



# Preparing a Public Expenditure Review

A Manual for Caribbean  
Countries

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# Purpose of Manual

- The primary purpose of the manual is capacity-building in the public sector

# Rationale of PER

- **Public Expenditure Review (PER)** is an analytical device designed to treat the policymaker as an integrated unit (like a sole owner running a resource-based economy) and thus to provide one or more of the following:
  1. ***Necessary inputs into a country assistance framework and strategy, especially the United Nations Development Assistance Framework (UNDAF).***
  2. Necessary background economic and social analysis for future donor coordination efforts, on request of a specific donor or the donor group.
  3. Selected technical and stakeholder inputs into the country's budget process, with a view to making adjustments that maximize social and economic gains from public expenditure.
  4. A structured and scientific opportunity for the analysis of public issues based on public participation.

# Rationale of PER

- Whatever the reason, the PER is usually expensive and must be conducted in ways that justify the expense.
- The manual will detail methods of bringing value to government and society as they seek to maximize gains from use of public resources.

# Methods

- The manual will distinguish
  - ❖ 'Core' methods

And

- ❖ 'Country-specific' methods.

# Core Methods

Several core methods of the modern PER will be emphasized

- ✓ *Coverage of a PER;*
- ✓ *Establishment of a Routine for Participation;*
- ✓ *An ICT-based Design;*
- ✓ *Domestic Ownership; and*
- ✓ *Reliance on the UN methods.*

# Core Methods Cont'd

## Coverage of PER

A PER is a very flexible process, designed to bring relevant support to government and society. So, it generally focuses on addressing:

- 1. The most pressing public sector issues discerned by the Ministry of Finance;**
- 2. The structure of revenues and expenditures**
- 3. The alignment of revenues and intended sources**
- 4. The alignment of expenditures and intended targets**
- 5. Issues previously addressed and to be finalized in the public discourse on budgets.**

# Core Methods Cont'd

## Use of Special Studies and Performance –based Budgeting

- ❑ Modern PERs often rely on special studies to determine the scientific evidence underlying the budget.
- ❑ Modern PERs also tend to rely on the methods of performance-based budgeting.



# Core Methods Cont'd

## Establish Routines of Participation

- ❖ Sound PERs use a clear routine of public participation.
- ❖ Routines emphasize
  - ✓ An adequate calendar of events,
  - ✓ A forum (physical and virtual) and process for timely stakeholder participation in collecting and analysing information (facts and opinions) in the early stages of its policy-making and in negotiating final policy choices.

# Core Methods Cont'd

## Use Modern Information and Communication Technology (ICT)

- Modern ICT is increasingly being put to use.
- PERs now tend to rely heavily on an appropriate ICT tool that is integrated into the process, along with some training (information communication) opportunity targeting the stakeholders.

# Core Methods Cont'd

## Modern ICT...contd.

- ICTs improves accountability and transparency, opportunity to share and communicate information routinely, opportunity to scrutinize allocated budgets, and monitor and combat inefficiency and corruption, while promoting equity of access to business opportunity.
- ICTs also encourage higher standards of governance and fit the objectives of *Freedom of Information* legislation, as well as provide stakeholders and the media with the training and resources they need to fulfil their oversight role.
- **Note that good ICT systems can be quite expensive.**

# Core Methods Cont'd

## Ensure Domestic Ownership & Commitment

- ✓ Ownership is a direct result of the methods adopted.
- ✓ In general, a joint policy process is best for most countries since it maximizes the sharing of information and the commitment to success by all stakeholders, including government. However, many other options work well.
- ✓ All stakeholders should be treated as legitimate owners of the process
- ✓ All stakeholders should be encouraged to commit to the recommendations and proposals of the review process.

# Core Methods Cont'd

## Rely on Basic Tenets of PER

The manual would clarify why and how to rely on the basic tenets of the PER. Many of these support the United Nations Development Assistance Framework (UNDAF). These are

1. Rely on scientific analysis, as advised by Rio+20. Thus...
  - a. *Use a sound and relevant analytical framework, especially one that can address both optimal taxes and optimal subsidies (including social safety nets) needed to support development.*
  - b. *Use empirical evidence, including forecasts, even though the latter may not have to be done with statistics alone. Indeed, if possible when doing a PER, all data domains should be used in generating forecasts.*

# Core Methods Cont'd

## Rely on Basic Tenets ...contd

2. Pay attention to the gap between private and social costs of labour, especially when measured as the cost of effective subsidies wherever they are found to exist.
  - These are ways to track such market distortion and the effects on the rate of development of new sectors.
  - It is good to set an appropriate rule for the subsidy rate of the country that is also linked to a rule for the tax rate needed to promote growth and transformation.

# Core Methods Cont'd

## Rely on Basic Tenets ... contd

3. Measure the match between revenues and intended source and that between expenditures and targets, in order to understand deficits and surpluses. In particular:

- ✓ Measure the economy, efficiency, effectiveness of the expenditures:
  - **Economy** of use of inputs is judged by how accurately the budget relates to actual outcomes – how accurately planned spending matches actual spending;
  - **Efficiency** of the budget outputs is judged by the extent to which specifications are achieved and delivered on time; and
  - **Effectiveness** of impact is measured by the extent to which the original problem has been solved.

# Methods

## Rely on Basic Tenets ... contd

4. Identify any policy contradictions between what is required for growth and what is feasible to eliminate budget gaps (surplus or deficit).
5. Evaluate budget priorities in the light of resource availability and the main objectives of expenditure, including those associated with the gap between private and social wages.

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# Methods

## 1.5. Rely on Basic Tenets ... contd

6. Everyone can contribute to analysis of the link between expenditure inputs and outcomes. Therefore, use data from all domains and afford all stakeholders a voice wherever and whenever possible.

7. Identify the limiting and supporting institutional arrangements.

8. Pursue agreement among stakeholders at every step but keep the process moving along.

# Core Methods Cont'd

## Country-specific Methods

- ❖ A PER is designed to facilitate efficient public management of the development process.
- ❖ Its methods are ultimately shaped by the specific purpose driving the process and the coverage adopted.
- ❖ The manual will therefore include special sections that elaborate the methods that fit the specific combination of choices by each country.
  - ✓ For example, if a country is using the PER to support the UNDAF and covers the structure of revenues and expenditures, the alignment of revenues and intended sources, and the alignment of expenditures and intended targets, then a specific section of the manual will address how to conduct a review to achieve these goals.

# Summary

The Manual will have a summary of all sections and methods.