



*Design and Implementation of Spending Reviews in
Colombia: A Case Study and Recommendations
(Brief note) ¹*

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Contents

I. Objectives and Scope of the Spending Reviews	4
II. General Framework for Spending Reviews	4
III. Three Analytical Dimensions of Spending Reviews	6
IV. Institutional Arrangements	7
V. Implementation of the Spending Reviews in 2016	9
VI. Results, Lessons Learned, and Recommendations	10

Abbreviations and Acronyms

COP	Colombian peso
STIP	<i>Subdirección Territorial y de Inversión Pública</i> (Territorial Management and Public Investment Subdirection)
DIFP	<i>Dirección de Inversiones y Finanzas Públicas</i> (Direction of Public Investment and Finances)
DSEPP	<i>Dirección de Seguimiento Y Evaluación De Políticas Públicas</i> (Direction for Monitoring and Evaluation of Public Policies)
GDP	Gross domestic product
IMF	International Monetary Fund
NPD	National Planning Department
OECD	Organisation for Economic Cooperation and Development

Design and Implementation of Spending Reviews in Colombia: A Case Study and Recommendations ²

1. In 2016, the Colombian Government made the decision to implement spending reviews as a mechanism to improve the efficiency and quality of public expenditure in the context of tight fiscal restrictions. The sudden drop of international oil prices and other commodities, along with an expected reduction of oil production, led to growing fiscal pressures from 2015 to the present. The decrease of exports negatively affected central government revenue. The fall in revenues, accompanied by increased public expenditure to meet growing population demands, led to a constant increase of the fiscal deficit. The fiscal deficit, which in 2014 amounted to 2.4 percent of GDP, increased to 3 percent in 2015 and reached 4 percent by 2016. The deficit increase was mainly driven by the downturn in oil prices, increasing the gap with the structural deficit established as part of the fiscal rule.

2. The OECD Public Governance Review explicitly recommended the implementation of spending reviews in the country in 2013. The report described spending reviews as a means to improve linkage between strategy and budget, as well as a tool to release fiscal space for policy priorities. In this regard, experiences using spending reviews in Australia, Canada, and the United Kingdom were presented as examples that could guide the adoption of similar practices in Colombia.

3. Spending reviews are processes to enhance control over government spending through the identification of savings based on efficiency gains and the reallocation expenditure from low-priority or less effective programs. Moreover, besides their role as a fiscal consolidation tool, spending reviews are an effective way to improve the quality of public spending. On the one hand, they contribute to improved expenditure alignment with policy priorities (allocative efficiency), while on the other hand, they underpin improvements to the delivery processes of goods and services (operational efficiency). In the case of Colombia, the spending reviews can guide the government's decision to perform budget cuts in such a way that the negative effect of budget reductions in social policy is minimized. As a result of the reviews, the government would be able, if it so chooses, to reallocate resources from low-priority and low-performing initiatives to high-priority ones and better target budget cuts, if required by the fiscal context.

4. Given these challenges, the National Planning Department (NPD) started the implementation of spending reviews in Colombia in 2016 with the support of the World Bank. In Colombia, the central budget authority is divided between the Ministry of Finance and the National Planning Department. With ministry-level rank, the National Planning Department is responsible for preparing and monitoring the country's four-year National Development Plan, managing public investment and monitoring progress in the implementation of projects, among other functions. The initiative to introduce public spending review processes was led by the

² This document is based on the final deliverables of a Reimbursable Advisory Services technical assistance provided by the World Bank to the National Planning Department in 2016. The Bank team of senior sector experts, led by Pedro Arizti and Joanna Watkins (Governance Global Practice), comprised Tomás Martín, Genni Cavalli, León Montealegre, and Santiago de la Cadena. Juan José Perfetti (Research Associate from Fedesarrollo) and Roberto Angulo (independent consultant) also participated in the spending reviews. A longer version of the document is available upon request.

National Planning Department; but is expected that future reviews will have active participation from the Ministry of Finance.

I. Objectives and Scope of the Spending Reviews

5. The general objective of the spending reviews carried out in Colombia in 2016 was to improve the efficiency of public investment expenditure. The NPD-set goal was to generate reallocation proposals amounting to 10 percent of the 2017 public investment budget in the agriculture and social inclusion sectors. In Colombia, the two sectors reflect the government's administrative organizational structure. Hence, the spending reviews covered the investment budget of all government entities mapped under each administrative sector. Initially, the reallocation goal was to be based on the expected budget reductions for each sector in 2017 vis-à-vis the 2016 budget. In this regard, the spending reviews were to contribute in the identification of potential budget cuts. However, the implementation schedule for the spending reviews was not aligned with the budget preparation calendar, and thus the results could not be ready in time to be considered for the proposed 2017 Budget Law. Consequently, the National Planning Department selected the 10 percent goal to guide the exercise. In this regard, and as stated below, a key recommendation is to establish the goal based on the country's medium-term expenditure framework or the yearly budget projections for each sector, if available.

6. International experience suggests that both the analysis and savings from spending reviews should focus on operational expenditure and only in exceptional cases should they intervene in the budget allocations for ongoing or ready-to-implement public investment projects. It may therefore seem strange that in the case of Colombia the decision was taken to focus on public investment budget. However, as per the current classification, public investment expenditure does not only include capital expenditure but also transfers and operational expenses often related to investments on social and human capital such as salaries of teachers and medical personal. In 2010, only 45 percent of the public investment budget corresponded strictly to capital expenditure as defined by the IMF Government Finance Statistics Manual. Colombia's definition of public investment is based on the concept that investment on social and human capital is as important as that on physical assets.

7. The public investment budget is composed of projects, which were the basic units of analysis for the spending reviews. As a result of the broad definition of investment, some projects include both operational and investment spending in a strict sense. As a matter of fact, several projects contain only operational expenses, and only a few contain pure capital spending. Each project has a performance framework associated with it, including indicators to track progress in the implementation of the activities, as well as targets and impact measures. In this regard, the investment projects in Colombia function as budget programs that associate expenditure with performance measures. The broad definition of public investment allowed spending reviews to also cover operational expenses.

II. General Framework for Spending Reviews

8. Spending reviews should be flexible decision-making processes that can be adjusted to the peculiarities of each sector and changing economic and political contexts. Establishing rigid processes and methodologies could create the perception of a review exercise that is not adjusted

to the country or sector reality but is only a formal routine that does not contribute any value to the management of public expenditure. This also bears the risk of a generalized loss of interest in the process as well as low participation during the review.

9. To maximize the potential benefits of a spending review, the following list of guiding principles was developed to lead the exercise:

- a) ***The review process must have high-level political support.*** This support is key for the success of the review. In the case of Colombia, the process should ideally be backed by the President, the Minister of Finance and NPD Director. They should provide a clear mandate so that line ministries become aware of the process and issue the necessary instructions to their staff to carry out the review.
- b) ***Clear savings or reallocation targets should be established to guide the exercise.*** Without an explicit savings or reallocation target, the linkage between the review process and the desired effect is lost considering that it would not be possible to assess if the exercise served its purpose. Such targets are critical to guide the work of the teams in the field and need to be credible to provide the necessary compliance incentives. The process by which the targets are defined can vary depending on the country, but the targets must be consistent with a medium-term expenditure framework.
- c) ***Milestones for the spending review process must be established in alignment with the budget calendar.*** In the absence of clear milestones and deadlines, the spending review might extend its work indefinitely and become irrelevant as an input for the budget formulation process.
- d) ***The proposals resulting from the spending review must be jointly discussed with the Ministry of Finance and National Planning Department, as well as the relevant sector ministries or agencies.*** The spending reviews should be carried out as partially decentralized exercises to maximize ownership and participation from line ministries in the identification of savings. This also simplifies the access to information and facilitates implementation of the recommendations later.
- e) ***A procedure to prepare savings proposals at the center must also be defined to solve controversies or in case when sector-level review teams do not complete their work on time.*** This procedure should set guidelines for both the National Planning Department and Ministry of Finance to centrally develop or complete savings proposals in case the review teams at the sector level do not complete the work within the given deadlines or do not achieve the targets set at the start of the exercise. The threat of developing unilateral proposals at the center, together with the setting of credible strict deadlines, provides incentives for the sectors to actively participate in the review process.
- f) ***Reallocation proposals should only be presented either by the sector review teams based on the methodological framework or through a pre-defined centralized procedure in case the deadlines or targets are not met.*** The sector-level review teams are key actors throughout the process and have the formal mandate to prepare savings and reallocation

proposals. This implies that recommendations from stakeholders external to the review teams — and aside from the National Planning Department and Ministry of Finance — need to be first considered and agreed to by the review teams to be formally included in the reallocation proposals.

- g) ***Final decisions regarding savings proposals must be taken by a high-level political committee.*** Spending review processes entail a political dimension that needs to be considered to ensure sustainability. In this regard, the members of the proposed committee should have power and control over budget and expenditure decisions. In the case of Colombia, this committee should comprise the President, Minister of Finance, and NPD Director. Nevertheless, the spending review framework can provide strong technical inputs to serve as the basis for this discussion. In addition, by following a structured process to carry out the reviews, this process can also increase transparency and scrutiny over expenditure decisions.

10. A common aspect of spending reviews in several countries is the use of questions to guide the review process. Table 1 contains the guiding questions used in Colombia during the 2016 exercise.

Table 1. Guiding questions for Colombia’s Spending Reviews (2016)

Alignment with government priorities
<i>Is the program aligned with the government policy priorities?</i>
Performance
<i>To what extent has the program achieved government policy priorities?</i>
Efficiency
<i>Is there overlap with other programs?</i>
<i>Is there space to improve the delivery of services or do it at lower costs?</i>
<i>Is there space to merge programs and share services or simplify administrative arrangements?</i>
<i>Is it possible to outsource or involve a non-state service provider at a lower cost?</i>

III. Three Analytical Dimensions of Spending Reviews

11. The spending review can be implemented at three analytical levels: (a) strategic, (b) alignment with project priorities and performance, and (c) operational:

- ***The strategic level focuses on the sector priorities and objectives and reviews the suitability of existing policies to achieve them.*** Overall, the analysis reviews whether the strategic objectives and priorities of a given sector can be achieved with the current policies or if they need to be adjusted. The identification of such gaps will provide inputs to develop resource reallocation proposals that could generate potential savings by means

of restructuring. Moreover, it intends to shed light onto the need for potential structural reforms in the event that significant gaps are found. This analysis is carried out based on international experiences and impact evaluations (if available).

- **Program-level alignment with priorities and performance assessment focuses on evaluating the allocative efficiency of public expenditure by assessing program performance and its alignment with policy priorities at the strategic level.** The analysis is based on the assessment performed at the strategic level, which identifies key priority policies. At this level of analysis, a program is deemed to be efficient if spending is aligned with priority policies and the program is well performing in terms of results. The analysis requires a clear and public definition of priorities in order that the exercise is based on official information. In addition, the selected units of analysis must allow the linkage of policies with expenditures. This will allow an assessment of the budget allocation vis-à-vis the declared priorities, which could lead to the identification of potential savings by reallocating resources in a more efficient way.
- **Operational-level assessment seeks to improve the operational efficiency of public expenditure.** The core of the analysis is the identification of potential economies of scale in the production of goods and services, which would allow the ability to maintain the same level of services or the achievement of targets at a lower cost. This will lead to the identification of redundant costs and the reduction of expenditure. Table 2 summarizes the strengths and weaknesses of the three analytical levels described above.

Table 2. Comparison of weaknesses and strengths of the three analytical levels

<i>Level</i>	<i>Strengths</i>	<i>Weaknesses</i>
Strategic	<ul style="list-style-type: none"> • Generates long-term savings • Can help to solve sector structure or policy alignment challenges • Enhances the impact of cost-effectiveness measures 	<ul style="list-style-type: none"> • Savings are obtained in the long run • Requires high and constant political support • Recommendations can be costly and difficult to implement • High aversion to change
Alignment with priorities and performance assessment	<ul style="list-style-type: none"> • Generates savings over the short and medium terms • Improves the alignment of expenditure with policy priorities 	<ul style="list-style-type: none"> • Requires strong clear linkage between programs and budget • Requires quality program performance information
Operational	<ul style="list-style-type: none"> • Can generate rapid savings • Recommendations are easier to implement • Establishes good practices in terms of value-for-money and cost-effectiveness in sector agencies 	<ul style="list-style-type: none"> • Savings can be modest • Opportunities to generate savings tend to be one-time-only actions

IV. Institutional Arrangements

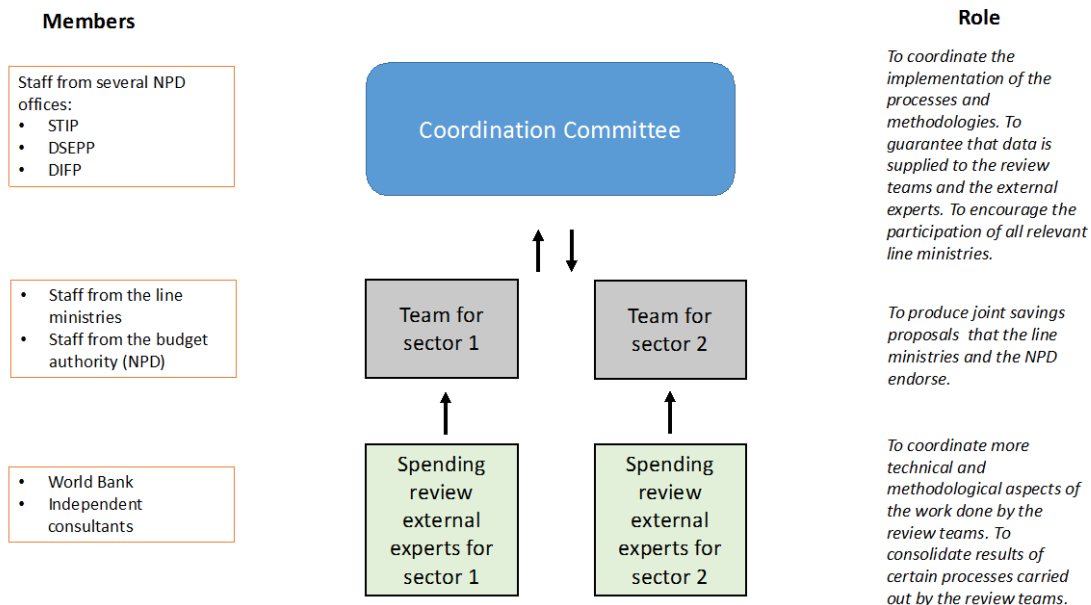
12. In Colombia, a key recommendation was to carry out the review with participation from the sectors as well as the National Planning Department and Ministry of Finance. This approach ensures that the review teams have a comprehensive view of each entity and capitalizes on the

profound sectoral knowledge and information regarding both policies and budget. As a result, any expenditure reallocation proposal will consider the priorities of the National Planning Department and Ministry of Finance and will secure sector buy-in for implementation of the ensuing recommendations, which increase the likelihood of success.

13. The governance structure of the reviews comprised two well-defined bodies: A Steering Committee and review teams (Figure 1 depicts the organizational structure for the 2016 spending reviews):

- a) **The Steering Committee** coordinated the spending review process, including its logistical aspects, and defined the savings goals and the selected the institutions that formed part of the review. The Committee oversaw approval of guidelines for implementation of the spending review as well as monitoring progress with adoption of the recommendations. The Committee was composed of staff from the National Planning Department and its Territorial Management and Public Investment Subdirection (*Subdirección Territorial y de Inversión Pública, STIP*), representatives from the Direction of Public Investment and Finances (*Dirección de Inversiones y Finanzas Publicas, DIFP*), the Direction for Monitoring and Evaluation of Public Policies (*Dirección de Seguimiento y Evaluación De Políticas Públicas, DSEPP*), and the technical departments of relevant sectors.
- b) **The Review teams** were tasked with identifying potential savings and preparing budget reallocation proposals to be discussed by the Steering Committee. The teams comprised staff from the National Planning Department, sectors and the entities subject to review.

Figure 1. Organization framework for the 2016 Spending Reviews



V. Implementation of the Spending Reviews in 2016

14. The implementation of the spending reviews was conducted in three phases. Its design was based on international experiences and the Colombian context. Table 3 outlines the phases and related process of the exercise in Colombia. The World Bank Group supported the government in the implementation of phases 1 and 2, and partially during phases 3 and 4.

Table 3. Summary of spending review phases and processes

<i>Phases</i>	<i>Processes</i>
Phase 1. Establishing a mandate and a framework for the spending review	<ul style="list-style-type: none"> • Obtain high-level political mandate to perform the spending review • Establish Steering Committee • Define the review scope, including its overall targets sector targets, guiding questions, schedule, and organizational arrangements • Prepare terms of reference for the review teams and guidelines for each dimension of analysis
Phase 2. Gathering of information and database organization	<ul style="list-style-type: none"> • Define the analysis unit and necessary information. • Staff the review teams. • Gather and consolidate data on single database. • Preliminary assessment of alignment with priorities and performance.
Phase 3. Explore and implement strategic analysis*	<ul style="list-style-type: none"> • Carry out the strategic-level analysis. • Draft recommendations. • Explore high-level political support for the implementation of strategic-level recommendations. • Design an implementation plan for strategic-level recommendations.
Phase 4. Develop savings proposals	<ul style="list-style-type: none"> • Carry out joint review of the alignment of priorities and performance assessment. • Identify potential savings. • Discussion of alternatives and drafting of savings proposals.
Phase 5. Decision-making	<ul style="list-style-type: none"> • Each entity discusses and approves proposals that do not imply a breach in the achievement of an entity's target involve a single entity. • The steering committee discusses and approves proposals that imply changes in the achievement of an entity's target and involve more than one entity. • If necessary, discuss and approve centrally generated savings proposals prepared by the National Planning Department or the Ministry of Finance. • If necessary, the central level identifies additional savings by following the spending review methodology.
Phase 6. Proposal implementation	<ul style="list-style-type: none"> • Implement savings proposals during the budget programming stage or through budget modifications and decrees to postpone appropriation of resources. • Monitor the implementation of savings proposals.

* Phase 3 could be implemented in parallel with phase 2 or upon completion of phase 4.

15. The spending reviews were implemented between August and November 2016. The preparatory work began in January 2016 along with design of the methodologies, the assessment of available information, and creation of the Steering Committee. By August 2016, the National

Planning Department distributed terms of reference for the review to all entities of the pilot sectors and proceeded to build the review teams. A first set of preliminary expenditure reallocation proposals was delivered by the end of October, and the proposals were completed in November. In parallel, two senior sectoral experts were hired in August to carry out the strategic-level assessment. This level of assessment can be implemented at different times during a review and, in this case, was implemented while the reviews had already begun working on developing savings proposals (Phase 4). The senior experts participated in some meetings of the review teams to present their preliminary recommendations, and a final report was delivered to both the National Planning Department and the sector entities in November 2016.

16. By early 2017, the sector entity and NPD heads were scheduled to make final decisions over the proposals produced by the review teams and agree on implementation plans with the Ministry of Finance. However, to date and despite the action plans agreed on during 2016, phases 5 and 6 of the reviews had not yet been implemented.

VI. Results, Lessons Learned, and Recommendations

17. While the spending review teams identified specific reallocation opportunities that could be potentially implemented in 2017, the two pilot sectors did not achieve the 10 percent reallocation target. In the case of social inclusion, the target amounted to over COP 280 billion (US\$93.3 million)³ and the proposals amounted to COP 127 billion (US\$42.3 million), equivalent to roughly 4.5 percent of the sector's flexible budget. Likewise, in the case of the agriculture sector, the goal for the review amounted to COP 64 billion (US\$21.3 million), whereas the savings proposals produced amounted only to COP 28 billion (US\$9.3 million) or 4.4 percent of the sector's flexible budget.

18. A key reason for missing the target was related to the lack of sufficient high-level political support. While the ministers of the pilot sectors conveyed willingness to participate in the review to both the National Planning Department and its staff, their direct participation during the review was limited; and the sector ministers did not provide a mandate for their staff to strive for the achievement of the savings target. Moreover, the Ministry of Finance did not participate in the reviews, eroding one of the main incentives for entities to comply with the spending reviews.

19. Furthermore, both the National Planning Department and Ministry of Finance had already enacted budget cuts in June 2016 for FY2017, which left little room for additional reductions. The reduction in the 2017 budget would have been an opportunity rather than a problem if the schedule for the review had been aligned with the budget formulation process and its calendar. In this regard, if results would have been made available by May 2016, the Ministry of Finance could have considered the savings proposals identified by the review team for implementation during 2017. Nevertheless, the results in terms of potential savings were significant despite the lack of sufficient political support and misalignment with the budget calendar.

³ The exchange rate used was USD 1 = COP 3,000.71, which was the exchange rate reported by the Bank of the Republic (Colombia's central bank) for December 31 of 2016.

20. The structure of available information was a significant limitation in the scope of the spending reviews. The budget programs for investment programs designed in 2015 allowed some degree of linkage between performance data and expenditure information. However, the programs only cover the investment budget and do not include operating and other current expenses associated with a given investment project. In this regard, it was not feasible to associate the operating budget to specific policy targets and performance measures. Moreover, the existing programs are associated with high-level policy goals and aggregated budget lines. This broad unit of analysis posed a significant challenge to pinpoint potential savings opportunities. Finally, the performance information associated with investment projects did not have a homogenous format and in some cases was of low quality. This feature increased the cost of consolidating useful information for the review teams.

21. While the spending reviews encountered several challenges, the exercise allowed for laying the foundation to institutionalize this practice in the future. An important step toward the institutionalization was the design and implementation of methodologies and processes to carry out spending reviews, which were developed and adjusted to fit into the Colombian context. The pilot of the reviews in two sectors was an important stepping-stone in this regard and provided valuable insights to refine the methodologies. The implementation of the methodologies and processes demonstrated that it is possible to produce consensus among institutions and achieve concrete results with spending reviews in Colombia. Both the National Planning Department and the sector entities acknowledged that the tools and processes designed for the reviews had a high potential to improve the quality of public expenditure in the country.

22. The progress demonstrated by the spending reviews provides reasons to be optimistic and suggests that there are important benefits from further institutionalization of spending reviews in Colombia. The successful implementation of the methodology in two pilot sectors and an increasingly tight fiscal outlook provided an important incentive to adopt tools that can guide the government in reduction of low-priority, and low-impact public expenditure. As an epilogue to this experience, the World Bank Group and the National Planning Department began discussions to implement spending reviews in five additional sectors in preparation for FY2018. This would constitute a key step toward institutionalizing the spending reviews in Colombia.

23. A key condition, however, prior to institutionalization of spending reviews is securing strong, high-level political support. In this regard, the creation of a high-level political committee at a level above the Steering Committee and the review teams is recommended. This committee could comprise the President of the Republic, the NPD Director, and the Minister of Finance. The main task of this committee would be to provide an overall mandate for the implementation of the spending review and make decisions regarding the enactment of significant savings proposals with strong implications over policy goals or those that affect more than one sector or entity. In addition, this proposed committee should also define the sectors subject to review and savings targets and should have the necessary authority to solve any potential disagreements within the government regarding the savings proposals.

24. Another recommendation is aligning the schedule for the spending review with that of the budget calendar. While it was not possible to align the review with the budget calendar in

2016, the lesson learned was that the preparation process for spending reviews should begin with sufficient time to provide inputs for preparation of the next year's budget.

25. Finally, there are also series of technical reforms in the budgeting system that are needed to consolidate the spending reviews. These measures include expanding the coverage of budget programs to operating expenses as well as the harmonization of accounting classifiers to improve the quality of the available information and the management of the spending reviews.