting
  - encourages medium-term planning – structural reforms
- **LEADERSHIP**
  - driven by Centre of Government - all parts of the bureaucracy understand the common, strategic approach
  - MTEF respected as having a fixed, binding character
  - provides link to Accountability

# Challenges for MTEF?

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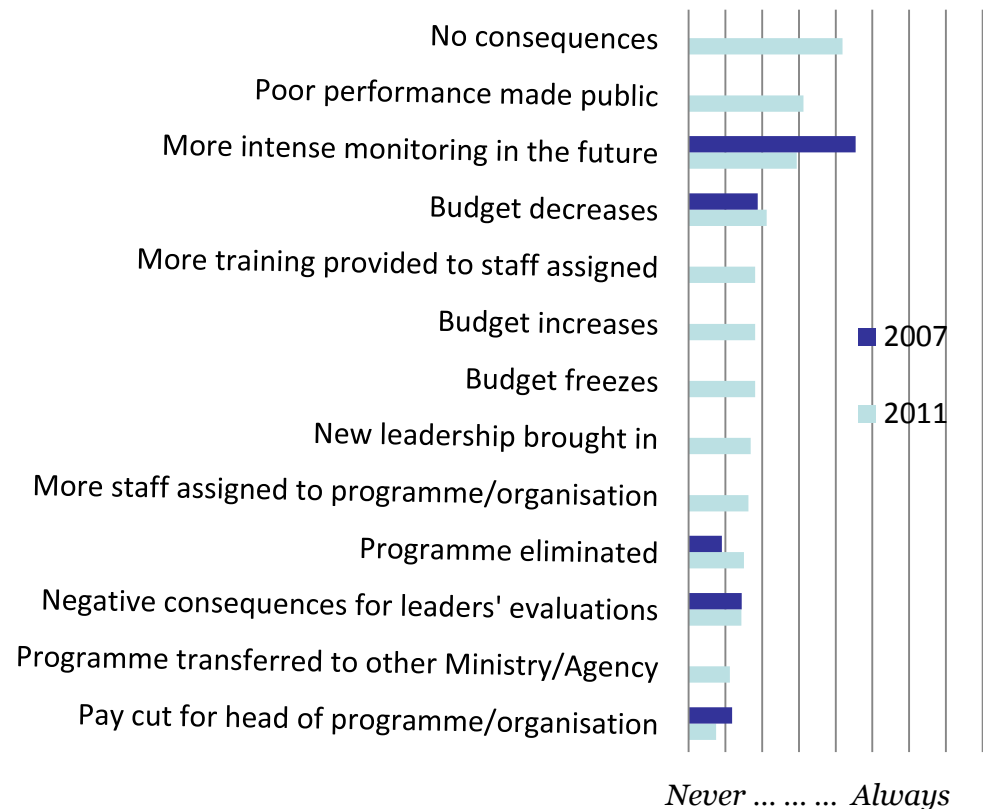
- Multi-year forecasting of revenue and expenditure
  - Potential role for independent institutions
- Political commitment to medium-term discipline
  - Link to fiscal rules
  - Link to top-down budgeting
- Complete coverage of expenditure envelopes
  - Minimise the exceptions
- Deviation from plan?
  - Correction, enforcement, credibility?
  - CULTURE of medium-term planning is what matters

# AIM: Achieving results from public expenditure

## TOOL: Performance Budgeting

- Traditional input-oriented focus now balanced with greater emphasis on performance (output)
- But there is a lack of clarity about how to respond to unmet performance objectives
- Automaticity versus nuanced, case-specific judgment

### What happens when performance targets are not met?



OECD Performance Budgeting survey, 2012

# Outcomes / KNIs / Wellbeing goals: effective “anchors” for a performance framework

- Economic indicators
  - Competitiveness
  - Potential growth
- Social/Inclusive indicators
  - Poverty, inequality, relative income
  - Health, Education
  - Cultural life
- Sustainability indicators
  - Environment
  - Human and physical capital
  - Fiscal and Societal Resilience
  - Potential links to SDGs

*Examples: France, NZ, OECD*





# Key lessons about effective performance budgeting

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- seamless link to **government-wide strategy** and goals
- avoid information overload – the “**vital few**” indicators
- include national and international **benchmarks**
- **audited and auditable** performance targets
- citizen- and CSO-**accessible data**

# AIM: Maximising “fiscal space”

## TOOL: Spending Review

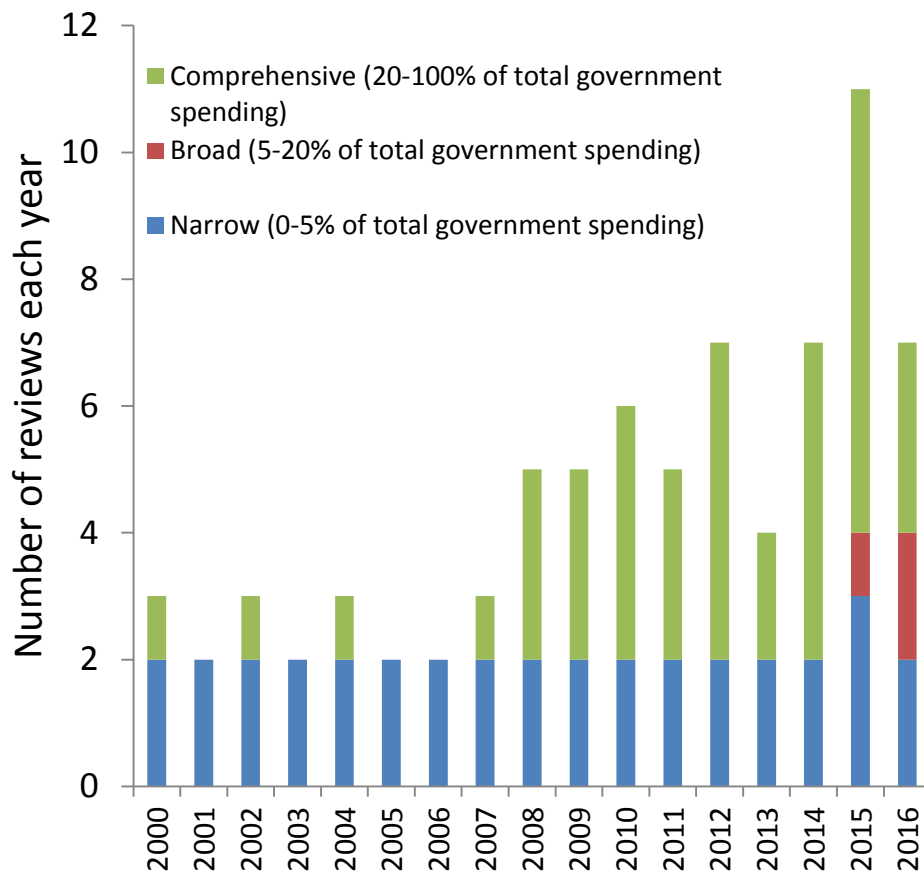
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- ***A critical re-assessment of existing expenditures and policies, in light of efficiency, effectiveness, economy and/or affordability***
- Baseline expenditure 80-90% fixed – LIMITED DISCRETION
- Requirement to live within fiscal limits – LIMITED ADDITION
  - *Harder for governments to identify “fiscal space”*
- Are the old decisions still the best decisions? NEW PRIORITIES
- Cost drivers (e.g. health) ratchet upwards – NEW PRESSURES
- Efficiency, modernisation, innovation – NEW DEMANDS
  - *Move from “incremental” to a more “zero-based” approach*

# Growth in use of spending reviews

- Before the global economic crisis
  - Australia, Canada, Denmark, the Netherlands, UK
- After the crisis
  - **Over half of OECD member countries** report that they have conducted, or are planning, spending reviews
  - Becoming a standard tool of **fiscal consolidation**, fiscal space
  - Becoming a standard tool of **resource re-prioritisation**

## Spending reviews in OECD countries



# Stages and choices in introducing Spending Review

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- **Baseline analysis**
  - what are the drivers of spending?
  - What elements are fixed, flexible; binding, discretionary?
- **Efficiency analysis**
  - Structure of government, ministries, agencies
  - Modernisation of public administration (e.g. shared services, digital government, new delivery models)
- **Expenditure Policy Review**
  - Policies and priorities within existing spending
  - Independent experts, or led within public service?
  - Programme-by-programme, or sector, or comprehensive?

# Role of effective institutions

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- Independent Fiscal Institutions
  - Fiscal council and/or parliamentary budget office
  - Assesses fiscal forecasts, compliance with fiscal rules
  - Promotes quality of public debate and accountability
- Supreme Audit Institutions
  - Ensure correctness of financial reporting
  - Promote quality/consistency in performance budgeting
  - Underpin integrity in public life
- Government Economic/Evaluation Services
  - Hubs of specialist capacity

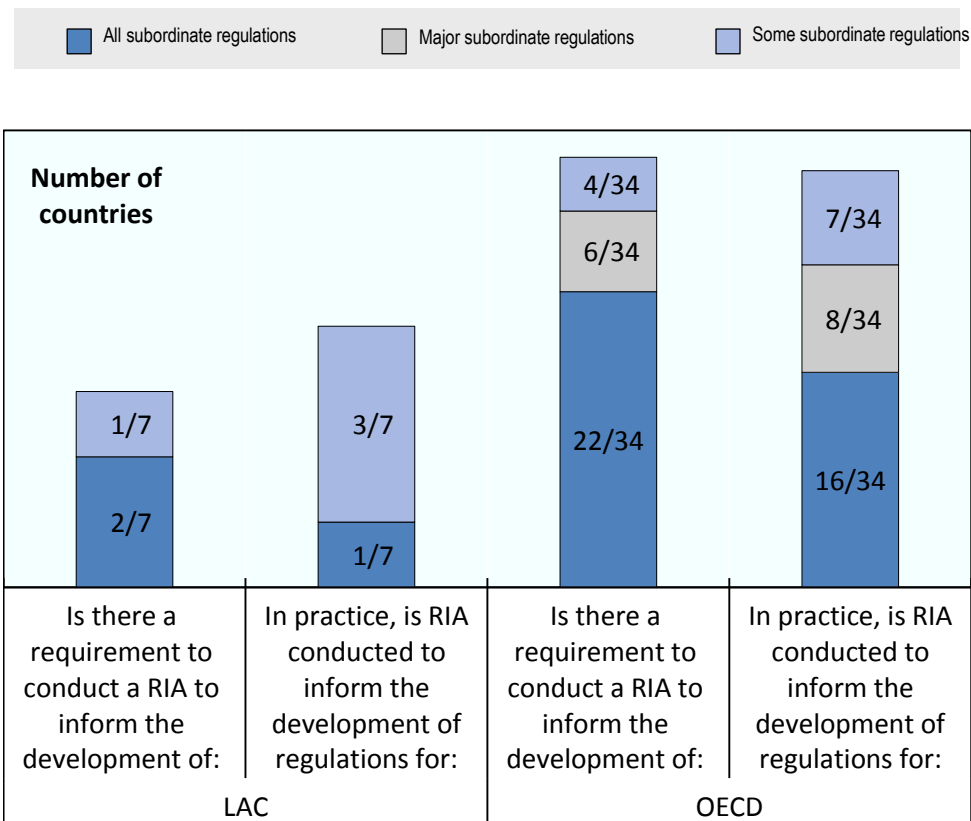
# OECD Principles of Budgetary Governance



# Parallels with Regulatory Policy: “the other side of the coin”

- Aim to improve the quality of regulations, not only tax/spending
- Use of different instruments: ex ante assessment (RIA), stakeholder engagement and ex post evaluation
- Regulatory reform (“red-tape reduction”) is loosely analogous to “spending review” model
- Widespread use of RIA, but key challenges:
  - Ensure uniform, professional quality of analysis
  - Taking RIA seriously – not a *pro forma* exercise
  - Connecting *ex ante* RIA to *ex post* evaluation
- Role of institutions
  - Regulatory oversight committees

## RIA: Requirements and practice, LAC and OECD



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## **C. Relevance and challenges for Brazil**



# Relevance for Brazil

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- Relevance is beyond doubt:
  - High tax and spending (in relation to GDP) for Brazil's income level; poor outcomes in many areas
  - Tax/spending pressures: complexity of tax code, population ageing
  - Budget rigidities (revenue earmarking, mandated spending) without regular assessment of cost-effectiveness
  - Limited awareness of need for good regulation beyond regulatory agencies
- But efforts have been, and are being made, to address challenges:
  - Fiscal responsibility legislation (focus on rules and targets)
  - More recently: introduction of spending ceiling, social security reform proposal

# Overarching challenge

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- Key challenge moving forward is to create a culture of policy evaluation:
  - Continue to ensure compliance with fiscal rule(s) and fiscal responsibility legislation more broadly
    - important for macro-fiscal stability
  - Make systematic use of MTEF, introduce practice of spending reviews (gauge drivers, deal with trade-offs, set priorities)
    - Important for quality/sustainability of spending
  - Strengthen regulatory practices in the executive branch, especially ex post evaluation
    - Important for overall coherence of instruments

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Thank you!

<http://www.oecd.org/governance/>