



'Efficiency of public expenditure – public expenditure reviews'

Case study of a Slovakian ESF project under the study 'Progress Assessment of ESF Support to Public Administration' (PAPA)

*Written by Dr Juraj Nemec
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PPMi

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Contact: DG EMPL F1
E-mail: EMPL-F1-UNIT@ec.europa.eu

European Commission
B-1049 Brussels

Implemented by PPMI

PPMI Group
Gedimino av. 50
LT-01110 Vilnius, Lithuania
www.ppmi.lt

Contact:
Dr Vitalis Nakrošis, thematic expert (Programme Manager at PPMI)
vitalis@ppmi.lt

Case study written by country expert Dr Juraj Nemec

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PROJECT BACKGROUND

Efficiency of public expenditure - public expenditure reviews

Operational Programme	Effective Public Administration ('Efektívna verejná správa') The project is supported under OP Priority Axis 1: Strengthened institutional capacity and effectiveness of PA; Specific objective 1.1: Improved systems and optimised processes of PA
Beneficiary organisation	Ministry of Finance of the Slovak Republic (Value for Money Division and Institute for Financial Policy)
Target groups	The society in general – the goal of the project is to improve the efficiency of public expenditure and contribute to a balanced budget.
Project duration	01/10/2015 – 31/03/2021
Budget	ESF funding: EUR 6,432,604.15; no contribution from the State budget
Project manager (email address)	Štefan Kišš, Director, Value for Money Division, Ministry of Finance of the Slovak Republic, stefan.kiss@mfsr.sk
Partners	Implementation Unit (established in 2017, originally allocated to the Office of the Deputy Prime Minister of the Slovak Republic for Investments and Informatization, now at the Office of Government); International Monetary Fund and OECD
Project/ organisation website	https://finance.gov.sk/sk/financie/hodnota-za-peniaze/o-uhp/projekt-op-evs/

This case study was produced as part of the project 'Progress Assessment of ESF Support to Public Administration', contracted by DG Employment, Social Affairs and Inclusion of the European Commission. The purpose of this project was to present specific cases of ESF-funded public administration reform and capacity-building initiatives, as well as to show the role of ESF financial support to public administration for the purposes of accountability. This report recounts the story of the project '**Efficiency of public expenditures**'. It discusses the context and purpose of the project; the characteristics of the team implementing it; the main challenges faced and difficulties encountered during its implementation; key developments during the implementation process; the results and impacts achieved; as well as the lessons learnt and the contribution of ESF.

EFFICIENCY OF PUBLIC EXPENDITURE – PUBLIC EXPENDITURE REVIEWS

Introduction: the context of the project

The idea to implement real measurements of value for money in Slovakia originated at a Paris airport in February 2013, where Martin Filko, Štefan Kišš and Ľudovít Ódor were trapped by a snow storm, and had plenty of time to discuss and evaluate new ideas and challenges¹. Filko, Kišš and Ódor are three important Slovak public finance experts, who agreed that some means of measuring VFM should be established in Slovakia. As luck would have it, the year before this chance meeting, Martin Filko had been appointed director of the Institute of Financial Policy (IFP) (from 1 May 2012) – a position that gave him the capacity to actually implement this idea. The fact that a pro-active person with many new and useful ideas was in an effective executive position (and already knew the core executive professional to do the job, Štefan Kišš) was the essential factor in the successful start of the project. Slovakia's leading journal for economic professionals, *Hospodárske noviny*² characterised Dr. Filko as the 'the man who represented visions, the man with the capacity to popularise and implement visions. Anything but a standard bureaucrat. Representative of a new generation in Slovak public administration'. The competencies of the three economists have contributed to the fact that the idea received a green light and support from the Minister of Finance – and became a reality two years after this 'meeting' at the Paris airport.

The fact that the Value for Money (VFM) project was given the green light is also connected with the obvious importance of VFM. Public finance reforms are a challenge not only for EU Member States, but also from a global perspective. Goal 17 of the 2030 Agenda for Sustainable Development highlights the importance of public finance, both domestic and international, in providing fundamental services and goods. The significance of financing and its means of implementation in the pursuit of achieving sustainable development goals (SDGs) has been further emphasised in various discussions at the United Nations and the Economic and Social Council. According to the United Nations, integrated fiscal systems and policies and consolidated budgets are pivotal to sustainable and inclusive growth, particularly through the effective mobilisation of domestic resources, which requires sound fiscal management at both national and sub-national levels³.

Reforms aimed at improving the management of Slovakia's public finances are not new. In 2004, the country carried out a large-scale reform of public finances with the support of the World Bank. Among other elements, this reform introduced performance-based budgeting for programmes at all levels of government (including local self-governments), with the aim of increasing the efficiency and transparency of public spending. However, according to existing academic analyses (for example Hronec, 2019), and the results of a performance audit by the Supreme Audit Office⁴ this project was only partly successful. As Hronec argues⁵: 'Based on the analysis of the status of program budgeting within the Slovak self-governments, it can be said that no conditions have been created for the use of program budgeting as a performance enhancer.'

In 2006, a requirement was introduced for all concession contracts over certain value to be approved by the government on the basis of an *ex-ante* assessment. Following this, a

¹ Filko, Kišš and Ódor, 2016, p. 6.

² See: <https://finweb.hnonline.sk/ekonomika/595489-filko-rehabilitoval-pojem-uradnik>

³ Duarte, Bilmes and Nemec, 2019.

⁴ See: https://www.nku.gov.sk/documents/10157/21308/sprava_strba.pdf/17377ea0-c764-4c32-9fa5-63b94115e5da?version=1.1.

⁵ Hronec, 2019, p. 205.

methodology was developed for the evaluation of PPP projects, to help to improve decision-making in relation to this type of (indirect) public expenditure.

Following massive fiscal problems experienced by many countries during the 2008-financial crisis, the Stability and Growth Pact (SGP) was adopted at the EU. The SGP represents a set of rules designed to ensure that EU member states coordinate their fiscal policies and pursue sound policies in relation to public finance. In 2012, the Council for Budget Responsibility (CBR)⁶ was founded in Slovakia as an independent body to monitor and evaluate fiscal performance of the Slovak Republic, in response to the need to tackle fiscal imbalances.

The Slovak public finance situation has never been very bad - from the sustainability point of Slovakia's public finances, Slovakia belongs to the group of relatively successful EU countries. During and after the financial crisis, Slovakia's public debt increased slightly as a percentage of GDP, but the country has adopted a number of measures to arrest this increase (such as passing legislation on budgetary responsibility, which also created the Council for Budgetary Responsibility). These, together with positive economic development in the country over the last few years, has allowed Slovakia, step by step, to reduce its deficits. The country is now moving towards a balanced budget (the first balanced budget was approved for 2019), resulting in a reduced level of debt. One of most important factors in Slovakia's stable economic growth over recent years has been large public investments, predominantly financed from allocations of EU funds.

Despite the country's relatively high macroeconomic fiscal stability, the need and will to both balance the national budget and increase the scope and quality of public services represent an important trade-off for Slovakia. Slovakia does not perform well in the main areas of public service. The OECD's 'Better Life' index, for instance, ranks Slovak health care in 25th place, education in 27th place and employment in 33rd place, out of 40 evaluated countries. To improve the situation in these sectors, extra resources are necessary – and only some of the necessary money can be obtained via growth in GDP; the main source of such funds is increased efficiency and the reallocation of existing public expenditure. Explaining this, the project publication⁷ states:

'Not just in Slovakia, but there is no country in the world in which an Anglo-Saxon level of taxation, Scandinavian levels of public expenditures and Balkan corruption can co-exist. Successful countries of the 21st century may vary in terms of the size of the state, but they have one feature in common – effective public administration that focuses on results. [...] These countries are searching for the Value for Money for their citizen, looking for best options how to generate and how to spend public resources, and how to regulate behaviour of firms and citizen'.

The Programmatic Statement of the current 2016-2020 Slovak Government⁸ declares that the state will 'reform rules, implement processes and strengthen institutions to support 'good' decision making in the public interest, with the aim of improving the performance of the Slovak public sector.' This statement indicates the challenging nature of the baseline situation – in the past, decisions over public sector expenditure in Slovakia had not been based on facts (i.e. evidence-based efficiency evaluations) but on political priorities. Value for money audits in Slovakia did not exist until after the 2016 general election. The fact that all of the most important public sector decisions will now be evaluated *ex-ante* means major change in Slovakia. Again, the project publication⁹ states:

'The concept of Value for Money is a philosophical change for the country. Slovak mentality is still connected to statements like 'Kto neokráda štát, okráda vlastnú rodinu' [author's translation: 'Who does not rob the state, robs one's own family'] or 'Zo spoločného krv netečie'

⁶ See: <https://www.rozpocetovarada.sk>.

⁷ Filko, Kišš and Ódor, 2016, p. 6.

⁸ See: <https://www.vlada.gov.sk/programove-vyhlasenie-vlady-sr-na-roky-2016-2020/?pg=2>.

⁹ Filko, Kišš and Ódor, 2016, p. 6.

['Blood does not flow if the common is robbed']¹⁰. [...] Legality should be standard and discussions about public money should focus on the Value for Money.'

The idea of establishing a Value for Money Division and implementing public expenditure reviews originated at the Ministry of Finance's Institute for Financial Policy (IFP)¹¹. The IFP's mission is to provide reliable macroeconomic and fiscal analyses and forecasts both to the Slovak government and to the public. It also serves as the policy arm of the Finance Ministry. The IFP consists of a number of core units. The first of these, the Macroeconomic Department (IFP1), analyses and forecasts developments within the Slovak economy such as GDP growth, inflation and unemployment. It looks into financial markets and the financing of the Slovak government debt. The second unit, the Tax and Fiscal Department (IFP2), analyses and forecasts the revenues of public budgets (taxes and social insurance), fiscal policy, as well as public finance and its sustainability. Lastly, the Structural and Expenditure Policies Department (IFP3) analyses government expenditure and structural policies such as education, health and the environment, from the perspective of the Finance Ministry.

The main aim of this initiative is to evaluate if taxpayers' money is used in the best way possible to achieve the goal of providing high-quality public services. The tool used is the measurement of the value for money provided by public expenditure programmes, public investments and state regulation. The theoretical and practical rationale behind this initiative is quite straightforward – lump sum cuts and the freezing of public investments are regarded as inappropriate tools to balance public finances today¹². Instead, the state must find solutions that simultaneously allow the quality and performance of the public sector to be improved, while enhancing the efficiency of public expenditures. Good governance also requires high quality *ex-ante* and *ex-post* analysis of public expenditures, with the aim of ascertaining as much as possible about their efficiency. This will enable the selection for priority financing of those measures that provide the most positive impact on public welfare, in order to achieve sustainable development.

Implementing this 'performance-based' management of public finance requires expert analytical staff, together with new rules for deciding on major public sector investments – i.e. the evidence-based, rather than 'politics'-based allocation of scarce public resources. The duty of public sector bodies is to find solutions that achieve the highest possible value for money from limited public resources.

By implementing this initiative, the Ministry of Finance provides a crucial tool for the better management of public finances in Slovakia. The project measures efficiency in a standard way, by comparing inputs, outputs and outcomes – whenever possible, employing international comparisons. The results are expected to help achieve savings, better results or the reallocation of resources (or any combination of these). The results of the project are already visible, as will be demonstrated by the evidence provided in this report.

Design and execution of the project

Previous experience of the team

In 2015, two years after the idea of measuring value for money was 'born' at that Paris airport in 2013, the Value for Money Division was established at the Slovak Ministry of Finance. The process of translating the idea into reality was relatively fast, thanks to strong support from the Minister of Finance. Most of the resources required to launch the Division were provided internally, but the leaders of the Institute of Financial Policy (IFP) at the Ministry of Finance also

¹⁰ These idiomatic expressions suggest that corruption and the channelling/wasting of public money are acceptable.

¹¹ See: <https://finance.gov.sk/en/finance/institute-financial-policy/>.

¹² Medved' and Nemeč, 2011.

sought external funding. They succeeded in securing ESF 2007-2013 funding for the project 'Capacity building of analytical staff' ('Budovanie kapacít analytických pracovníkov'), which ran from January 2014 to December 2015.

The core of this project was the training of high-level analysts for the Slovak government – eight central bodies were involved in the project. On the level of the Ministry of Finance, the resources of this project have been used to train some of the future staff of the Value for Money Division (VFMD). The training given was not the standard type expected in Slovakia; instead, the core activity of the project was the participation of selected analysts in internships, training sessions, seminars, conferences and similar activities carried out by top world institutions (such as the European Observatory on Health Systems and Policies, the University of St. Gallen, the University of Leeds, and Utrecht University). Thanks to this project high-level analytical capacities of VFMD have been secured, allowing for fast start of expenditure reviews in 2016.

The ESF project 'Efficiency of public expenditure – public expenditure reviews'

The idea for the VFM initiative 'arrived' at the right time. When in 2016 the three 'fathers' of the project published the project-related book, 'Najlepší z možných svetov - Hodnota za peniaze' ('The Best of All Possible Worlds - Value for Money'), their ideas received comprehensive support within the professional community. Leading Slovak economists signed a proclamation calling for the Slovak government to implement the initiative. The fact that all 'good' economists, independently of their standard ideological position, supported the initiative should not come as a surprise. 'Value for money' entails an explicit commitment to ensuring that the best possible results are obtained from the money spent. It is realised via a set of assessment practices for the appraisal, review and evaluation of systems and functions as well as initiatives, schemes and projects used in many (especially developed) countries. The idea of starting to measure VFM in Slovakia by addressing three core areas – expenditure reviews, *ex-ante* investment analysis, and regulations governing evaluation – was an idea that was impossible to resist.

The main aim of the project 'Efficiency of Public Expenditures - Public Expenditure Reviews' is to evaluate whether taxpayers' money is used in the best possible way to achieve the goal of high-quality public services. Its specific goal is to improve analytical capacities at the Ministry of Finance. The core activity of the project is the development of public expenditure reviews – evaluating the efficiency of selected expenditures (including their impacts on the private sector) and comparing alternative uses for these finances. The results of reviews are expected to serve as core inputs for the drafting of public budgets. The project's focus areas are the current expenditures of Slovak ministries, public investments, public policies and regulatory policies. The key performance indicators identified in the project's planning were the number of public expenditure reviews realised (39); the number of guidelines developed (1); and the number of materials submitted to the government on ways to link public expenditure reviews with the national budgeting process (1).

The body charged with implementing the project is the Value for Money Division (VFMD) at the Ministry of Finance of the Slovak Republic, headed by Štefan Kišš. The Value for Money Division, which implements the core activities associated with the project, has been in operation since 2016. Today it has 25 employees, of which 19 are analytical staff. The advisory body for the VFM aspect of the project is the Value for Money Council. The main goals of this Council are to prepare strategic recommendations, to assess planned public expenditure reviews, to evaluate the outputs produced, and to supervise the provision of transparent information about the project's processes and outputs. The members of this Council are Gabriel Machlica (OECD), Martin Kahanec (professor at CEU Budapest), Juraj Kotian (a member of the Slovak Council for Budgetary Responsibility) and Ferdinand Varga (senior partner and executive director of Boston Consulting Group, Budapest).

The core project partner is the Implementation Unit¹³, established on 1 June 2017. From 1 August 2018 this Unit was reallocated from the Office of the Vice Prime Minister for Investments and Informatisation to the Office of Government. The goal of this unit is to monitor and support the implementation of proposals generated by expenditure reviews that are carried out by the VFMD at branch ministries.

The other core project stakeholders are the Government of the Slovak Republic (which provides general support and defines the priorities for expenditure reviews); the Institute for Financial Policy (the so-called 'father of VFMD', which is still directly involved in the project, particularly in thematic analyses, as well as supporting pilot projects and providing databases); international organisations, in particular the IMF, which organises regular project visits to Slovakia¹⁴; and of the Slovak Ministries under review, which co-operate in the implementation of expenditure reviews.

The project is carried out under Operational Programme Priority Axis 1: Strengthened institutional capacity and effectiveness of PA. Priority axis 1 aims to promote the effective management, integration and optimisation of processes, quality and the competences of PA staff. This priority axis invests in the development of PA organisations, i.e. in the promotion of good governance, and the creation and implementation of public policies that improve the quality of services. The project is expected to contribute to the Specific objective 1.1: Improved systems and optimised processes of PA, under the financing priority 'Improving analytical capacities for policy making and improving tax administration and the quality of public expenditures'.

Implementation of the ESF project: main developments

The team has been able to start the implementation of the project realisation relatively smoothly, thanks to strong internal support at the Ministry of Finance, as well as the personal interest and effective role of Dr. Filko, who supported the project until his tragic death in March 2016. By this stage, the VFMD had already been created at the Ministry of Finance in early 2016, and Štefan Kišš was appointed head of the division (with the promised support of ESF funding, but without a signed implementation contract).

The key obstacle to implementation that must be mentioned was the delay to the approval of ESF funding. As mentioned previously, the idea behind the project originated in 2013, and its format was prepared in 2015 when the project idea was submitted and approved by the programme implementation bodies. The VFMD started its work and began to hire staff in 2016. However, the financing contract was only signed on 25 August 2017 and eventually came into force on 6 September 2017. The initial phases of the project were only possible thanks to the fact that they were implemented at the Slovak Ministry of Finance and financed as a priority from the ministry's own reserves, without any contribution from the ESF. Most of this expenditure was later reimbursed after the project contract was signed¹⁵.

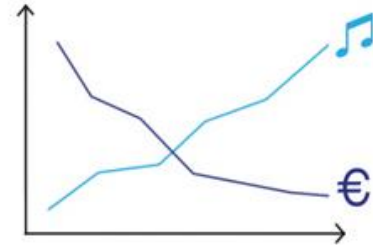
¹³ See: <https://www.vlada.gov.sk/implementacna-jednotka/>.

¹⁴ The IMF carried out eight missions between 2015 and 2018 to support the project (reports from all of which are available on the project's web site). The IMF has also invited experts from the OECD and the European Commission to be part of its missions. The contract between IMF and MoF is signed, but not financed from ESF contribution.

¹⁵ Delays to the approval of projects and financing decisions are one of major challenges to the implementation OP 'Effective Public Administration'. Good ideas have to wait, as the pre-financing and reimbursement approach is impossible for most other ministries.

Figure 1. The cover page of the VFMD Facebook account

**VIAC MUZIKY
ZA MENEJ PEŇAZÍ**
SME VLÁDNI ANALYTICI A CHCEME, ABY ŠTÁT
MÍŇAL VAŠE PENIAZE ÚČELNE A EFEKTÍVNE



The title says 'More for less' (direct translation is More music from less money). The subtitle is 'We are government analysts and we want that the state spends your resources in effective and efficient way.'

Source: <https://sk-sk.facebook.com/uhp.hodnotazapeniaze/>.

The team by its own capacities (and with regular support by International Monetary Fund experts) carried out a first pilot public expenditure review during 2016 to test the concept and methods of implementation. The leaders of VFMD independently decided to revise the efficiency of five sectoral policies – efficiency and effectiveness of labour policies, administrative costs of the Financial Directorate of the Slovak Republic, transport (road and railway network investments and subsidising public transport), health care spending, and informatisation of government. The team published reports on the VFMD web and promoted results in public media to create awareness about existing reserves, discovered by reviews.

At the end of the year, on the basis of this pilot, the team published a draft methodology for public expenditure reviews. As the final output from this year of implementing the project the team prepared the material for the Slovak Government on how to link public expenditure reviews with the national budgeting process (this material originated important legislative changes of the Slovak budgeting process).

Following the successful start, the team continued with expenditure reviews in 2017 (reviewing also major sectoral branch programmes like education or social policies). In 2017 the team also started to deliver ex-ante evaluations of major public investments (investment appraisals), as the second own core 'product'¹⁶. Both activities smoothly continued also during 2018 and 2019, delivering important outcomes (see later part of the text).

In the real world perfection is never possible, likewise not every aspect of the process was entirely smooth. In interviews, project staff mentioned important challenges and obstacles to the implementation of the project's core activities.

The project's main (and ongoing) challenge is the need to cooperate with branch ministries over the implementation of expenditure reviews. According to project staff, the level of such cooperation varies, depending on the objectives of the leaderships of the branch ministries. The Ministry of Health was mentioned as an example of good cooperation. According to Alexandra Bočeková, project administrator and financial manager: 'Good cooperation means that the Ministry understands the philosophy behind the expenditure reviews, understands that such

¹⁶ By adopting the Public Investment Project Appraisal Framework, the Government has defined a methodological framework for the preparation and process of large investment projects and their assessment in accordance with 'value for money' principles. The Ministry of Finance – in a task delegated to the VFMD – now has a duty to prepare and publish appraisals of any government investment project funded from public sources with costs of over EUR 40 million (or over EUR 10 million in the area of informatisation).

reviews are a necessary tool to achieve value for money (and via this, better quality of public services), and wants to learn.'

If the cooperating ministry formulates a goal that it would like to solve through expenditure reviews, the VFMD can provide the analytical power to address the issue. In such relationships, the role of VFMD staff is to help the ministry to identify the optimal solution. In less cooperative situations, if the VFMD staff is seen as controller/auditor, little progress can be achieved.

In relation to the above, in an article published in the professional newspaper *Denník N* in August 2017¹⁷, one of leading economic analysts in Slovakia, Radoslav Ďurana, stressed that the expenditure reviews generated by VFMD cannot be always perfect. The VFMD needs to cooperate with the branch ministry being evaluated - these ministries really do not like cuts, and use their political powers to influence results and consequences of expenditure analyses.

According to the methodology behind the expenditure reviews, promises are made to the branch ministries that the savings realised can be reallocated to finance other expenditure needs within the ministry. This approach is certainly not the best one overall for society, since reallocation to other, more effective programmes would be better choice. It does, however, represent a necessary political compromise to alleviate potential resistance on the part of the branch ministries.

Another important challenge is the need to recruit highly-qualified staff that is needed for the project. The salaries of civil servants in Slovakia are strictly regulated centrally and are not fully comparable with the potential salaries of high-performing experts in the private sector. Delivering expenditure reviews and ex-ante investment project appraisals is really comprehensive task what has to be reflected in salaries of staff involved – higher than standard civil servant salaries are necessary to be paid. Fortunately, the financial support from the ESF and the promise of a challenging job make effective recruitment of experts for VFMD possible.

A third challenge is the methodological complexity of the issue of expenditure reviews. In her interview, Jana Soukopová, a leading public expenditure expert from the Czech Republic, state: 'I'm really glad to see that Slovakia was able to implement expenditure reviews. However, the economic analysis of public expenditures is such a complex issue that perfect, practical solutions to all implementation problems do not exist'.

The VFMD leaders are aware of this problem and give a greater attention to tackling it. As already indicated, the first priority is to try to hire high-quality staff and to train it using contacts with top foreign universities and institutions. The major help has been provided by International Monetary Fund experts, who regularly visit VFMD, help with developing and regularly updating the guidelines for spending reviews and investment appraisals, and advice in their realisation phase. VFMD experts involved in reviews also consult draft reports with branch ministries and external experts before their final publication. The use of these opportunities helps to deliver reports that are as precise as possible.

Interactions between the project's core stakeholders can be split into two types. The first consists of cooperation between the project team at the VFMD and the branch ministries under evaluation – an area identified above as a core challenge for the project. The second type of interaction consists of those between all other core stakeholders, which can be characterised as good to excellent. The Ministry of Finance, the IFP and the VFMD units are formally part of a single body, with very good top-down and bottom-up relations. The Implementation Unit at the Office of Government acted as a true partner; responding to the author's questions by email, its director, Miriama Letovanec, expressed only positive words concerning the quality of cooperation. The Government of the Slovak Republic, as the recipient of results, provides general support and direction, and moreover helps to convert expenditure analyses into legislative requirements. The IMF, as the project's main international partner, is indirectly represented in the Value for Money

¹⁷ See: <https://iness.sk/sk/aka-je-hodnota-utvaru-hodnoty-za-peniaze-dennik-n>.

Council (by a representative of the OECD, the main cooperating body) and regularly supports the implementation of the project via regular visits, as well as providing professional advice online.

Conclusions: results, lessons learnt and the role of ESF financial support

Main results

The project has already achieved its main goals. In May 2019, when the project staff was interviewed for this report, the VFMD had already delivered 39 evaluations of investment projects and 19 sectoral expenditure reviews. A set of guidelines had been prepared (although this is currently still a work in progress). Also, on the base of the project's results, new paragraphs on expenditure reviews have been incorporated into the Law on Financial Control and Audit, valid from January 2020. In terms of its planned milestones, the project is running well, delivering regular expenditure reviews and evaluations of investments.

Details of the project's expenditure reviews and related materials can be found online at the VFMD web site¹⁸. For example, in 2018 the reviews titled 'Groups at Risk of Poverty and Social Exclusion', 'Agriculture and Rural Development', 'Public Wage Bill', and 'Healthcare II' were executed. The list of *ex-ante* investment appraisals¹⁹ carried out can also be found online²⁰.

The fiscal importance of this project and the current problems being encountered in its implementation are clearly indicated in the Summary Implementation Report 2018²¹. For example, in health care, potential savings as a result of the expenditure reviews amounted to EUR 121.5 million; due to the inefficient operation of the hospital economy, however, net savings were reduced to EUR 40.4 million. Even more problematic are other areas. Concerning the electronic delivery of administrative letters, the proposed savings were EUR 48.5 million, but the only achievement so far is the electronic delivery of administrative letters, which saves EUR 4.2 million. Proposed savings in education of EUR 3 million have not been achieved (due to lengthy changes to the legislative process). The savings of EUR 73 million proposed in the area of environmental protection have also failed to materialise.

It is unusual for any project to deliver outcomes (real changes) already after very few years of operation, as converting outputs to outcomes normally needs a lot of time. Step by step, the results of this project are beginning to integrate important changes into the working processes of the Slovak administration. External independent assessment of public investment expenditures is now the rule in Slovakia – and is a legal obligation for all larger investments. Regular expenditure reviews will be the rule in Slovakia from 2020, as prescribed by the Law on Financial Control and Audit. Such regular expenditure revisions should save/reallocate important sums of public money. To fulfil this obligation, many branch ministries have established their own analytical units with the capacity to deliver expenditure reviews and to support evidence-based policy making.

Thanks to the fact that the Implementation Unit at the Office of Government systematically monitors the implementation of the conclusions of all expenditure reviews, this initiative has

¹⁸ See: <https://www.finance.gov.sk/sk/financie/hodnota-za-peniaze/revizia-vydavkov/revizia-vydavkov.html> (Slovak version), <https://www.finance.gov.sk/en/finance/value-money/spending-reviews/> (English version).

¹⁹ See: <https://www.finance.gov.sk/sk/financie/hodnota-za-peniaze/hodnotenie-investicnych-projektov/hodnotenie-investicnych-projektov.html>.

²⁰ For example, in early 2019, the following investment projects were assessed: Census 2021; modernisation of the electronic communication networks of railways; modernisation of the social benefits agenda of the Social Insurance Company; IT platform for Better RIA; the digitalisation of Slovak education; certification services; the extension of railways station Zilina Teplicka; the informatisation of public procurement; the heritage information system; the digital inclusion ecosystem; the central API management platform; improved state supervision of environmental protection; modernisation of road I/75; and the reconstruction of Roosevelt hospital in Banska Bystrica.

²¹ See: <https://www.finance.gov.sk/sk/financie/hodnota-za-peniaze/implementacia/>.

begun to have an impact on citizens and businesses, as well as on the administrative system in general. The initiative delivers important benefits to society by improving of the efficiency of public expenditures in Slovakia. Expenditure reviews enable ineffective programmes or spending to be identified, and these resources to be reallocated to more effective choices. The project enjoys support from experts and parties across the political spectrum. For example, Martin Klus, a deputy from the main opposition party, SAS, stated during his interview: 'The VFM project is one of the most useful projects being carried out by one of the most useful public bodies in Slovakia. Its only limitation is imperfect follow-up at some branch ministries.'

Slovakia belongs to the group of EU countries with lower levels of taxation and a lower public spending as a proportion of GDP. However, as with all EU member states, Slovakia promises its citizens and businesses high-quality public services. Expenditure reviews have the potential to save or reallocate public resources to produce a positive impact on social welfare. In summary, the project 'Evaluation of the efficiency of public expenditures – public expenditure reviews' is an example of something that was missing for a long time in Slovakia: a perfect and necessary idea, implemented as planned, and delivering important social results.

Moreover, in current situation there are no real risks that could significantly affect the project implementation or its results. The position of the VFMD within the Ministry of Finance is secure at least in medium term perspective; the idea of expenditure reviews is appreciated throughout the full spectrum of political parties and should not die with new Parliamentary elections in 2020. From legal point of view, both expenditure reviews and public investment appraisals are now included in valid Slovak legislation as compulsory elements of the national public financial management system. The tasks for future are – permanent update of methodologies already used and focus on getting better and better co-operation from branch ministries. Improving co-operation with all branch ministries in the joint process of expenditure reviews, and especially improving the capacity (and reducing resistance) of branch ministries to better implement the results of expenditure reviews might pose some challenges.

Lessons learnt and success factors

The main actors in the project are still learning how to deliver expenditure reviews and investment appraisals in the best possible way and systematically work on methodology. As mentioned previously, the guidelines for expenditure reviews is still a work in progress. The staff from VFMD are also learning how to deal with branch ministries. The resistance to external expenditure reviews is to a large extent a natural element of the process. Both VFMD and the Implementation unit are fully aware about this factor and search for solutions.

The core issue, where the learning process is ongoing is how to translate the results of the reviews carried out into practice. The text above indicates that most of proposed savings have not been realised by branch ministries. To strengthen the position of the project and the VFM initiative as a whole, the Implementation Unit was moved from the Office of the Vice Prime Minister for Investments and Informatisation to the Office of Government, under the direct auspices of the Prime Minister.

The project team has already achieved a great deal – thanks to a number of core success factors. They have managed to instigate expenditure reviews (and *ex-ante* investment reviews) as routine elements of the functioning of the Slovak public sector. Part of success can be attributed to the intelligent and charismatic personalities in important positions who were behind the initiation of the project; the existence of clear social, political and institutional support for the project, due to its undoubted importance; as well as the existence of sufficient implementation capacity (the 'soft' skills of implementation staff, formal structures and also finance).

The project was a political priority for the Government and for the Ministry of Finance. The fact that the Ministry of Finance is perhaps the most powerful player within the Slovak Centre of Government (see EUPACK reports), together with the active involvement and support of its

Minister, also really helped to 'open doors' for the project. The project has also received a great deal of support from Slovakia's current Prime Minister, Peter Pellegrini, and from experts and other political parties. Such wide-ranging support allowed the project to start even before a project contract had been signed.

Another factor in the project's success has been good international cooperation. Since its outset, the project has been supported by the International Monetary Fund. IMF know-how supported the preparation of the project proposal, the drafting of methodologies and also the implementation of first pilot reviews. The cooperation continues to the present.

The third critical factor in the project's success has been its effective promotion. Aside from a standard web page, the project is promoted by two Facebook pages (for the VFMD and the Implementation Unit²²); by number of blogs²³; and by the many media appearances of project representatives²⁴. Most mainstream media reports include the opinions of the IFP and VFMD in their commentaries on issues concerning Slovak public finances.

The last success factor to be mentioned – but by no means the least – is the role played by the project's staff. The Ministry of Finance was able to recruit talented and well-educated employees to the VFMD (in most cases, graduates from prestigious foreign universities). Interviews and other discussions of the VFMD and IFP carried out for this report paint a picture of a strong team with a will to achieve. Recruitment of analysts to the VFMD is still ongoing and represents a very good career opportunity for talents willing to shape Slovak public finance practice.

All information gathered on the project clearly indicates that its important processes have already been established, but that its final results – increased accountability, continuous improvements in the efficiency of public expenditure – remain a long-term challenge. In relation to this, Ms. Bočková stated in her interview: 'It is not enough to change the legislation and processes, we need to change the way of thinking – and this is our final goal'.

Role of ESF support in improving the efficiency of public expenditure in Slovakia

The role of the ESF support of this project is clear, and represents an important enabling factor. The VFM initiative as a whole has been supported by the ESF in two phases. During the programming period 2007-2013, the Ministry of Finance was awarded funding for the project 'Capacity building of analytical staff' ('Budovanie kapacít analytických pracovníkov'), which ran from January 2014 to December 2015. This project, with an ESF allocation of EUR 607,000, specifically supported the creation of the necessary analytical capacities that allowed the VFMD to be established in 2016.

The current project, 'Evaluation of the efficiency of public expenditures – public expenditure reviews', secured funding from the ESF at the beginning of the 2014-2020 programming period. However, the signing of the contract was significantly delayed and came into force only from September 2017. Despite this, the promise of the ESF to finance the project was certainly a key factor that allowed development of the project on such a massive scale. Today, the ESF support remains an important enabling factor, especially in providing financial motivation to the group of experts at the VFMD to stay and carry out the task as well as possible. While it is conceivable that expenditure reviews and *ex-ante* investment audits might have been delivered without the support of ESF, it is highly likely that they would not have been on their current scale.

²² Facebook for the VFMD: <https://www.facebook.com/uhp.hodnotazapeniaze/>, Facebook for the Implementation Unit: <https://www.facebook.com/implementacnajednotka/>.

²³ Such as: <https://dennikn.sk/autor/uhp/>.

²⁴ Such as: www.rtvsk.sk/radio/archiv/1175/901661.

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