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REVIEW OF PUBLIC EXPENDITURE WORK

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Acknowledgement

This report is part of an ongoing effort to respond to the need for improved Bank practices. It seeks to address some of the criticisms raised in the Wapenhans report by examining current practice and identifying areas for improvement in the general area of public expenditure work. It also seeks to address some areas of mutual interest to the Fund. Presently a Bank Working Group is pursuing the various issues raised here both with the Bank and with Fund counterparts.

The present report was carried out by a team led by F. Desmond McCarthy and comprising Hjordis Bierman, Friedrich Kahnert, Satish Mannan and Sweder van Wijnbergen. Many others contributed to this effort. These included the task managers of the 21 reports considered, participants in an internal Bank review meeting and members of the Working Group on Bank Public Expenditure Work. Editorial support was provided by Milagros A. Divino.

Executive Summary

1. This report is part of an ongoing effort to improve Bank practices. It examines current practice in the area of public expenditure (PE) work and identifies areas where improvements could be made. It also addresses some areas of mutual interest to the Fund. Presently a Bank working group is pursuing the various issues raised here both with Bank staff and Fund counterparts.

2. The Bank carries out public expenditure work in a variety of forms ranging from comprehensive reviews to short notes on specific issues. Over the period 1987 to 1993 there were 113 reports in this area. These were quite costly--on average they required about 100 staffweeks. For the present report, previous and ongoing work was reviewed and this was supplemented by a sample of 21 public expenditure reports completed over the period 1987-93 (plus a series on Ghana).

Findings and Issues

3. The findings are divided into three general categories: process, analysis and impact.

Process

- **Priorities.** Priorities were not well stated *ex ante* in terms of scope, framework and audience. Much more interaction is needed with the client government especially at the time of identification of the objectives of the PE report.
- **Timing.** Need to have reviews on a more regular basis taking into account aid coordination and Fund needs.
- **Staff Incentives.** There is a need for a critical intellectual mass to ensure an adequate diagnosis. Most sectoral staff perceive the current incentive system as not conducive to placing any high priority on contributing to public expenditure work.
- **Bank-Fund Interaction.** Relations often depended on personal relations (quite good in the Baltics). Institutional measures are needed to put this on a firmer basis.
- **Political Economy.** Most reports failed to assess the likely political viability of policy proposals and the need to offer more palatable alternatives.

Analysis

- **Macroeconomic Framework.** While some reports do draw on the Fund's macro work this is not done in a consistent manner and in some instances the Fund's analysis remains a black box to Bank economists.

- **Public Sector Concepts, Definitions and Data.** There is a wide variety of definitions and public sector concepts used. In addition the data suffers from timeliness, coverage and general quality. A major effort is needed to address these shortcomings probably in conjunction with current efforts by the Fund in this area.
- **Role of the State.** Few reports addressed this. Even in areas where there is significant public investment it is important to consider the role of private investment and financing together with the appropriate legal, regulatory and supervisory framework.
- **Expenditure Policies.** Two areas of analytical difficulty are: (a) analysis of whether sectoral shares are adequate to meet objectives and priorities; and (b) adequacy of recurrent expenditures.
- **Management Capability and Incentives.** At a minimum this would include capability for budget planning to ensure adequate funding for all approved expenditures. Most reports did not address this area. Some did indicate obvious shortcomings but did not offer answers to suit the particular country situation.

Impact

Impact needs to be assessed at the country level and at different points in time. The present report was not able to assess this area adequately. There were some indications that the better ones in addressing country objectives were prepared in conjunction with country counterparts. It also appeared that a number of PE reports were quite useful in helping frame Bank lending strategy. Many reports failed to have any significant private sector involvement. The issue of the appropriate role for donors varied between countries. It seemed that where feasible it was desirable to include donor assistance in the overall budget envelope.

Proposals for Follow-up Action

4. **Scope and Timing.** While large omnibus reports may have a role they are unlikely to be the primary instrument of PE work in the future. It would seem more appropriate to take a strategic view. This would include deciding on what type of review is appropriate for each country depending on country circumstances, role of the Bank, external factors and the present state of knowledge for that country. This would probably be a three-year program, discussed with the Government and with other key players such as the Fund and outlined in the CAS.

5. **Analytical and Management Issues.** A simple conceptual framework has been developed for further discussion. This would involve establishing: (a) boundaries of government; (b) budget envelope; (c) allocation of expenditures; (d) sustainability; and (e) implementation.

6. **Bank-Fund Collaboration.** The report made a number of recommendations in this area. The following actions have been taken to date:

- (a) Fund and Bank have established task forces to address many of the issues identified. Both institutions have shared their reports and pilot cases have been identified, both regional and country specific, to discuss priorities for and, issues in public expenditure reviews. The first regional meetings (AFR and ECA) have taken place, and the county pilot studies (Cote d'Ivoire, Lithuania, and Zambia) are underway.
- (b) A joint guidance note has been drafted for management to reemphasize the importance of public expenditure work and collaboration with the Fund in this area.
- (c) Joint Bank-Fund research efforts are underway to address the analytical issues.

I. INTRODUCTION

1. Public expenditure analysis plays a central role in the Bank's work. It serves many objectives: supporting the policy dialogue, identifying areas for capacity building, and providing a framework for the Bank's lending program and aid coordination. However, there is also a perception that much of this work may be too expensive, especially at a time of substantial cuts in ESW resources, and of uneven quality. The objective of this paper is to review recent experience with public expenditure work in the Bank and to identify areas where present practice could be improved.

2. The Bank carries out public expenditure (PE) work in a variety of forms: from comprehensive reviews to short notes on specific issues. As shown in Appendix A, the Bank devotes considerable effort to PE work. Over the period 1987 to 1993 there were 113 reports in this area. These reports were quite costly--on average they required about 100 staffweeks. Table 1 indicates some major changes over time and between Regions. Most reports were produced in 1990 while the Africa Region was the most dominant. Presumably this was related to the major impetus from SPA-style programs at that time. Table 1 also indicates the IBRD and IDA commitments over the period. A quick perusal of the individual country listings in Appendix A shows some notable features. There does not appear to be any regular pattern in the frequency of these reports, although presently some countries are moving to a more regular schedule to meet demands such as to provide background papers for CG meetings. What is perhaps somewhat surprising is how few reports were done on a number of major Bank borrowers (e.g., India until recently and China).

3. In the present review, a two-track approach was adopted. First, previous and ongoing work was reviewed. This was then supplemented by a sample of 21 PE reports carried out over the period 1987-1993. A series of PE reports on Ghana over the period 1983-94 was also reviewed, to look at the cumulative impact of repeat exercises.

4. From the combination of these two tracks a set of findings was developed. These were grouped in three broadly-defined areas: process, analysis and impact. Finally a set of proposals for follow-up action are given. These include: (a) a proposal to move towards a more strategic approach, integrated with the CAS process, for public sector economic work; (b) proposed work with the Fund on a common analytical framework together with a uniform set of concepts and definitions together with an improved database; and (c) proposed follow-up on the impact of PE work, first by OED and then by regular, but selective, peer-group evaluations. A joint working group has been established with the Fund, to address common concerns on public expenditure issues and find ways to improve Bank/Fund collaboration in this area. Bank members of the working group will also pursue public expenditure issues of more direct concern to the Bank.

Table 1: NUMBER OF BANK REPORTS ON PUBLIC EXPENDITURE ISSUES ^{a/}

Year	EAP	SAS	LAC	AFR	MNA	ECA	Other	Total
1987	2	0	4	4	3	1	0	14
1988	1	0	2	5	0	0	0	8
1989	0	1	7	8	1	1	0	18
1990	0	3	3	10	4	2	1	23
1991	1	0	4	7	2	1	0	15
1992	3	2	4	7	1	1	0	18
1993	2	4	3	6	2	0	0	17
Total	9	10	27	47	13	6	1	113
IBRD and IDA Commitments (US\$ billion)								
1987	3.71	4.29	5.21	1.82	1.76	1.42	0.00	18.21
1988	3.85	3.74	4.96	4.05	1.13	1.41	0.00	19.14
1989	4.81	4.77	5.96	3.32	1.98	1.49	0.00	22.33
1990	4.11	3.63	6.71	3.68	0.87	2.47	0.00	21.48
1991	5.25	3.66	5.17	3.93	2.32	3.85	0.00	24.18
1992	5.20	3.31	5.86	3.29	1.06	3.15	0.00	21.86
1993	4.80	2.51	5.30	2.18	2.32	3.33	0.00	20.44
Total	31.73	25.91	39.17	22.28	11.45	17.11	0.00	147.64

a. Details are given in Appendix A.

II. OTHER REVIEWS OF PE WORK

Previous Reviews of PE Work

5. **De Melo (1988).** The last major report on Bank public expenditure reviews (including public investment reviews) was by de Melo in 1988. The basic information for that report was obtained from a sample of 22 PE reviews carried out during the period 1985/87. It offered four broad categories of recommendations:

- (a) **Setting and Achieving Objectives.** The primary goal should be giving objective advice to the government on the level and composition of expenditures; Bank staff should consider an explicit link between the PE review and the country program.
- (b) **Coverage of Issues.** Core report should include macroeconomic framework, review of the public investment program and recurrent expenditures; coverage should be selective and tailored to country circumstances.

- (c) **Resource Use.** The Bank should exercise more restraint in committing resources to PE reviews and use more upstream work to preclude the need for mounting large PE missions.
- (d) **Organization and Management Support.** Each Country Operations Division Chief should designate a staffmember to become familiar with the types of PE reviews which have been undertaken and the Bank's experience with them.

The de Melo report also discussed the analytical approaches in use and concluded that the macro framework provided was often incomplete.

6. **Kahnert (1987).** A report by Kahnert (1987) on public expenditure analysis focussed on the EMENA Region. He paid particular attention to the need for a broader perspective than the virtual exclusive focus, at that time, on cutting public fixed investment. He indicated the need for internalizing PE work in Bank work and putting it on a much more routine basis. He also highlighted the need for broadening PE work over time to include all recurrent and nonrecurrent expenditures of the various tiers of government and relevant policy, institutional and procedural issues.

Ongoing Reviews of PE Work

7. Presently there are a number of ongoing studies on public expenditures. These include the following.

8. **SPA Public Expenditure Working Group.**¹ The focus of this group is on SPA countries. Their study, which resulted from a meeting in January 1994 managed by the European Commission, focuses on the lessons of past experience with PE work. They also plan to carry out ten country case studies to examine the impact of PE work at the country level. The primary focus of this group is on **impact**. The interim report raised three principal issues related to: (a) how to internalize the recommendations of PE reviews more effectively; (b) how to make the PE review more of an operation owned by the country; and (c) how to improve collaboration among donors. The case studies are expected to focus on budget management, poverty and gender issues. These are expected to be completed by April 1995 and help prepare guidelines for the future conduct of PE work in SPA countries.

9. **IMF Task Force on Public Expenditure.** This group was established in March 1994 to see how the Fund could make more effective use of PE work prepared by the World Bank in the Fund's policy dialogue with country authorities. The report of that Task Force² has made a number of recommendations for improvements in Bank/Fund collaboration on public expenditure issues. The report expresses a desire for better timing of reports and improved data, together with closer interaction with Bank colleagues on policy issues. Specific proposals

¹ See SPA Public Expenditure Working Group, Meeting on October 24, 1994, Chairman's Report.

² Report of the Task Force on Public Expenditure Policy, December 1994.

include: (a) early agreement with Bank staff on priority countries and issues; (b) exchange of short notes from Bank and Fund staff on issues of mutual interest; and (c) more regular interaction in missions and review meetings.

10. **Pradhan (1994).** Recently within the Bank, Pradhan (1994) has conducted a study on public expenditures. His broad objective is "to present an analytical methodology and data framework for evaluating broad allocations of public expenditure." As background to his work he carried out a detailed review of 12 recent PE reviews. These are listed in Table 2 together with a summary of key areas and issues. In his review he identified the following problems:

- (a) most PE reviews focus primarily on inputs (i.e., expenditures) rather than outcomes (leave alone their valuation);
- (b) the role of government versus the private sector in service provision is rarely discussed;
- (c) the unit of analysis is usually inappropriate, with few PE reviews moving below the aggregate sectoral level;
- (d) judgment appears to be the dominant methodology employed;
- (e) there is inadequate emphasis on follow-up to ensure that the PE findings are incorporated into country spending decisions and Bank/donor lending strategies; and
- (f) few PE reviews focus on institutionalizing a more systematic decisionmaking process and improved data collection within client countries.

11. He also noted that many PE reviews do not even present the basic data on functional and economic composition, major programs, private sector provision, etc. that would be useful, if not indispensable, for decisionmaking. However, there are some instances of better-practice PE reviews (e.g., Tanzania, Indonesia, Uganda) which are identified in the paper.

12. In a follow-up work program, PRDPE staff are working with Regional staff on a number of "model" PE reviews as well as undertaking further research focussed on institutional issues related to public sector management. HRO staff are also working jointly with Fund staff to develop a manual to provide hands on guidance for practitioners, especially in the general area of budget management.³

³ Holmes, Malcolm (1994).

Table 2: COVERAGE OF PE ISSUES IN PRADHAN'S SAMPLE

	%
I. Overview	
A. Macro Framework	58
B. Discussion of Role of Government	8
C. Tax and Revenue	42
D. Total Expenditure	
- Current	67
- Capital	67
E. Civil Service	42
F. O&M	8
G. Public Investment and Finance	50
H. Budgeting & Administration	75
I. Data Collection	8
II. Sectors	
A. Health	100
B. Education	100
C. Transport	83
Intersectoral Allocation	0

Note: Information gathered from Bangladesh Public Expenditure Review Public Resource Management During the Fourth Five-Year Plan, FY91-95, 3/89, #7545; Bolivia Public Sector Expenditure Review with a Special Emphasis on the Social Sectors, 9/89, #7746; Cote d'Ivoire Public Sector Expenditure Review, 10/15/87, #6980; Ecuador Public Expenditure Review: Changing the Role of the State, 8/93, #10541; Ghana Public Expenditure Review (90-92), 6/90, #8616; Kenya Public Expenditure Issues, 4/89, #7508; Malawi Public Expenditure Review, 4/90, #7281; Mozambique Second Public Expenditure Review, 12/92, #11524; Nigeria Public Expenditure Review (1986-90), 10/85, #5920; Paraguay Public Expenditure Review: The Social Sectors, 6/92, #10193; Philippines Public Expenditure and Their Finance, 9/25/84, #4919; Sri Lanka Public Expenditure Review, 9/93, #12337.

Source: Pradhan (1994).

13. **Edwards et. al. (1994).** Recently there has been some further thinking on how best to carry out ESW, and within this, PE work in particular. Some of this "new thinking" is perhaps best reflected in a recent report of a Task Force headed by Edwards, "ESW Reform in LAC" (1994). The report finds a need to reform ESW work in LAC, largely because of changing external conditions in the global economy, and the concomitant changes in the way the Bank should approach its analytical work in the Region. The proposed outcome would result in a major redistribution of ESW work for the period FY96-98 compared with FY95-97. Traditional areas such as CEMs and PE reviews would be reduced while major increases are envisaged for ESW on environmental and urban issues, infrastructure, private sector development and public sector management. Formal reports would be reduced in favor of shorter more-focussed policy notes, and the Bank's work would be more closely coordinated with that of partner agencies (e.g., IMF, IDB, CEPAL). While this report applies specially to LAC, similar changes have been proposed by other Regions in the recent round of Prospects Summaries.⁴

III. THE CURRENT REVIEW

14. To provide a baseline for the present work, a sample of 21 reports were chosen (see Table 3).⁵ It is noted, in Table 3, that they were chosen to try and represent most areas of the Bank, but also to include a variety of report types, ranging from CEMs with a major PE theme, to comprehensive public expenditure reviews, to public investment reviews and also some that limited their efforts to particular policy or sector areas. Almost all included contributions from consultants; typically this was about 25 percent of the total. It is difficult to ascertain the contribution of local staff. Based on currently available data, local staff were only used to any extent in three instances: Bangladesh, India and Indonesia.

15. Each of these reports was first reviewed. This was followed by an interview with the Task Managers (or the nearest available). A preliminary assessment is given in Table 4. The assessment should not be viewed in a normative way but rather as providing the basis for identifying a set of issues. In particular it was very difficult to assess impact. A number of those interviewed felt that Bank and country objectives coincide. The whole question of impact needs to be addressed separately. The involvement of private sector was weak in most reports. Only recently has the nonexpenditure role of government come to the fore. However it is somewhat surprising that some reports made little effort to elicit the views of the private sector.

⁴ For details, see Memorandum from Mark Baird on Economic and Sector Work (January 18, 1995).

⁵ This was extended to include a series of four more reports on Ghana done over the period 1983-94.

Table 3a: SAMPLE OF PE REPORTS a/

Country	Name	Cover	Mission Date	Report Date	Gap (Months)	Report No.
Argentina	Pub. Fin. Rev	Gray	11/91	2/93	15	10827
Bangladesh	Pub. Exp. Rev.	Gray	11/87	3/89	16	7545
Brazil	Pub. Sector Inv. Rev.	Green	11/85	1/87	14	6600
Colombia	Pub. Sector Exp. Rev.	Gray	10/88	1/91	27	7891
Egypt	Pub. Sec. Inv. Rev.	Gray	2/92	10/93	20	11064
Estonia	Pub. Expend. Rev.	Gray	10/93	7/94	9	12787
Ghana	Pub. Exp. Rev.	Green	11/89	6/90	7	8616
Hungary	Ref. of Soc. Pol. & Exp.	Gray	4/90	7/91	15	9349
India	Pub. Exp. Rev.	Yellow	12/92	12/93	12	12570
Indonesia	Pub. Exp. Prices and Poor	Gray	1/92	8/93	19	11293
Jamaica	Pub. Sec. Inv. Prog.	Gray	11/91	5/92	6	10297
Kenya	Re-Inv. in Stab. and Growth.	Gray	7/91	1/92	6	9998
Latvia	Pub. Exp. Rev.	Gray	11/93	7/94	8	12973
Lithuania	Pub. Exp. Rev.	Gray	10/93	7/94	9	12792
Malawi	Pub. Exp. Rev.	Gray	11/87	4/90	29	7281
Mexico	Mex. in Trans. Towards ..	Gray	3/90	5/91	14	8770
Morocco	Issues & Pros. in Pub. Sec.	Gray	5/91	6/92	13	10157
Nepal	Fis. Rest. & Pub. Res. Mgt...	Gray	2/93	3/94	13	12281
Philippines	Cer: Pub. Sec. Res. Mob...	Gray	5/91	2/92	9	10056
Tanzania	Pub. Exp. Rev.	Gray	10/87	5/89	19	7559
Zambia	Pub. Exp. Rev.	Gray	9/91	12/92	15	11420

- a. In addition to the Ghana (1990) report four additional reports on Ghana were considered in assessing the merits of a series of reports in a particular country.

Table 3b: TRS STAFFWEEKS FOR PE REPORTS

Country	FY	ID	Name	HL Staffweeks	Consultant Staffweeks	Local HL and Con. Staffweeks	Total Staffweeks
Argentina	93	6ARGER044	Pub. Fin. Review	72.4	91.8	.0	164.3
Bangladesh	89	8BANER025	Pub. Exp.	146.9	5.0	37.3	189.2
Brazil	87	6BRAER016	1986 Pub. Sec Inv. Rev.	107.7	22.6	.0	130.3
Colombia	90	6CLMER034	Pub. Sec. Exp. Rev-C	61.7	10.1	.0	71.8
Egypt	94	5EGTER027	Pub. Sec. Inv. Rev.	58.1	45.4	.0	103.6
Estonia	94	7ESTER003	Pub. Exp. Rev.	40.5	6.3	.0	46.9
Ghana	90	3GHAER029	Pub. Exp. Rev.	52.3	1.0	.0	53.4
Hungary	92	7HUNER023	Social Pol. & Distr.	59.0	39.0	.0	98.0
India	93	8INDSR196	Agric. Public Expend	45.5	.0	46.0	91.5
		8INDSR197	Infra-Pub. Exp. Rev.	52.4	33.2	32.9	118.5
Indonesia	93	4INSER038	Pub. Exp. for Poverty	89.9	11.0	22.0	122.9
Jamaica	92	6JAMER027	PSIP	25.4	24.3	.0	49.7
Kenya	92	3KENER040	CEM (PSM)	58.1	15.4	.0	73.5
Larvia	94	7LATER004	Pub. Exp. Rev.	40.7	16.5	.0	57.2
Lithuania	94	7LTHER004	Pub. Exp. Rev.	38.4	20.2	.0	58.7
Malawi	89	3MALER014	Pub. Exp. Rev.	71.4	17.4	.0	88.8
Mexico	91	6MXCER027	CEM	113.2	52.1	.0	165.3
Morocco	92	5MYCER020	Pub. Sector Study	52.4	33.9	.0	86.3
Nepal	94	8NEPER016	CEM	109.0	.1	.0	109.1
Philippines	92	4PHLER029	CEM	50.8	.0	.0	50.8
Tanzania	89	3TANER007	*Rev. of Pub. Exp.	56.5	43.8	.0	100.3
Zambia	93	3ZAMER029	PER (FY92-93)	40.4	5.8	.0	46.2
Total				1442.9	495.1	138.1	2076.1

Source: MIS Database.

Table 4: SUMMARY ASSESSMENT OF PUBLIC EXPENDITURE REPORTS

	No. of Reports Evaluated	No. Judged As Good	% Judged As Good	Country Codes for Reports Judged as Good <u>a/</u>
A. Process and Organization				
1. Timing (scheduled on regular basis)	21	4	19.0	CLM, EGT, GHA, JAM
2. Link to sectoral work	21	12	57.1	EGT, GHA, IND, JAM, LAT, LIT, MAL, MXC, MYC, NEP, TAN, ZAM
3. Broad Political Economy (has reviewed consid. who gains/loses?)	21	4	19.0	BAN, INS, LAT, NEP
4. Priorities of the rev. considering country priorities	21	10	47.6	EST, HUN, INS, JAM, LAT, LIT, MAL, NEP, PHI, ZAM
B. Definitions and Coverage				
1. Clarity of Definitions Pub. sector concepts, expend. & fin. def.	20	5	25.0	INS, KEN, LAT, LIT, MAL
2. Objectives Stated	21	12	57.1	BAN, EGT, EST, IND, JAM, KEN, LIT, MAL, MYC, NEP, TAN, ZAM
Met in report	21	13	61.9	ARG, BAN, EST, HUN, IND, INS, KEN, LAT, LIT, MAL, MYC, NEP, TAN
Outside the report	21	9	42.9	ARG, EGT, EST, GHA, IND, INS, KEN, LAT, LIT
3. Comprehensiveness Macroanalysis	21	4	19.0	ARG, BAN, MAL, TAN
Fiscal implications and analysis	21	7	33.3	ARG, BAN, EST, KEN, LIT, MAL, TAN
Expenditure: cross-sectoral	21	7	33.3	ARG, EST, LAT, LIT, MAL, NEP, TAN
Expenditure: sectoral analysis	21	8	38.1	BAN, IND, LAT, LIT, MAL, NEP, TAN, ZAM
PSIP or core PSIP	21	7	33.3	EST, GHA, JAM, LIT, MAL, NEP, TAN
4. Issues of management of planning, budget and expenditure	21	12	57.1	ARG, BAN, CLM, EST, GHA, IND, LAT, LIT, MXC, PHI, TAN, ZAM
C. Analysis				
1. Background Inside the report	21	12	57.1	ARG, BAN, EGT, EST, IND, INS, KEN, LAT, LIT, MAL, TAN, ZAM
Outside the report	20	11	55.0	ARG, BAN, EGT, EST, GHA, IND, INS, KEN, LAT, TAN, ZAM
2. Framework Strength and relevance of macroanalysis	21	6	28.6	ARG, BAN, KEN, MXC, MYC, TAN
3. General fiscal analysis	21	8	38.1	ARG, BAN, EST, INS, KEN, LAT, MAL, TAN
4. Government or public expenditure Cross sectoral analysis	21	9	42.9	ARG, BAN, EST, LAT, LIT, MAL, NEP, TAN, ZAM
Sectoral analysis	21	8	38.1	BAN, IND, LAT, LIT, MAL, NEP, TAN, ZAM
PSIP	21	10	47.6	BAN, EST, EGT, GHA, LAT, LIT, MAL, MXC, NEP, TAN
Integ. of PSIP in fiscal analysis	21	6	28.6	BAN, GHA, LIT, MAL, NEP, TAN
5. Management of Planning, Budgeting & Exp.	21	13	61.9	ARG, BAN, CLM, EST, GHA, JAM, LAT, LIT, MXC, MYC, NEP, PHL, ZAM
6. Data Appropriateness of data used	21	12	57.1	ARG, BAN, CLM, EST, HUN, IND, INS, JAM, KEN, LAT, MYC, ZAM
Restrict. imposed by data available	21	7	33.3	ARG, BAN, CLM, IND, INS, KEN, MYC

	No. of Reports Evaluated	No. Judged As Good	% Judged As Good	Country Codes for Reports Judged as Good <u>a/</u>
D. Impact				
1. Impact				
Furthering Bank objectives	21	14	66.7	ARG, BAN, EST, GHA, IND, INS, LAT, LIT, MAL, MYC, NEP, PHL, TAN, ZAM
Furthering Country objectives	20	11	55.0	ARG, EST, GHA, INS, KEN, LAT, LIT, MXC, NEP, PHL, ZAM
Influencing donor objectives	19	11	57.9	ARG, BAN, EST, JAM, KEN, LAT, LIT, MYC, NEP, PHL, ZAM
2. Broader involvement in PER/PIR				
Private sector:				
In review preparation	21	2	9.5	BAN, MXC
Outside the report	21	5	23.8	ARG, BAN, IND, MXC, ZAM
Donors:				
In review preparation	21	1	4.8	BAN
At or after completion	21	12	57.1	ARG, BAN, EGT, EST, IND, JAM, KEN, LAT, LIT, NEP, PHL, ZAM
3. Implementation				
of general recommendations	21	5	23.8	ARG, JAM, LAT, LIT, ZAM
of specific recommendations	20	4	20.0	JAM, LAT, NEP, PHL

- a. List of Country Codes: ARG - Argentina; BAN - Bangladesh; BRA - Brazil; CLM - Colombia; EGT - Egypt; EST - Estonia; GHA - Ghana; HUN - Hungary; IND - India; INS - Indonesia; JAM - Jamaica; KEN - Kenya; LAT - Latvia; LIT - Lithuania; MAL - Malawi; MXC - Mexico; MYC - Morocco; NEP - Nepal; PHI - Philippines; TAN - Tanzania; ZAM - Zambia

Also surprising was the low level of political economic analysis. Even in instances where broad policy initiatives were proposed one finds little reflection on who the winners and losers might be. Again a number of issues arose that had been identified in previous reviews of PE work that seem to continue posing difficulties. These include the need for clearly stating objectives, delineating the bounds of the work and improving data. There was some improvement in incorporating sectoral work but in a significant number of reports it was felt that Bank incentives still mitigate against a stronger contribution here. Another broad area that seemed to have been largely ignored was the overall institutional setting together with an assessment of what changes were needed to be more effective.

IV. MAJOR FINDINGS AND ISSUES

16. The reviews of PE work and follow-up interviews sought to address the following questions. What are the present objectives of PE work? To what extent are the objectives being accomplished? How are staff going about accomplishing the objectives? Rather surprisingly, the interview process revealed that objectives were often not elaborated at the outset. In a number of instances the objectives, as stated in the reports, were often modified (or even introduced) after the mission. Most of the reports fail to clearly state the review objectives.

Yet those interviewed (Bank staff) did not seem too concerned about this. Little effort is made to define and motivate the boundaries of the review properly. Three broad categories were considered in assessing these reviews: process, analysis and impact. Generally this review found that on process there was significant progress, while analysis still remained problematic. The report was not able to assess impact beyond some preliminary observations.

Process

17. **Priorities of the Work.** These were generally not well stated *ex ante* in terms of the envisaged scope, framework and audience. This is similar to what de Melo reports. There usually should be a number of objectives for Bank PE work. These typically reflect areas of actual or potential Bank lending in addition to assessing the overall macro situation and its relation to public expenditure. There is also a broader need as an input to overall Bank portfolio management. Here an incisive review of public expenditure could provide a useful input into overall risk management. The reviews pointed to the need for incorporating country priorities into the overall design. Much more interaction is needed with the client government especially at the time of identification of the objectives of the PE report. This may range from a need to generate an overall strategy to helping with some specific problem areas.⁶ The more successful reviews (Indonesia and the Baltics) had good working relations with the authorities throughout the process and the analysis. Most reviews, especially the less successful ones, tended to consider the report itself as a major output and often did not place as much emphasis on interaction with the authorities.

18. **Timing.** This is one of the concerns raised by the IMF. There appears to be little uniformity in this across the Bank. If a country is in crisis then one component of the Bank response may involve a major PE review. In principle this provides the background for various policy discussions and subsequent lending operations. Otherwise the PE review tends to be a more routine operation, undertaken as a standard tool for Bank staff, or in response to a request for help from a country focusing either on general or some specific problems. In a few countries PE reviews are currently done on a regular basis, perhaps every other year, to provide background for CG meetings for instance. However, in most instances, the rationale is rather obscure, sometimes there "happened" to be money left over in the budget or it was thought appropriate to provide an opportunity for a junior staff member to be a task manager. In other instances a public expenditure review was used to provide some degree of rationale for a lending program that was essentially agreed *ex ante*.

19. **Staff Incentives.** The staffing requires a critical intellectual mass to ensure the capacity to make an adequate diagnosis. There are two areas of concern: the quality of the mission leader and the role of sectoral staff. This varies a great deal between PE reports. A necessary, but not sufficient, requirement to do a good job is that the leader be an experienced staff

⁶ In some instances this may involve a Ministry of Finance, for example, which would like to use the Bank to gain access to areas where they are not adequately informed. Sometimes there are important companies (oil, power, railways) which tend to keep their operations relatively secret although they are public or semi-public companies. This use of the Bank for internal policy purposes is probably not a good idea.

member, preferably with a good grasp of both macro and sectoral issues and with some background in policy implementation. Certainly not an inexperienced, albeit bright staffmember. The limited role played by sectors was also identified as a problem by de Melo. Some progress has been made here. This requires a review of previous sector work together with a grasp of overall sectoral strategy. This would include an understanding of which sectors the country has been relatively successful in and where are the problem sectors and why. This requires participation from the sectoral staff. In spite of rhetoric to the contrary, most sectoral staff perceive the current incentive system as not conducive to placing any high priority on contributing to public expenditure ESW. However, when sectoral staff were able to bring their expertise to bear it had a favorable impact on the outcome. One approach (used in the Baltics) was to have the Department Director convey the importance of the work to the sector chiefs at an early stage. If this is indeed followed up it may be useful. However, it is evident that in most Regions of the Bank, further change is needed to encourage sector staff to gain an understanding of sectoral priorities and strategies and frame lending in the context of overall sectoral priorities. This may involve some retraining of sector staff as well as breaking the perceived link between career prospects and lending.

20. **Bank-Fund Interaction.** It is notable that the reviews of the Baltics also benefitted from good working relations with the IMF. Presently, Bank-Fund cooperation in PE work often seems to reflect a strong element of personal relations. This could be put on firmer footing by institutional support measures. The Bank-Fund working group (discussed later in this report) is expected to address this issue.

21. **Political Economy.** Some reports sought to integrate the views of diverse groups: opposition, private sector, unions, other creditors. Most were weak here and failed to assess the likely political viability of policy proposals and the need to suggest more palatable alternatives; in an extreme case the review was done against the wishes of the government.

Analysis

22. **Macroeconomic Framework.** The findings were similar to those of de Melo and Pradhan. The framework of analysis needs to be adequate to answer the questions posed within the review process. Most reports treat the macroaspects of the reviews in a very cursory fashion. Because of the superficial treatment, one cannot assess the macroeconomic framework. This gives rise to two concerns:

- While some PE reports do draw on the Fund's macro work (e.g., fiscal deficits in the Baltics), this is not done in a consistent manner and, for many countries, the Fund's analysis remains a "black box" to Bank economists.
- While the RMSM framework can be extended to incorporate the public sector, there are few policy links to the rest of the economy (e.g., impact of export taxes, used to close the fiscal accounts on export performance). It is easily manipulated. As a result the RMSM model is often used to justify macroprojections which may not be consistent with the fiscal projections.

23. **Public Sector Concepts and Definitions.** There is a wide variety of definitions and public sector concepts used. Most reports did not indicate what constituted the public sector and where its boundaries should be. Some PE reports focus on the Central Government, while others attempt to incorporate state/local levels of government and public enterprises. In some reports, there is also ambiguity over which concept of the deficit is appropriate, while in others there is little uniformity on what constitutes capital and current expenditures. The precise definitions and concepts of public sector used are not reasoned and defended based on the objective of the review and the issues to be analyzed.

24. **Role of the State.** Few PE reports address this issue. However, it is crucial for establishing spending priorities. In some areas (e.g., industry), there may be little role for state action beyond maintaining sound macro and structural policies. In others (e.g., telecommunications), it may be more important to think about privatization and the regulatory framework for private sector activity, than to assess new public investments. Even in areas where public investment will continue to be important (e.g., primary education), it is important to consider the appropriate role of private investment and financing.

25. **Expenditure Priorities.** Two general areas of analytical difficulty are: (a) analysis of whether sectoral shares are adequate to meet the objectives and priorities, and in this context the question of intersectoral choices; (b) analysis of the adequacy of recurrent expenditure, given past investment, and the integration of recurrent cost as an integral part of the determination of the composition and the size of the PSIP. Intersectoral allocations are inherently difficult to evaluate. However, at a minimum, significant sectoral shifts may emerge from consideration of the role of the state (see above) and elimination of obvious white elephants. At one extreme some suggest the use of rules of thumb. The IMF has offered this suggestion for unproductive (military) expenditures and the UNDP for social expenditures. However, they should be used only as a last resort and then simply to flag glaring imbalances. Before moving towards policy proposals it is essential to consider country-specific expenditure priorities.

26. **Data.** In most countries there are significant data problems. Precise data are often not readily available; in some cases they are simply preliminary budgetary estimates; in others cash rather than accrual are used so that the perceived situation may be quite misleading. In a number of countries, data restrictions may impose restrictions on the objectives. For instance lack of knowledge on inter sector arrears may limit the ability to sort out which firms are viable or not and which are simply suffering liquidity problems. The IMF has made some progress in addressing data needs by collecting some government statistics. These are published in the GFS. While these provide a useful first step they could benefit from improvement in terms of their coverage, timeliness and general quality. In the PE work considered here, the data was generally considered adequate. However, this necessitated a major effort especially in such areas as public enterprises and quasi-fiscal deficits.

27. **Management Capability and Incentives.** Policymaking in relation to public expenditure--macro and micro--and the capacity to implement these policies efficiently and effectively requires a strong management capability and a set of core systems and consistent institutional, organizational, and individual incentives. At a minimum this would include capability for budget planning to ensure adequate funding for all approved expenditures; typically investment initiatives require allocation of significant current and maintenance expenditures for

their success. It is also important to be able to assess and program all investment expenditures. This can vary from a project evaluation unit to ongoing monitoring of all public expenditures. Examination of these issues should be part of any strategic approach to our public expenditure work.

28. In analyzing this general area, some reports did indicate obvious shortcomings but did not provide answers to suit the particular country situation. With limited resources available how should management be modified or what should be the appropriate incentive structure? What structures and incentives are appropriate at various stages of development to ensure efficient functioning of revenue and expenditure patterns? Most reviews did not address these issues in depth but rather identified institutional shortcomings and highlighted the need for further action.

Impact

29. The general question of impact may be best assessed at the country level and then at different points in time: during the work, shortly after and then after some elapsed period. As with all policy work it is often misleading to make a hasty judgement on any new initiatives. In some instances some of the useful gains were made during the actual process of preparation, discussions and through informal meetings which often are not adequately reflected in any formal report. However, these often may produce beneficial effects. In evaluating impact, there are two broad issues: to what extent the public sector work was useful in furthering objectives of the various interested parties; and perhaps even more important whether these were the right objectives.

30. It was felt that the present effort was not adequate to assess impact and alternate approaches need to be considered. This is raised as an issue in the next section. The SPA report pays a lot of attention to impact issues and when its case study reports become available there should be some potential insights available. At this stage the following observations may be noted.

31. **Country Objectives.** A number of reports were quite successful in furthering country objectives. The better ones in this respect had been carefully prepared in conjunction with country counterparts. In some instances a particular Ministry, often a Ministry of Finance asked a Bank mission to help increase information on a particular sphere of public sector operations such as a public enterprise. Sometimes the Bank was able to bring to bear comparative experience to give some insights on problems being faced. At the other end of the spectrum one finds reports without full government cooperation; in one instance, a government agreed only after pressure was brought to bear. Not surprisingly, this last report had little impact.

32. **Bank Objectives.** Public sector ESW is also quite useful for Bank objectives. It helps provide a basis for an ongoing dialogue with the country, allows different sector groups to focus their efforts in a mutually agreeable way and brings to bear cross-country experience. It can also underpin the Bank's own lending operations. With the shift toward more sector lending, especially in Africa, public sector work will become even more important. One would envisage that continued satisfactory performance by the public sector could lead to a further shift towards general budgetary support. Particular attention will need to be given to domestic resource

mobilization efforts, as well as overall expenditure priorities (including for recurrent expenditure). The series of public sector reports on Ghana (see Appendix D) provides a number of lessons. In some respects, it was quite successful. The Ghanaians reached a point where they could carry out their own public sector reviews. However, a number of concerns were also noted. Some in government felt the need for an independent outside view. Some thought should be given to how this could be incorporated in future work. Much more worrisome is the seeming increase in aid dependency, for salary supplements, that has accompanied this effort.

33. **Private Sector.** In recent years the private sector/public sector nexus has grown steadily in importance. For most countries the public sector needs to play a more effective role in facilitating the private sector or at least minimizing the obstacles to its development. The appropriate role will vary among countries and also over time. However, it is important to have some private sector involvement throughout the process. This may typically involve chambers of commerce and trade associations. At a minimum the country should have a well-articulated strategy on what the present and envisaged role is for the public sector. There is some agreement that most productive activities are best left to the private sector. However, it is essential to have a clear understanding of what the private sector believes needs to be done by the public sector. Thus a broader review of the public sector should include an assessment of the adequacy of the legal and regulatory framework, and which institutional and infrastructure bottlenecks need to be addressed to facilitate a timely supply side response. Given the relatively recent emphasis on this area it is not very surprising that the reviews in the sample paid little attention to it. However, without attention to these issues, the supply side response during stabilization is likely to be disappointing.

34. **Donors.** The level and modality for donor involvement requires some thought. There seems to be general agreement that the typical report on public expenditure should be made available to donors at an early stage. There are some divergent views on whether donors might best be involved during review preparation. The experience has been mixed. Some have contributed useful mission members. However, in many cases the participation by donor groups has generated some difficulties either because they placed undue importance on their own goals, tended to overload busy (and scarce) key government officials and often were seen as failing to produce inputs for the report of sufficient quality in a timely manner. Certainly, donor interests raise new, and often complex, analytical issues (e.g., the gender impact of public expenditures). In some countries the potential donor impact can be improved by at least sounding them out ahead of time about their overall objectives and how much flexibility they may be willing to entertain. In a few countries, fragmentation of donor assistance has been addressed by including it in the overall budget framework.

V. PROPOSALS FOR FOLLOW-UP ACTION

35. **Scope and Timing.** While large omnibus reports may still have a role, they are unlikely to be the primary instrument of public expenditure work in the future. Not only are they very expensive, but they also have a very short shelf life and are difficult to update or internalize within the country. We therefore need to take a much more strategic view of our PE work. It would seem appropriate to first reach a decision on what type of review is appropriate for each country. This will depend on country circumstances, role of the Bank, external factors and the

present state of knowledge for that country. It should also be linked to project and sector work. It may make sense to start with a broad review--either a quick public sector assessment or an in-depth public expenditure review--and then move on to a series of papers focussed on selected expenditure issues. This needs to be defined as a three to five year program, rather than a once-off exercise, with increasing local involvement and capacity building over time. This program, along with other ESW proposals, should be discussed with the Government and outlined in the Country Assistance Strategy (CAS). The CAS should bring out clearly the links between PE work and: (a) the Bank's overall country strategy; and (b) the requirements of other development agencies, including the Fund.

36. **Analytical and Management Issues.** A simple conceptual framework for PE work, developed by Van Wijnbergen, is set out in Appendix B. This warrants further discussion. In addition, this review has identified a number of analytical issues which need to be addressed:

- **Macroeconomic Framework.** All PE work, even if it is dealing with selected sectoral issues, should be placed within a consistent macroeconomic framework. Every effort should be made to develop a joint macro view with the Fund. In many cases, the Fund's macro analysis may provide the best starting point, provided it is properly reviewed and understood by Bank staff. Several iterations may be required to develop a consistent set of projections on macro prospects, resource mobilization, public expenditure levels, spending priorities and overall sustainability.
- **Public Sector: Concepts and Definitions.** PE work is moving toward a broader definition of the public sector and public finance issues. Yet concepts and definitions vary widely between countries and PE reports. Some variation may well be appropriate, based on country conditions and data availability. But these variations should always be well-defined relative to some standard benchmarks. This is an area where joint work between the Bank and the Fund may well lead to more consistent analysis (see below).
- **Data Quality and Timeliness.** At the moment, the best source of cross-country data on public finance is the IMF's Government Financial Statistics (GFS). However, GFS data are not particularly useful for PE work because: (a) they are usually several years out of date; (b) coverage of local government and public enterprises is incomplete; and (c) only limited disaggregations by expenditure categories are available. The Task Force needs to discuss how to improve GFS to overcome some of these constraints.
- **Expenditure Composition.** There are major, perhaps intractable, analytical problems in trying to compare expenditures across sectors. In some instances, analysts have resorted to rules of thumb to set intersectoral spending priorities. However, the use of rules of thumb is not satisfactory. It may overlook significant differences between countries and may distract attention from important considerations of expenditure effectiveness and intrasectoral priorities. More work in this area is needed in relation to both policymaking and efficient and effective resource use to define sensible ground rules for using different criteria for intersectoral allocations in different situations. This would focus the efficiency and effectiveness of current resource use and in clarifying the role of government particularly vis-a-vis the private sector.

- **Public Sector Management Incentives.** One of the primary objectives of PE work is to build local capacity to manage planning, budgets and expenditures. In this context, particular attention needs to be given to the core systems, such as accounting and the institutional aspects, as these embody powerful incentives. This is an area where considerable experience is now becoming available in many OECD countries. PRDPE is proposing a research program to learn from this experience and develop practices relevant to developing countries. This research warrants high priority.

37. **Staffing Issues.** A critical mass of experienced staff is required to undertake PE work. Within the Regions, proper incentives--possibly supplemented by training--are needed to get the full commitment of sector staff. Central capacity in this area is limited, and split between two Divisions: PRDPE (which handles public economics issues) and HROVP (which handles public sector management issues). PRDPE is currently working with the Africa Region on several model PE reviews and HROVP is working jointly with the Fund on a manual on budget management. Should this central capacity for PE work be strengthened and/or better coordinated? Alternatively, should the Regional TDs maintain a core capacity to support PE work?⁷

38. **Evaluating Impact.** In a time of tightening budget constraints, PE work will have to be both selective and cost effective. Proposed tasks should be justified by their potential impact, not just in terms of the Bank's lending program, but more importantly in terms of their contribution to policy decisions and capacity building in the client country. Budget and staff resources should be allocated accordingly. The SPA country case studies should provide some useful feedback on impact. More generally, a two-phased approach is proposed. First, OED should review the impact of the Bank's recent PE work, to identify examples of best practice and propose ways to make our PE work more effective. This review should also cover process and analytical issues, possibly drawing on the framework developed by Pradhan for evaluating PE work (Appendix C). The second phase would involve more regular, but selective, peer-group evaluations of future PE work. This could include representatives from the country team, Central Vice Presidencies and outside experts.

39. **Coordination with the IMF.** In countries where the IMF requires Bank inputs on public expenditure issues, the program of work outlined in the CAS should also be discussed with the Fund. In addition, it may be useful in some Regions (e.g., AFR, ECA) to have annual reviews with the Fund on the program of PE work for the coming year or two. It clearly will not be possible to meet all of the Fund's needs at any point in time. But the objective should be to cover the priority issues over a three- to five-year period. To cover the gaps, and to distill information from a variety of sources, the Fund's proposal to exchange short notes on issues of mutual interest makes a lot of sense.

⁷ It may be of interest to review the experience of addressing the debt issue in a number of countries. Here a broad group was formed for each of the relevant countries to bring to bear a wide array of Bank expertise.

40. We have agreed to establish a joint working group to follow up on the issues raised in the IMF's report.⁸ From the Bank's side, this working group will include representatives from the Regions, HRO and DEC. As a first task, the working group will look jointly at the experience with PER work in two African countries. It will also review the issues raised in this paper and identify possible areas for joint work on analytical issues (including a consistent set of concepts, definitions, data, etc). One outcome may be a joint letter from Messrs. Preston and Camdessus, outlining the importance of PER work and proposals for improving Bank/Fund coordination.

⁸ Recent work on Bank/Fund relations in this area is covered in a separate note by Mark Baird, January 6, 1995.

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PUBLIC EXPENDITURE REPORTS

This Appendix provides some general background information on public expenditure reports. Table A.1 lists Bank reports on public expenditure issues at both the national and sector level but excluded social and infrastructure reports. Table A.2 shows the distribution of PE reports by year and country. Table A.3 shows time required for processing of ESW reports Bankwide. It is noted that the sample selected for this report is somewhat similar. Figure A.1 gives a quick review of the number of reports and Bank commitments during the period 1987-93.

Table A.1: LIST OF BANK REPORTS ON PUBLIC EXPENDITURE ISSUES (1987-93)

Country	Title	Staff Week	Budget	Date	Code
<u>I. East Asia: 9</u>					
China	Budgetary policy & intergovernmental fiscal relations			7/93	11094
Indonesia	Hospital expenditure in Indonesia			6/87	PIIN8717
Indonesia	Public expenditures, price and the poor			8/93	11293
Korea	Managing health expenditure under the national health insurance: case of Korea			10/91	WTP156
Malaysia	Fiscal reform for stable growth			4/92	10120
Papua New Guinea	The costs and financing of education			6/87	6767
Philippines	Selected issues in public resource management			4/88	6887
Philippines	Country economic report: public sector resource mobilization and expenditure management			2/92	10056
Viet Nam	Restructuring public finance and public enterprises			4/92	10134
<u>II. South Asia: 10</u>					
Bangladesh	Public expenditure review: public resource management during the 4th five year plan FY91-95			3/89	7545
Bangladesh	Poverty and public expenditures: an evaluation of the impact of selected government programs			1/90	7946
India	Health sector financing: coping with adjustment opportunities for reform			6/92	10859
India	Agriculture public expenditure review			5/93	12196
India	Public expenditure review			12/93	12570
Nepal	Expenditure in the road sector			1/93	10988
Nepal	Maintaining structural reform and managing public resources			3/90	8352
Pakistan	Public expenditure review			10/92	10770
Sri Lanka	Public expenditure review			12/93	12337
Asia	Health financing in Asia			4/90	8553
<u>III. LAC: 27</u>					
Argentina	Reallocating resource for the improvement of education			1/91	PUB7471
Argentina	Public finance review: from insolvency to growth			2/93	10827
Argentina	Military expenditure review			2/92	10611

Bolivia	Public sector expenditure review with a special emphasis on the social sector	9/89	7746
Bolivia	A review of the public investment program and financing requirements, 87-90	6/88	7248
Brazil	Public expenditure subsidy policies and budgetary reform	12/89	7738
Brazil	Public sector investment review	1/87	6600
Colombia	Public sector expenditure review	1/91	7891
Colombia	Education sector finance and efficiency	4/87	6587
Costa Rica	Public sector expenditure review	9/89	7877
Dominican Rep.	The 89-91 public sector investment program	3/90	7600
Ecuador	Public expenditure review: changing the role of the state	8/93	10541
Guatemala	Public sector expenditure review	5/89	7478
Honduras	Public sector expenditure review	12/89	7861
Jamaica	Public sector investment program analysis, performance and prospects	11/87	7020
Jamaica	The FY90/91-FY92/93 public sector investment program	2/90	8404
Jamaica	Public sector investment program: 92/93 to 94/95	5/92	10297
Mexico	Health sector expenditure and financing report	5/89	7802
Mexico	Mexico in transition: towards a new role for the public sector	5/91	8770
Nicaragua	Public sector expenditure review	9/92	10785
Paraguay	Public expenditure review: the social sectors	6/92	10193
Peru	Public expenditure review	1/87	6528
Uruguay	Poverty assessment: public social expenditure and their impact on the income distribution	5/93	9663
Uruguay	Public sector investment review	5/88	7030
Venezuela	A review of the 90-93 public sector investment	12/90	8588
LAC	Trends in government expenditure and revenue in Latin America, 75-88	11/91	10149
LAC	Nutrition and health programs in Latin America: targeting social expenditure	6/89	11593

VI. SS-Africa: 47

Angola	Public expenditure issues and priorities during transition to a market economy	6/93	11649
Benin	Review of public expenditure, 85-90	1/88	6951
Burkina Faso	Public expenditure review	5/93	11901
Burundi	Public expenditure review	2/92	8590
Cameroon	Public investment review	6/90	8866
Chad	Public expenditure review	6/90	8424
Comoros	A review of the public investment program, 91-9.	10/91	10016
Cote d'Ivoire	Public sector expenditure review	10/87	6980
Cote d'Ivoire	Public expenditure review	7/90	8748
Equatorial Guinea	Public expenditure issues	10/93	12367
Ethiopia	A study of health financing: issue and options	4/87	6624
Ethiopia	Public investment program review	2/88	6859
Ghana	Public expenditure review, 90-92	6/90	8616

Ghana	Public expenditure review, 89-91	10/89	7673
Kenya	Investing in stabilization and growth through public sector adjustment	1/92	9998
Kenya	Public expenditure issues	4/89	7508
Kenya	Review of expenditure issues and options in health financing	2/88	6963
Lesotho	Public expenditure priorities	9/88	7243
Madagascar	Public expenditure, adjustment & growth	12/89	7803
Madagascar	Public expenditure review 90-92	7/90	8919
Malawi	Public expenditure review	4/90	7281
Mauritania	Review of the 89-91 public investment program	6/89	7783
Mozambique	Public expenditure review	9/89	7615
Mozambique	Second public expenditure review	12/92	11524
Mozambique	Education sector expenditure, management and financing review	9/92	11000
Namibia	Poverty alleviation with sustainable growth	10/91	9510
Nigeria	Public expenditure review	6/88	7175
Nigeria	Public expenditure management	11/91	9865
Nigeria	Health care costs, financing and utilization	10/91	8382
Rwanda	Public expenditure program: an instrument of economic strategy	10/89	7717
Senegal	Public expenditure review	5/93	11559
Senegal	Issues in health care financing	10/92	11059
Senegal	A review of the three year public investment program, 87/88-89/90	2/87	6450
Senegal	Parapublic sector review	5/89	7774
Seychelles	Public sector investment program: an instrument of policy	6/93	12070
Somalia	Crisis in public expenditure management	3/91	8727
Swaziland	Public expenditure review	7/93	11583
Tanzania	Public expenditure review	5/89	7559
Uganda	Public choices for private initiatives: prioritizing public expenditures for sustainable and equitable growth	2/91	9203
Uganda	Managing public expenditure	6/92	10512
Zambia	Public expenditure review	10/87	6438
Zambia	Public expenditure review	12/92	11420
Zambia	Public investment program	4/90	8721
Zimbabwe	Issues in the financing of health services	7/90	8100
Zaire	A review of government expenditure	5/91	8995
Africa	Public sector decentralization: economic policy reform and sector investment programs	5/90	8311
Africa	Poverty-conscious restructuring of public expenditure	12/90	9301

V. MNA: 13

Algeria	Public investment review	5/90	8629
Bahrain	Public expenditure review	2/89	9404
Egypt	Public sector investment review	10/93	11064
Jordan	Public expenditure review	2/91	8986

Morocco	Agriculture expenditure review	6/90	8878
Morocco	Decentralization in Morocco: local government expenditure and management	8/90	8782
Morocco	Reaching the disadvantaged: social expenditure priorities in the 1990s	9/90	7903
Morocco	Issues and prospects in the public sector	6/92	10157
Morocco	Costs, financing and efficiency of the education system	6/93	11937
Tunisia	Adapting public expenditures to changing resource availability	1/87	6604
Tunisia	Expenditure review of the agriculture sector	6/87	6815
Tunisia	Agriculture expenditure review	5/91	9511
Yemen Arab Republic	Domestic resource mobilization, user charges, and recurrent expenditure	6/87	6851

VI. PCA: 6

Hungary	Reform of social policy and expenditure	7/91	9349
Poland	Social sectors expenditure review	1/92	10158
Turkey	Adjusting public investment	3/87	6603
Turkey	Costs and financing of primary and secondary education	11/90	9097
Turkey	Issues and options in health financing	9/90	8042
Turkey	Inflation and the financing of government expenditure: an introductory analysis with an application to Turkey	1/89	8746

VII. Multi-Regional: 1

ALL	Capital expenditure for electric power in the developing countries in the 1990s	2/90	9321
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Total: 113

Sources: World Bank Internal Document Unit, IDR

* This table covers only the reports whose themes are public expenditure review at both national and sector level. All the social and infrastructure sector reports (educational, health, transportation, water and sanitation, irrigation, power, etc.) are excluded in the table although almost all those sector reports contain public expenditure analysis parts.

Table A.2: NUMBER OF BANK REPORTS ON PUBLIC EXPENDITURE ISSUES
(1987-1993)

	1987	1988	1989	1990	1991	1992	1993	TOTAL
Africa								
Angola							1	1
Benin		1						1
Burkina Faso							1	1
Burundi						1		1
Cameroon				1				1
Chad				1				1
Comoros					1			1
Cote d'Ivoire	1			1				2
Equatorial Guinea							1	1
Ethiopia	1	1						2
Ghana			1	1				2
Kenya		1	1			1		3
Lesotho		1						1
Madagascar			1	1				2
Malawi				1				1
Mauritania			1					1
Mozambique			1			2		3
Namibia					1			1
Nigeria		1			2			3
Rwanda			1					1
Senegal	1		1			1	1	4
Seychelles							1	1
Somalia					1			1
Swaziland							1	1
Tanzania			1					1
Uganda					1	1		2
Zaire					1			1
Zambia	1			1		1		3
Zimbabwe				1				1
Africa				2				2
Subtotal	4	5	8	10	7	7	6	47

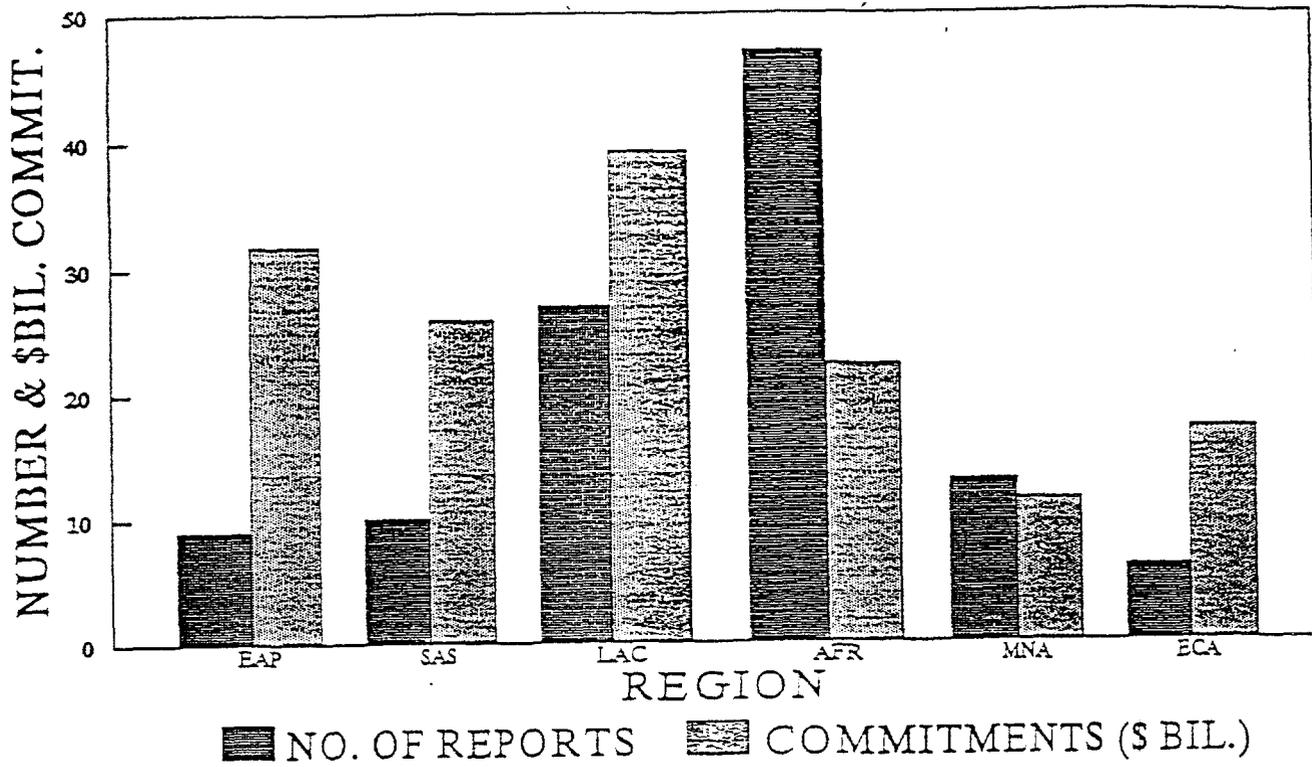
	1987	1988	1989	1990	1991	1992	1993	TOTAL
MNA								
Algeria				1				1
Bahrain			1					1
Egypt							1	1
Jordan					1			1
Morocco				3		1	1	5
Tunisia	2				1			3
Yemen A.R.	1							1
Subtotal	3	0	1	4	2	1	2	13
Europe and Central Asia								
Hungary					1			1
Poland						1		1
Turkey	1		1	2				4
Subtotal	1	0	1	2	1	1	0	6
East Asia and Pacific								
China							1	1
Indonesia	1						1	2
Korea					1			1
Malaysia						1		1
Papua New Guinea	1							1
Philippines		1				1		2
Viet Nam						1		1
Subtotal	2	1	0	0	1	3	2	9
South Asia								
Bangladesh			1	1				2
India						1	2	3
Nepal				1			1	2
Pakistan						1		1
Sri Lanka							1	1
Asia (Regional)				1				1
Subtotal	0	0	1	3	0	2	4	10

	1987	1988	1989	1990	1991	1992	1993	TOTAL
Latin America and Caribbean								
Argentina					1	1	1	3
Bolivia		1	1					2
Brazil	1		1					2
Colombia	1				1			2
Costa Rica			1					1
Dominican Republic				1				1
Ecuador							1	1
Guatemala			1					1
Honduras			1					1
Jamaica	1			1		1		3
Mexico			1		1			2
Nicaragua						1		1
Paraguay						1		1
Peru	1							1
Uruguay		1					1	2
Venezuela				1				1
LAC (Regional)			1		1			2
Subtotal	4	2	7	3	4	4	3	27
Multi-Regional				1				
GRAND TOTAL	14	8	18	23	15	18	17	113

Table A.3: ELAPSED TIME BETWEEN FIRST MISSION AND FINAL REPORT

Elapsed Time (in Months)	
1987-93 ESW Reports (Bankwide)	
Yellow	10
Green	12
Gray	13
21 Selected Public Expenditure Reports	
Yellow	12
Green	11
Gray	15

Figure A.1: NUMBER OF PUBLIC EXPENDITURE REPORTS AND BANK LENDING
(1987 to 1993)



CONCEPTUAL ANALYTICAL FRAMEWORK - SUMMARY

1. This Appendix is summarized from a paper by Sweder van Wijnbergen. The full paper will be available in February.
2. An obvious preliminary, omitted in most reports, is a definition of what actually constitutes the government. The only defensible definition is a comprehensive one including all layers of government: on and off-budget; state, regional and local; areas of direct control and spending, and ones where the impact is indirect, through regulation or SOEs run at arm's length.
3. The next step should be an *a priori* determination of what the boundaries of the government should be: *a priori* to determining what the budget constraint is. The reason for such an *a priori* determination of the boundaries is that one can by now arguably accept the view that the Government should only be active in an area if there is a positive reason for doing so. To avoid being pedantic, the report should only cover areas where this is a non-trivial issue; there is no need to argue the case for a judiciary, say, or police protection. On the other hand, areas covered should not be confined to those where the government makes its presence felt through actual spending. Is there a need to expand, modify or cut back regulation? One would expect the report to focus in particular on SOEs and functions of government that could, even if they may not be right now, be run on a corporate basis (like the post office); how far should privatization go? Is there a need to accompany privatization by a proper regulatory framework to avoid the creation of monopolies? In fact are there obvious gaps or excesses in the existing regulatory framework?
4. Once these *a priori* boundaries are set, the budget envelope becomes crucial. Given an agreement on where the government should be present, under what kind of budget constraint does it operate? In the short run, this is IMF territory; but if sustainability is at all an issue, a medium-term framework is more appropriate, and this is typically not the focus of IMF programming. The issue is of course key, although not covered by many of the reports surveyed. Such an exercise would require a look at the tax structure, at non-tax revenues and at the amount of inflation tax (or more generally seigniorage) that can be expected given the macroeconomic objectives the government has (i.e., growth and inflation rates) and the financial structure of the country.
5. Given the boundaries of a government activity and the medium-term revenue base, overall spending levels follow. This in turn raises the issue of the allocation of expenditure, both over sectors and over current and capital expenditure. Here there is a risk of becoming theoretically elegant but not very useful in practice. Elaborate shadow pricing, deriving government objective functions, etc., are all very nice but in practice infeasible without making

up so much crucially needed information out of thin air that the whole exercise becomes dubious. An alternative approach would try to define medium-term objectives of the government in key areas; and seek to derive the necessary spending levels from there; if it turns out the overall budget constraint is violated as a consequence, the issue of priorities would need to be raised with the government, either on the spending or on the taxation side. This section would also have to consider whether existing spending programs are in fact efficient given stated objectives and budget envelopes. This section would presumably be the main body of the text. Of course an iteration may be necessary if derived expenditure levels are wildly out of line with the budget envelope.

6. Sustainability is a key issue, to be covered next. Here there are two elements. One--given stated objectives and assuming efficient spending programs--are the current spending levels adequate in the face of developments to be expected in the future? Examples are an assessment of the adequacy of pension arrangements and health and education programs given likely demographic developments; recurrent expenditure in the case of investment programs; and so on--mundane matters, but obviously of crucial importance. A second aspect is more political and only relevant after major reform programs. Sustainability of a program of reform will critically depend on whether enough broad-based support will be forthcoming. In this context the issue of adjustment assistance will need to be raised. If powerful groups will be hurt in the reform process, sustainability of the entire program may well be at risk unless their main concerns are addressed one way or the other. The key issue is, of course, how to do this without derailing the reform program that started the whole problem. Recommending drastic reforms without addressing these issues is simply irresponsible and gratuitous.

7. Finally, once boundaries, budget constraints, and specific spending programs have been covered, there is the crucially important issue of **implementation**. Are the government institutions adequate, too extensive or not extensive enough? For example, is there a unit equipped to assess public investment programs and determine priorities? Is there a well functioning treasury function? Does the current organization of government lead to conflicts of interest (e.g., is competition policy managed from the Ministry of Commerce)? Are administrative procedures excessively cumbersome for the private sector? Are budgeting procedures set up to handle recurrent costs of investment projects, i.e., is there an attempt at multi-year budgeting? And so on. Reforms in this area may in fact do more to help the non-government sector/private sector than anything else.

FRAMEWORK FOR EVALUATING PUBLIC EXPENDITURE WORK

This Appendix gives a framework proposed by Sanjay Pradhan. Further details on his work on intersectoral allocations are given in Pradhan (1994).

FRAMEWORK FOR EVALUATING PUBLIC EXPENDITURE WORK

	Improving Institutional Capacity and Processes	Identifying and Correcting Expenditure Imbalances	Improving Donor Lending Priorities
Process	<ul style="list-style-type: none"> • Close partnership with government • Follow-up on PERs • Series of annual PERs in Africa • Staffing (mature task manager) • Staffing (institutional specialists) • Workshops for government 	<ul style="list-style-type: none"> • Staffing (experienced task manager) • Incentives/commitment of sector staff • Mission size? • Consulting interest groups • Clarity of objectives • Country versus Bank priorities 	<ul style="list-style-type: none"> • Donor involvement in mission • SPA donors-Bank task force in Africa
Analysis	<ul style="list-style-type: none"> • Presence of priority-setting process • Relative autonomy of central agencies • Incentives and degree of centralization in budget preparation • Use of economic analysis in decision-making • Budget implementation • Procurement • Accounting • Auditing • Evaluation 	<ul style="list-style-type: none"> • Comprehensiveness of public sector • Role of government vs. private sector • Aggregate level and macro framework • PIP review; white elephants, core investment; capital-current • Civil service pay and employment • Nonwage O&M; physical input mix • Intrasectoral allocations--programs (e.g., primary/tertiary) • Poverty incidence • Intersectoral allocations • Methodology: inputs vs. outputs/outcomes; trends; international comparisons; cost-effectiveness, cost-benefit, judgment 	<ul style="list-style-type: none"> • Analysis of donor-financed projects in PIP • Review of World Bank lending portfolio
Recommendations	<ul style="list-style-type: none"> • Recommendations for budget preparation, implementation, accounting and auditing 	<ul style="list-style-type: none"> • Recommended restructuring of expenditure allocations within and across sectors, as well as economic categories 	<ul style="list-style-type: none"> • Recommended changes in donor lending strategies
Impact	<ul style="list-style-type: none"> • Actual improvements in budget preparation, implementation, accounting and auditing 	<ul style="list-style-type: none"> • Actual reallocations of spending in budgets and the plan, across and within sectors and economic categories 	<ul style="list-style-type: none"> • Actual changes in donor lending strategies, including World Bank country assistance strategy

PUBLIC EXPENDITURE REVIEWS IN GHANA

1. This Appendix provides a brief review of the Ghana experience with PE reviews. This group was chosen to provide some insight on the merits of pursuing a series of PE reviews in one country.
2. Since the beginning of the Economic Recovery Program in 1983, the Bank and IMF have had an extensive dialogue with the Ghanaian government on public expenditure issues. Yearly consultations on public expenditure issues began in 1985 and five PE reviews have been written since that time.¹ The initial review in 1985 brought a very large team to Ghana and played a major role in assisting the Government in preparing its development plan. This review provided a base for those that followed. Later reviews used smaller teams and were able to expand their focus to issues of budget process and implementation. Through the series of PE reviews, a degree of expertise was built up among Ghanaians so that the most recent PE review was prepared by the Government itself. This has had important advantages in terms of ownership, but has also meant that some important areas of analysis were excluded from the recent document.
3. The 1985 PE review set out estimates for the resources likely to be available to the Government over the following years (1986-88) and then considered issues of inter and intra-sectoral development. It set out a possible recurrent expenditure program and a possible capital expenditure program placing emphasis on health and education, as well as on the importance of restoring the efficiency of public administration in Ghana. A capital expenditure program was built from "the bottom up". Sectoral strategies and programs were reviewed. Economic rates of return and domestic resource costs for some 159 projects were calculated and an investment program based on those projects with the highest rate of return.
4. Each of the following three PE reviews carried out a similar analysis--first discussing the macroeconomic framework, then considering allocation and implementation issues and finally looking closely at sectoral strategies. The benefit of such regular reviews was that it allowed the Bank and the Government to set objectives and assess progress on a number of themes. For example, on resource allocation, each review discussed progress in improving the system of civil service compensation with the objective of improving the efficiency of public administration. Issues concerning the balance of recurrent expenditure between wage and non-wage expenditures were also discussed in each review. Norms for recurrent expenditures in certain sectors were set out early on and later reviews assessed progress in achieving these norms. Progress in

¹ See Priorities for Public Expenditures, 1986-1988 (1985), Ghana: Public Expenditure Review, 1989-91 (1989); Public Expenditure Review : 1990-92 (1990); Public Expenditure Review: 1992-94 (1992); Republic of Ghana: Public Expenditure Review 1993 (1994).

implementing the desired changes in the public investment program were also assessed. Over the years more attention was focused on implementation issues, ranging from difficulties with the budgeting process, to diversions of funds, to basic difficulties in collecting information on actual expenditures.

5. The most recent PE review was carried out by the Ghanaian government. It presented a useful discussion of issues concerning budgetary process and implementation (an important indication that the government recognized the seriousness of these problems). However, it did not consider the overall macro framework nor any forward-looking plans for moving beyond the difficult fiscal situation that resulted from the 1992 election.

6. The experience with expenditure reviews in Ghana shows that regularly scheduled PE reviews can help the government develop expertise in dealing with public expenditure issues. Over time, they may be able to take over the expenditure review function. This will help to build ownership and better understanding of public expenditure issues. At the same time, the Bank must encourage governments to maintain a high standard of analysis and a forward looking focus.

7. Presently there is some concern that this approach is generating significant aid depending on the fact that low-paid government workers do not feel motivated to carry out their normal tasks unless they can benefit from some of the largesse available for "outside" consultants.