

# Slovak Republic

## Spending Review Follow Up

David Coady, Tom Boland, Miroslaw Dybowski, Jason Harris, Sebastien Renaud, Wendy Thornton, Claude Wendling, and Andrew Westwood

Technical Assistance Report | March 2017



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**Technical Assistance Report**

**March 2017**

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# CONTENTS

<b>PREFACE</b>	<b>4</b>
<b>EXECUTIVE SUMMARY</b>	<b>5</b>
<b>I. FIRST ROUND OF SPENDING REVIEWS</b>	<b>7</b>
A. Background	7
B. Remaining Issues and Recommendations	8
<b>II. ENVIRONMENT SPENDING REVIEW</b>	<b>10</b>
A. Background	10
B. Remaining Issues and Recommendations	11
<b>III. EDUCATION SPENDING REVIEW</b>	<b>13</b>
A. Background	13
B. Remaining Issues and Recommendations	14
<b>IV. SOCIAL BENEFITS SPENDING REVIEW</b>	<b>17</b>
A. Background	17
B. Remaining Issues and Recommendations	18

## PREFACE

In response to a request from the Ministry of Finance (MoF) of the Slovak Republic, a joint International Monetary Fund (IMF) and European Commission (EC) technical assistance (TA) mission visited Bratislava during November 21–26, 2016 to review progress in management of the rolling expenditure review process and in the implementation of the first round of spending reviews (covering health, transport and information technology), and advise on the second round of spending reviews in the areas of environment, education and social benefits. The mission comprised:

- from the IMF: David Coady and Jason Harris (both IMF staff), and Andrew Westwood (IMF expert) and
- from the EC: Claude Wendling, Sebastien Renaud and Miroslaw Dybowski (all EC staff) and Tom Boland and Wendy Thornton (both EC experts).

The mission participated in a series of workshops organized by staff of the MoF's Value for Money Division. Other participants in the workshops included staff from the relevant line ministries and a range of external stakeholders. The mission also discussed progress in the spending review process with Ludovit Odor of the Council for Budget Responsibility.

The mission would like to express its appreciation to all its Slovak counterparts for their excellent collaboration and in particular to Stefan Kiss, Juraj Mach, Jakub Kmet, and Matej Kurian for all of their support to the work of the mission prior to and during its visit to Bratislava.

## EXECUTIVE SUMMARY

**Significant progress has been made in the first round of spending reviews, covering health, transport and IT.** Beneficial outcomes from the reviews include:

- a. The first set of spending reviews helped to further strengthened capacity within the Ministry of Finance regarding their understanding of the various policy areas under review.*
- b. The spending reviews were given visibility and transparency through the publication of final reports.*
- c. The health spending review delivered clearly identified measures, equivalent to around 6 percent of 2017 public health spending, with approximately half of these incorporated into the budget preparation.*
- d. The transport spending review identified areas for potential cost savings that, while not incorporated into the budget, can be the focus of more refined analysis, and also initiated important improvements in the investment management process.*
- e. The IT spending review identified savings measures equivalent to 8.9 percent of 2017 spending (EUR 40 million), although as yet no measures have been incorporated into the budget.*
- f. Completion of the spending reports has now shifted government's attention to the implementation phase and the need to translate findings into realized budget savings over the next year, which will require the implementation of reforms.*

**While significant progress has been made in the design and implementation of the expenditure review project, a number of issues remain to be addressed to further strengthen the process.** These include the need to:

- g. Strengthen the capacity of LMs to undertake technical analysis, and establish guidelines for strengthening engagement of senior officials from LMs in the technical analysis and identification of reform measures consistent with LM policy objectives.* The planned scaling up of staff resources should be used to strengthen LM policy institutes as well as the Institute for Financial Policy in the MoF.
- h. Establish clear terms of reference (TOR) and operating procedures for the new Implementation Unit to be located in the Office of the Deputy Prime Minister.* The Prime Minister (or Deputy Prime Minister) is the appropriate level to chair the overall expenditure review steering committee, which could meet on a quarterly basis and should set out the frequency and nature of reporting by LMs and the MoF on progress in implementing measures.
- i. Strengthen the oversight role of the MoF to ensure commitments by the three LMs are realized in 2017 and that further progress is made in improving spending efficiency in subsequent years.* This will require greater engagement of the Budget Department in the spending review process, and the establishment of clear procedures and timelines in place in LMs for ensuring that the expected benefits from the review process are realized. Consideration should be given to incentivizing the delivery of identified savings and efficiency measures through, for example, LM access to additional budget resources linked to reform intensity.

- j. Initiate a discussion within government regarding the need for strengthening the medium-term budget framework and the potential role for aggregate and sectoral budget ceilings. Stronger and more binding medium-term budget frameworks would provide an incentive for LMs to develop more sophisticated medium-term spending baselines, which could in turn increase the effectiveness of spending reviews.*

**The second round of spending reviews covering environment, education and social benefits spending, has got off to a very strong start.** Already some important milestones have been reached: (i) Strong joint technical teams drawing on staff from both the MoF and LMs have been formed and preliminary data collection and analysis has started; (ii) Clear deadlines for delivery of reports have been established and included in the TORs; and (iii) The technical assistance workshop has helped to initiate consultation with external experts in order to seek guidance on the overall approach to the review and identify resources available to the technical teams. However, the following actions would further strengthen these reviews:

- k. Technical teams should set out the broader policy framework within which the expenditure reviews are embedded. This requires setting out sectoral policy objectives and the range of policy instruments and programs available to achieve these so as to avoid an overly narrow focus on single policy instruments.*
- l. Technical teams should draw on existing sectoral reports and prioritize analysis of already existing data. The reports can also identify data and policy analysis gaps that can be taken up over the medium term. In prioritizing efforts, technical teams should be encouraged to focus initially on the biggest spending items.*
- m. Technical teams should be given a target for cost savings to ensure a strong focus on identifying cost-saving reforms. This is the case regardless of whether the object of the review is spending consolidation or improving spending efficiency to allow reallocation of savings across or within sectors. Setting a specific savings target (e.g., equivalent to a 10 percent reduction in existing spending) can ensure that technical teams do not lose sight of the need to finance new policy initiatives and reforms within the current budget envelope. Teams should also be tasked with establishing detailed spending baselines under a “no-policy-reform” scenario.*
- n. Technical teams should clearly establish what they aim to achieve in their interim and final reports. For example, one of the aims of the interim report should be to share with LMs and the public the various reforms required to generate efficiency and value for money gains and prepare the public for the specific reform proposals to come in the final report.*
- o. Enhanced engagement of ministers and senior officials is needed to ensure that the analysis, conclusions, and recommendations are jointly owned and supported by the MoF and LMs. This could be achieved through the presentation of the interim findings of the technical team to ministers and senior policy officials from LMs and MoF prior to the completion of the interim reports to discuss the findings of the reviews internally and with key external stakeholders. As in the case of the first round of reviews, the interim reports and their findings can be launched by the relevant ministers at a joint press conference. These activities and their timelines should be agreed by ministers as soon as possible.*

# I. FIRST ROUND OF SPENDING REVIEWS

## A. Background

**1. The Slovak Ministry of Finance (MoF) has initiated a program of spending reviews to improve the efficiency of public expenditure and meet their medium-term objective of restoring general government finances to balance or surplus.** The authorities plan on a rolling series of policy and thematic reviews covering around one-quarter of central government spending each year, with the aim of covering the whole of central government over the four-year parliament. The spending review process enjoys strong political backing; the spending review project (known in Slovakia under the name of "Value for Money" project) was included in the manifesto of the new government after the March 2016 elections, the National Reform Program, and the Stability and Convergence Program for 2016.

**2. The spending review kicked off in autumn 2015 with a set of pilot reviews reporting in March 2016.** The pilot reviews focused on the public employment service, schools, and revenue administration. Based on experience from these pilots, the first full reviews covering health, transport, and IT spending were launched in April 2016 with the expectation that they would conclude in time to inform the 2017 Budget to be presented to Parliament in October 2016. The terms of reference (TORs) of the three reviews were appended to the Slovak Stability Programme as sent to the European Commission in April 2016, and include clear financial objectives expressed either in terms of cost containment (holding health spending to zero percent real growth), economy (20 percent savings on operating and maintenance cost in transport), or efficiency (30 percent savings on IT expenditure) over the four years to 2020. The second round of reviews covering environment, education and social benefits was launched in autumn 2016; these are discussed in subsequent chapters of this report.

**3. The government has made significant progress in the first round of its spending reviews, covering health, transport and IT.** Beneficial outcomes from the reviews include:

- a. The first set of spending reviews have helped to further strengthen capacity within the Ministry of Finance regarding their understanding of the various policy areas under review.** The "Value for Money" team within the Ministry of Finance (MoF) has worked intensively on the identification and development of reform scenarios. Much remains to be done but the reviews allowed them to refine their knowledge of the public policies managed by the line ministries (LMs) in terms of costs, delivery processes and outcomes. There are also plans to increase the current level of staffing available to the spending review projects, both in the MoF and in LMs, trebling staff availability from 10 to 30 staff.
- b. The spending reviews were given visibility and transparency through the publication of final reports.** All three final reports were published and appended to the 2017 budget as well as made available on a dedicated spending review website<sup>1</sup> and numerous newspaper articles referring to the spending reviews have been published. They provide interesting

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<sup>1</sup> The inputs and outputs of the spending review are available at: <http://www.mfsr.sk/Default.aspx?CatID=11191> ; <http://www.mfsr.sk/Default.aspx?CatID=11190> ; <http://www.finance.gov.sk/Default.aspx?CatID=5907>.

material for citizens and stakeholders and serve to raise the profile of the "Value for Money" exercise.

- c. *The health spending review delivered clearly identified measures, with a significant proportion incorporated in the budget preparation.*** The review identified clear measures for increased cost effectiveness and savings equivalent to around 6 percent of total projected 2017 public health spending, over half of which was incorporated into the budget.<sup>2</sup> The overall objective was to identify areas with potential for enhancing spending efficiency and service improvement. This is quite an achievement given the novelty of the exercise and the limited time available to the team to undertake the review.
- d. *The transport spending review identified areas for potential cost savings that, while not incorporated into the budget, can be the focus of more refined analysis, and also initiated important improvements in the investment management process.*** The identified savings relate to the potential for reducing the high cost of public transport and rail transport and the high construction cost of roads in Slovakia in comparison to neighboring countries. The analysis highlighted the potential for savings linked to reducing maintenance costs and rail track closures, and argued that a better maintenance of roads can generate substantial savings in the medium term as it will increase the durability of infrastructure and delay the need for new investments. Progress has also been made in developing a unified methodology for cost-benefit analysis and in strengthening the role of the Ministry of Finance in the review of large investment projects (over EUR 40 million; EUR 10 million for IT projects).
- e. *The IT spending review identified savings measures equivalent to 8.9 percent of projected 2017 IT spending (EUR 40 million),*** although as yet no measures have been incorporated into the budget. These measures related to reductions in operation expenses (e.g., telecom, licensing and cloud expenses). The review also set out a proposed roadmap for developing governance guidelines related to major investments and data collection. It also made progress in developing benchmarks for evaluating cost-effectiveness of IT spending relative to international norms.
- f. *Completion of the spending reports has now shifted government's attention to the implementation phase and the need to translate findings into realized budget savings over the next year, which will require the implementation of reforms.*** Responsibility for overseeing the implementation of these measures will be assigned to a new Implementation Unit in the Office of the Deputy Prime Minister.

## **B. Remaining Issues and Recommendations**

- 4. The role of LMs in the analytical phase of the spending review process has remained limited.** The MoF seems to have been clearly in the lead in terms of analysis, with capacity constraints in LMs meaning that they played a more reactive than proactive role. In the IT and

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<sup>2</sup> The review identified annual savings of EUR 363 million, of which EUR 174 million were explicitly incorporated into the 2017 budget. These latter measures related to measures to reduce overconsumption of drugs through prescription limits, reduce cost of drugs through strengthening central purchasing, reduce cost and usage of medical equipment, imposing limits on outpatient providers, and reducing hospital expenditures through optimization of operating costs, medical processes, drug purchasing and procurement of medical equipment.

health reviews, interaction has been largely between analytical units in the MoF and in LMs, with limited engagement of ministers and senior officials responsible for policy domains in LMs. In the transport review, while there was regular engagement with senior policy officials, all of the technical work was undertaken by MoF staff. However, interlocutors in LMs played a key role in facilitating access to data.

**Recommendation 1.1: Strengthen the capacity of LMs to undertake technical analysis, and establish guidelines for strengthening engagement of senior officials from LMs in the technical analysis and identification of reform measures consistent with LM policy objectives.** *The planned scaling up of staff resources should be used to strengthen LM policy institutes as well as the Institute for Financial Policy in the MoF.*

**5. Political ownership of the spending review has been unequal with implications for the level of cooperation across ministries.** Political ownership seems to have been stronger within the health ministry, which saw the spending review as a tool to give visibility and gain momentum for reform projects which it was already pursuing. In the field of IT, which underwent a reorganization at the beginning of the spending review<sup>3</sup>, the Office of the Deputy Prime Minister also seems to have understood that the spending review process could be used as a tool to ensure a better vetting of IT investments and to promote a more consistent IT strategy. In the field of transport, however, in the absence of clear political signals, difficulties in data gathering and engagement with some key actors in the sector (e.g. the railway company) were experienced. Priority therefore needs to be given to strengthening the overall management and delivery of the first-round of reviews.

**Recommendation 1.2: Establish a clear TOR and operational procedures for the new Implementation Unit in the Office of the Deputy Prime Minister.** *The Prime Minister (or Deputy Prime Minister) is the appropriate level to chair the overall expenditure review steering committee, which could meet on a quarterly basis. The committee should set out the frequency and nature of reporting by LMs on progress in implementing measures. The MoF and IU need to establish joint arrangements for monitoring the implementation of spending review recommendations. Regular, joint IU-MoF stocktake meetings should be conducted with the ministers concerned to ensure the implementation of agreed measures is on track. Ministries should report on their achievements in their annual reports to Parliament, and the MoF should provide a summary of progress alongside the Budget and/or the Stability Programme.*

**6. The link with the budget process remains fragile and needs to be reinforced.** In the absence of a binding multi-year framework, targets were not defined precisely for two of the three spending reviews. In IT, the goal is a 30 percent savings by 2020. In health, the fiscal target for 2017 was maintaining spending fixed in real terms but, while there was strong commitment to identifying efficiency gains, political ownership of the broader fiscal target was limited. As a result, improved revenues from mandatory health charges resulted in increased resources for the health ministry. This is not *per se* negative as long as efficiency measures decided in the spending review are actually implemented and additional resources help mitigate shortages or address

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<sup>3</sup> Responsibility for government IT strategy was relocated from the MoF to the Office of the Deputy Prime Minister in charge of IT and investment.

past backlogs on budget lines not affected by the spending review. However, while this partly reflects the novelty of the exercise, it also illustrates the lack of a real medium-term budget anchor to the spending review process and the need for political commitment to fiscal targets.

**Recommendation 1.3: Strengthen the oversight role of the MoF to ensure commitments by the three LMs are realized in 2017 and further progress is made in improving spending efficiency in subsequent years.** *This will require greater engagement of the Budget Department in the spending review process, and the establishment of clear procedures and timelines in place in LMs for ensuring that the expected benefits from the review process are realized, including continuous engagement with stakeholders and identifying legislation requirements. All three sector reviews identified potential savings that were not incorporated into the budget. These need to be further refined and pursued with the aim of incorporating them into the next budget cycle. Consideration should be given to incentivizing the delivery of identified savings and efficiency measures through, for example, LM access to additional budget resources linked to reform intensity.*

**7. Ideally, spending review savings should be reflected in multi-year budgets for the LMs that can only be modified according to the "comply or explain" principle.** The most effective means of ensuring that needed budget savings and reallocations are realized over future years is to reflect those savings (and any initial spending necessary to realize them) in a binding multi-year budget limit for the ministry. The financial certainty given to the line ministry over a time horizon of several years will also help them to plan ahead and take the difficult decisions needed to deliver the savings rather than waiting and hoping that next year's annual budget will rescue them from difficult choices. To mitigate the difficulties inherent in the determination of ceilings over several years, the principle of "Comply or Explain" could then be applied in the annual budget procedure, forcing the Government and MoF to justify any deviations from the budget ceiling determined in the MTBF. Integrating savings into budget plans will also have the advantage of requiring the Budget Department of the MoF to escalate its engagement in the spending review process and gain an early understanding of the budgetary implications of different reform options.

**Recommendation 1.4: Initiate a discussion within government regarding the need for strengthening the medium-term budget framework and the potential role for aggregate and sectoral budget ceilings.** *Stronger and more binding medium-term budget frameworks would also provide an incentive for LMs to develop more sophisticated medium-term spending baselines, which could in turn increase the effectiveness of spending reviews.*

## II. ENVIRONMENT SPENDING REVIEW

### A. Background

**8. The Environment Spending Review has got off to a very strong start.** Already some important milestones have been reached, which provide the basis for further progress:

- a. A strong joint technical team drawing on staff from both the Ministry of Environment (MoE) and Ministry of Finance (MoF) has been formed and has already undertaken preliminary data collection and analysis.** This reflects the strong engagement of the MoE in the expenditure review process as well as a strong degree of technical expertise in the

ministry's Institute for Environmental Policy to complement the technical expertise of the Value for Money team in the MoF. The joint technical team presented a summary analysis of the data collected to date to the mission team

- b. The terms of reference (TOR) for the technical team has identified key environmental outcomes against which policies and spending need to be evaluated.** These include waste recycling, waste water management, air quality and greenhouse gas emissions, flood risks, and biodiversity and landscape protection.
- c. Clear deadlines for delivery of reports have been established and included in the terms of reference.** An interim report is to be delivered by end April 2017 to facilitate broader stakeholder consultation, and a final report is scheduled to be completed and published by end June 2017.
- d. The technical assistance workshop has helped to initiate consultation with external experts in order to seek guidance on the overall approach to the review and identify resources available to the joint technical team.** Two experts on environmental policy (from Scotland and the EC) participated in the workshop, providing feedback on the focus and conduct of the review as well as identifying resources that can be helpful to the technical team's ongoing technical analysis. These experts will also be available to support the team as they progress with their analysis over the coming months.

## **B. Remaining Issues and Recommendations**

**9. The preliminary analysis has focused primarily on spending.** However, effective environmental policies involve a broader set of policy instruments beyond spending measures, which is partly why this sector accounts for such a small share of total spending. Therefore, while it is important to keep a focus on generating savings to facilitate reallocation of current spending to support more cost-effective policy areas, this needs to be part of an evaluation of a broader set of environmental policy instruments. The current narrow focus on spending levels and composition will limit the usefulness of the analysis in terms of helping to bring about efficiency and value for money gains. Addressing this will require establishing a coherent set of policy objectives mapped to a wider set of policy instruments, and the identification of policy gaps and the appropriate combination of instruments to narrow these gap, and should also be informed by reform experiences in other countries.

**Recommendation 2.1: The technical team should embed their analysis within a broader top-down policy framework identifying policy objectives and covering a wider set of policy instruments.** *The set of policy instruments under consideration should be expanded to include environmental regulations, taxes and fees, non-monetary penalties, supporting infrastructure, frameworks for stakeholder consultation, and communication campaigns. Much of this analysis can be drawn from existing reports, including those produced as part of the evaluation of the past EU programming period and other EC documents such as "Country Report Slovakia 2016", "Report on the Environmental Implementation Review in Slovakia" and "Report on Environmental Challenges in Slovakia". However, the team should focus primarily on identifying the need for such reforms without, at this stage, being tasked with setting out detailed reform plans and timelines. The latter can be incorporated into the next budget cycle as commitments by the MoE to develop detailed*

plans and timelines. The technical team should quickly engage with relevant staff in the EU's DG ENV and DG REGIO.

**10. The technical team have not specified any target for cost savings.** Specific targets for cost savings will help to focus attention on the need to reallocate resources in support of policy reforms. Although the contribution of the expenditure review will be to identify a more cost-effective policy mix in support of achieving policy objectives and closing policy gaps, this will in practice require a reallocation of existing spending within the environment sector and the streamlining of existing processes (e.g., a move to a sectoral approach when enforcing regulations and supporting behavior change across the various environmental outcomes). It may also require a reallocation of external EU funding.

**Recommendation 2.2: The technical team should identify a specific target for cost savings.** *Setting a specific savings target (e.g., a 10 percent reduction in existing spending) can ensure that the technical team does not lose sight of the need to finance new policy initiatives and reforms within the current budget envelope. Evaluating the link between past spending and environmental outcomes could help to identify areas for streamlining. This could also help to identify clear improvements in service delivery (e.g., decreasing licensing and regulatory burden on households and businesses) which could be communicated to these stakeholders.*

**11. Data constraints are likely to limit the depth of the technical analysis.** EC documentation flags issues with accuracy and availability of statistical data in some specific policy fields. While appropriate information is of course a prerequisite for evidence-based policymaking and definition of reform measures, it will not be possible within the timeframe of the review to overhaul the statistical system. But the review can lay the groundwork for tackling identified issues at a later stage.

**Recommendation 2.3: The technical team should identify and report on key data gaps for undertaking required technical analysis.** *The final report should propose solutions for enhancing the scope and quality of statistical data (e.g., relating to the amounts of recycled waste) as well as developing appropriate evaluation methodologies to fully assess the causal effect of implemented policy interventions on the observed outcomes.*

**12. The technical team should set out clear objectives for what they want to achieve in the interim report.** Although the timeline for producing the interim report is nowhere as tight as it was for the first-round of reviews (which started in April 2016), it is still important to set clear objectives for the timing and content of deliverables to feed into the interim report. The interim report should focus first on processing and presenting the data and information already available. It should also identify data, information and analytical gaps that remain to help to prioritize the gaps that could be filled before the completion of the final report. The aim of the interim report should be to share with the public the various reforms required to generate efficiency and value for money gains and prepare the public for the specific reform proposals to come in the final report. Where possible, the team should identify both "quick wins" (e.g., enhanced supporting infrastructure for household and business recycling financed through higher land-fill fees) as well as deeper structural reforms in support of longer-term efficiency

improvements. The team also needs to anticipate the legal, administrative, and institutional reforms needed to realize those improvements.

**Recommendation 2.4: The technical team should clearly establish the objectives of the interim report.** *This will help the team to prioritize their analytical focus and present their findings in a way that feeds effectively into the policy process.*

**13. Enhanced engagement of ministers and senior officials is needed to ensure that the analysis, conclusions, and recommendations are jointly owned and supported by the MoF and MoE.** Joint commitment at the technical level needs to be reinforced through increased engagement of ministers and senior policy officials with the review process. This process of engagement at senior level is especially relevant if the team is to suggest institutional changes that are required to enhance the effectiveness of environmental policies. Hence, it needs to be explicitly built into the timeline of activities to ensure timely engagement.

**Recommendation 2.5: The technical team should establish an explicit plan and timeline for enhancing the engagement of ministers and senior policy officials with the spending review.** *This could be achieved through the presentation of the interim findings of the technical team to ministers and senior policy officials from MoE and MoF prior to the completion of the interim report by end April 2017 to discuss the findings of the report internally and with key external stakeholders. This could be followed by joint presentations by both ministers of the findings of the report at a joint press conference.*

### III. EDUCATION SPENDING REVIEW

#### A. Background

**14. The Education Spending Review has successfully built on the strong foundations laid by the pilot education reviews.** A strong joint technical team drawing on staff from both the Ministry of Education (MoEd) and Ministry of Finance (MoF) has been formed and has already undertaken extensive analysis of existing data. This reflects the strong engagement of the MoE in the expenditure review process as well as a strong degree of technical expertise in the ministry's Institute for Education Policy to complement the technical expertise of the Value for Money team in the MoF.

**a. The technical team presented a summary analysis of the data collected to date to the mission team and have identified key challenges facing the education sector.** This analysis has drawn on the work already been done as part of the pilot study as well as recent detailed reports produced by the OECD. At primary and secondary levels, the challenges include low teacher pay, falling student-teacher ratios, and poor education outcomes suggesting problems with teaching quality. Although there is high participation in Vocational Education and Training (VET), the skills acquired appear to fall short of what is required by employers. Similarly, the quality of teaching and research in universities is seen as being substantially below international standards. Throughout the education system there are barriers to access for those with mental and physical disabilities as well as those from disadvantaged socio-economic backgrounds.

**b. The technical team have already begun to consult with a broader set of stakeholders.**

The presentation made to the mission team was attended by key stakeholders and professionals, including external experts and civil society (e.g., an education NGO made a presentation at the workshop). The mission team also included experts from Ireland and the UK who discussed reform experiences in these countries and identified further resources that the technical team can draw upon as part of their analysis.

**c. There is a strong momentum for introducing reforms to the education system at all levels to address these challenges.**

The government has committed to increasing funding for education with an extra EUR 2 billion being allocated with the objective of increasing education funding to the EU average by 2020 as part of the National Education Development Program (NEDP), which in turn was informed by its 2013 Report on the State of Education. As part of a wider stakeholder consultation, the broad objectives of the NEDP have already been discussed in public fora at the end of 2016 with the intention of presenting a more complete reform program in January 2017 for government discussion in March 2017. The government's advisory team includes external experts and will involve broad stakeholder participation including with schools, local authorities, unions, employers and education experts.

**d. Clear deadlines for delivery of reports have been established and included in the terms of reference (TOR).**

An interim report is to be delivered by end April 2017 to facilitate broader stakeholder consultation, and a final report is scheduled to be completed and published by end June 2017.

## **B. Remaining Issues and Recommendations**

**15. The objectives identified for the expenditure review are very broad with little detailed guidance currently contained in the TOR on how these should be addressed for the purposes of the spending review.** The presentation made by the technical team identified the following areas for analysis: optimization of the school network, increasing the attractiveness of the teaching profession, enhancing inclusion and equality of access, assessing the accreditation process for third-level institutions, evaluating and financing of university education, developing an effective graduate tracking system, and assessing the consistency of the structural funds program with education policy objectives. However, the TOR seen by the mission team essentially provided only a very general "mission statement" for the education sector and listed these objectives without providing much guidance on where to look for cost savings and where to identify institutional and policy reforms to improve value for money. In particular, developing a detailed strategy to address access barriers for children with disabilities (or "special needs") and for the Roma population may be beyond the scope of this expenditure review round and better dealt with by a future dedicated review.

**Recommendation 3.1: The technical team should start by identifying areas where institutional and policy reforms may enhance value for money and where cost savings could be identified.** This should be informed by the feedback provided during the workshop as well as in this report. The team should also specify a target for savings to focus attention on generating additional resources (to supplement the EUR 2 billion—about 2.5 percent of current GDP—being allocated up to 2020) that could be used to finance reform initiatives to address the challenges identified for the education sector. The technical team should also be tasked with

*establishing a detailed baseline for education spending under current policies as well as costing (where possible) any reform initiatives that are under discussion, including increasing teachers' salaries and improving access and education quality for children with disadvantaged socio-economic backgrounds.*

**16. There is a need to carefully distinguish between the objective of improving education quality and access, and reform measures required in support of these objectives.**

The former (quality and access) is the ultimate objective while the latter (cost savings and reallocations) is a means to achieving these objectives. This will be especially important when building broad stakeholder support through a focus on improving education outcomes and value for money rather than more narrowly on savings. The identification of reform options should be based on a strong understanding of the root causes of poor education outcomes.<sup>4</sup> For example, consolidation of schools should be motivated through the higher quality education that can be provided in larger schools due to economies of scale; the persistence of poor education outcomes in the face of falling class sizes can help allay fears that larger class sizes will result in lower education outcomes.<sup>5</sup> Similarly, any discussion of higher teacher salaries should be linked to reforms that increase teaching quality including teacher training and retraining, and enhancement of student contact hours including supervisory activities.<sup>6</sup> The additional money being channeled into education provides an opportunity to generate consensus around the broader reforms needed.

***Recommendation 3.2: The technical team should carefully distinguish between the objective of improving education quality and access, and reform measures needed to achieve these objectives. Policy makers will require sufficient information to help them make a strong case for implementing reforms, including cost saving measures, identified by the expenditure review. It is likely that reforms are more acceptable if they are focused on improving education quality and not simply decreasing costs.***

**17. The current scope of the expenditure review is very broad.** In particular, in the context of addressing barriers to access for children with special needs and for the Roma population, it may be better to leave these issues to a future dedicated review. These issues require an

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<sup>4</sup> According to a recent OECD report, while the Slovak benefits from a strong teacher education system, a low number of students per class and a high level of autonomy of schools, its education outcomes are poor. However, the report also challenges such as the unequal distribution of teachers across schools, low participation rates in teacher professional development, and teacher certification processes only weakly linked to the core work of teachers.

<sup>5</sup> The reasons behind the non-implementation of regulations on class and school size need to be further explored. Generating consensus on the need for abiding by these regulations will be key to ensuring flexibility going forward to lock in the gains from reform over the long term. What would the school network look like now if these regulations had been implemented? Was the resulting decrease in student-teacher ratios combined with per capita funding partly responsible for falling teachers' wages and declining education standards? Making such links can help generate broader stakeholder support for such reforms.

<sup>6</sup> While higher wages may be required to attract top-level graduates, complementary reforms will probably be needed to improve teaching and education quality such as improving teacher training, retraining existing teaching staff, increasing student and parent contact hours, curriculum reform in teacher training and the classroom, linking allowances to training and performance, early retirement for some teachers, careful control of the numbers in teacher training, and so on. In addition, focusing on improving the performance of all teachers (young and old, current and new) may be more feasible than imposing differentiated wage systems which may cause internal discontent.

assessment of access across all levels of education and often require a multi-sectoral approach given the co-existence of different socio-economic disadvantages. The current review could address the issue as part of its focus on education performance across different socio-economic groups leaving the issues of special needs and Roma education for a future review. Addressing the latter is typically more complex and substantially more resource intensive.

**Recommendation 3.3: Consider narrowing the scope of the review.** *In particular, leave a detailed analysis of poor education outcomes among the Roma to a future dedicated review.*

**18. Technical teams should be clear about what they want to achieve by the interim and final reports.** Given the extensive data and analysis already undertaken by national and international experts, for the interim report the team should prioritize the use of existing data and information to identify key education challenges, the available reforms options for addressing these challenges, and areas where savings could be generated. This analysis can also draw on reform experiences in other countries, including the countries identified during the workshop (Ireland, UK, the Netherlands, and Hong Kong). It should also identify data, information and analytical gaps that need to be addressed in preparation of the final report. The aim of the interim report should be to share with the public the various reforms required to generate efficiency and value for money gains and the spending reallocations that can support these reforms. This will help prepare the public for the specific reform proposals to come in the final report. The teams also need to anticipate the legal, administrative, and institutional reforms required to realize those improvements.

**Recommendation 3.4: Technical teams need to establish clearly what they want to achieve in the interim and final reports.** *Currently only a date is specified without providing guidance to the technical team regarding what they should try to achieve in the reports and their role in the overall review process. The interim report should focus on analysing the efficiency of current spending and identifying remaining data gaps, while the final report uses this as input to make specific reform recommendations.*

**19. While the current higher education system has many features that are conducive to improving performance, it also appears overly bureaucratic.** It is likely that reforms will need to move the system away from its current regulatory focus on inputs and how they are deployed towards a more performance-based system built on performance contracts supported by a strengthening of monitoring and information systems and a clear vision and statement of how third-level education can best contribute to national objectives. This applies to both universities and VET institutions, although each may contribute to achieving different national objectives. Since reforming such a system takes time, the report should distinguish between measures that can be implemented early on in the transition process and others that require deeper institutional and process reforms. For example, it may be that the consultative and developmental approach used in Ireland over recent years (e.g., based on self-accreditation, and focused on supporting and incentivizing universities to monitor and improve performance across teaching and research activities) is something that can be implemented initially.

**Recommendation 3.5: The interim report should identify the reform options available for improving the performance of higher education institutions (including universities and**

**vocational education training**). This should draw on the experiences of other countries. In this respect, the recent reform experience of Ireland, which drew from reform experiences in the Netherlands and Hong Kong as well as other countries, may be particularly instructive and the technical team should follow up with the Irish expert.

**20. Enhanced engagement of ministers and senior officials is needed to ensure that the analysis, conclusions, and recommendations are jointly owned and supported by the MoF and MoEd.** Joint commitment at the technical level needs to be reinforced through increased engagement of ministers and senior policy officials with the review process. This could be achieved through the presentation of the interim findings of the technical team to ministers and senior policy officials from MoEd and MoF prior to the completion of the interim report by end-April 2017 to discuss the findings of the reviews internally and with key external stakeholders. This could in turn be followed by joint presentations by both ministers of the spending review conclusions to Cabinet, and eventually joint press conferences by both ministers to announce the reforms agreed as a result of the reviews.

**Recommendation 3.6: The technical team should establish an explicit plan and timeline aimed at enhancing the engagement of ministers and senior policy officials with the spending review.** This could be achieved through the presentation of the interim findings of the technical team to ministers and senior policy officials from MoEd and MoF prior to the completion of the interim report by end April 2017 to discuss the findings of the report internally and with key external stakeholders. This could in turn be followed by joint presentations by both ministers of the report findings at a joint press conference.

## IV. SOCIAL BENEFITS SPENDING REVIEW

### A. Background

**21. The Social Benefits Spending Review has got off to a strong start.** A strong joint technical team drawing on staff from both the Ministry of Labor, Social Affairs and Family (MoLSF) and Ministry of Finance (MoF) has been formed and has already undertaken extensive analysis of existing data. This reflects the strong engagement of the MoLSF in the expenditure review process as well as a strong degree of technical expertise within the ministry to complement the technical expertise of the Value for Money team in the MoF.

- a. The technical team presented a summary analysis of the data collected to date to the mission team.** This analysis discussed the level of spending and its composition across social insurance and social assistance/exclusion spending as well as a more detailed breakdown of each (pensions, other insurance, family benefits, disability benefits, long-term care, and active labor market programs).
- b. The mission team has provided detailed feedback on the plans for reviewing the pension system.** Further extensive technical assistance support from the IMF and EC will be available to the technical team for this review.
- c. Clear deadlines for delivery of reports have been established and included in the terms of reference (TOR).** An interim report is to be delivered by end April 2017 to facilitate

broader stakeholder consultation, and a final report is scheduled to be completed and published by end June 2017.

## **B. Remaining Issues and Recommendations**

**22. The current focus of the technical team on individual benefit programs needs to be embedded within an overall perspective of the social protection system.** A more comprehensive framework is required to evaluate the cost-effectiveness of the social benefit system. Evaluation of individual social benefit components requires a clear statement of the objectives of the social benefit system and how its component parts contribute to achieving these objectives. The standard framework separates the social protection system into its social insurance functions (to protect against income shocks, e.g. pensions and unemployment insurance) and its social assistance functions (to protect against poverty, e.g. minimum income benefits and family benefits). It is also common to distinguish between the protection and promotion objectives of social benefits, with the former protecting individuals and families against poverty (cash and in-kind benefits) and the latter promoting self-reliance to avoid welfare dependency and disincentives for work (e.g., eligibility conditions and participation in active labor market programs). Individual social benefit programs should be evaluated against these objectives, with an emphasis on avoiding fragmentation and duplication of programs and processes. This also requires an evaluation of program design in terms of eligibility, conditionality, generosity (benefit levels and duration) and implications for work incentives.

***Recommendation 4.1: The technical team should develop an overall schematic of the social protection system in Slovakia and its component parts and institutional responsibilities.***

*This should distinguish between its insurance and assistance functions and will provide a clear framework for evaluating individual spending programs. It should also provide a clear vision of how beneficiaries should enter and progress through the social protection system and how individual programs map to overall objectives. The mission shared a prototype for such an evaluation with the technical team.*

**23. An evaluation of recent trends and pressures in social benefit spending and its component parts is needed to develop a picture of the current effectiveness of the social protection system.** How did social benefit spending and its components change during the recent economic downturn? How do social indicators (e.g., at-risk-of-poverty rates for different age groups and income inequality) compare to other countries and how were they impacted during the economic downturn? What factors contribute most (both before and after direct income taxes and social transfers) to low income inequality in Slovakia compared to other European countries? How much of the gap is explained by the generosity and progressiveness of social benefits? The design of individual benefit programs should also be evaluated against best practice and practices in other European countries, covering issues such as fragmentation, duplication, eligibility, generosity and progressivity.

***Recommendation 4.2: The technical team should prioritize an evaluation of the cost-effectiveness of the existing system in achieving its objectives.*** *This should draw heavily on recent work undertaken by the EC ("Slovakia: ESPN Thematic Report on Minimum Income Schemes, 2015"; "Slovakia: European Minimum Income Network Country Report") and the World Bank ("Benchmarking Expenditure and Performance of Social Assistance Cash Transfers in the Slovak*

*Republic”; “Who Receives the Benefit in Material Need? A Profile”), updating these analyses where existing data permits. It should also identify areas where data and analytical gaps exist, together with a prioritization of efforts to address these gaps as part of the spending review. Evaluations undertaken as part of the EUROMOD program are also likely to provide valuable inputs into this evaluation.*

**24. Savings targets have not been specified.** The technical team need more specific guidance on the amount of savings that should be identified. Meeting the targets set out in the 2015 National Reform Program<sup>7</sup> will likely require scaling up some benefit programs and redesigning others. If these reforms are to be financed with a fixed real budget envelope (given that social protection spending is one of the few areas where Slovakia spends more than its peers) then savings will need to be generated elsewhere in the social protection system through such things as consolidating and streamlining benefits, decreasing benefit generosity (benefit levels and duration), and increasing progressivity of benefits (including possibly through greater use of means testing).

***Recommendation 4.3: The technical team should specify a savings target for the spending review.*** *This could be motivated by the need to improve social outcomes in line with commitments under the NRP under a fixed real budget envelope, and by the need to provide a menu of reform options for policy makers to consider. The technical team should also be tasked with establishing a strong multi-year baseline for social benefit spending under current policies.*

**25. The scope of the current analysis may be too broad.** Evaluating all of the programs in the social protection system will be quite demanding especially given the technical capacity available. Requiring the technical team to focus their efforts first on the larger spending items (e.g., family benefits and pensions) may help them to prioritize their efforts. For other areas such as long-term care, where spending may currently be relatively small but subject to strong upward pressures, the reports could restrict their focus to identifying the key challenges based on existing analysis undertaken by national experts and international institutions such as the EC, OECD and World Bank, and leave a more detailed analysis of reform options to a dedicated more-focused spending review.

***Recommendation 4.4: Consider narrowing the scope of the spending review.*** *The technical team could focus initially on big spending items such as pensions and family benefits, especially in terms of identifying savings.*

**26. The technical team should be clear on what they want to achieve by the interim and final reports.** The interim report should prioritize the processing and presentation of data and information already available. It should also identify data, information and analytical gaps that

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<sup>7</sup> All Member States have committed to the Europe 2020 strategy. However, since each country has different economic circumstances it translates the overall EU objectives into national targets in its *National Reform Programme* (NRP) – a document which presents the country's policies and measures to sustain growth and jobs and to reach the Europe 2020 targets. The NRP is presented in parallel with its Stability/Convergence Programme, which sets out the country's budgetary plans for the coming three or four years. Under the NRP, by 2020 the Slovakian government has committed to reducing the long-term unemployment rate to 3.0 percent (from 9.3 percent in 2014), increase the employment rate to 72.0 percent (65.9 percent in 2014), and decrease the population at risk of poverty and social exclusion to 17.2 percent (19.8 percent in 2013, latest estimate available).

need to be addressed in preparation of the final report. The aim of the interim report should be to share with the public the various reforms required to generate efficiency and value for money gains and the spending reallocations that can support these reforms. This will help prepare the public for the specific reform proposals to come in the final report. The teams also need to anticipate the legal, administrative, and institutional reforms needed to realize those improvements.

**Recommendation 4.5: The technical team should establish clear objectives for the interim and final reports.** *Currently only a date is specified in the TOR without providing guidance to the technical team regarding what they should try to achieve in the reports and their role in the overall review process. The interim report should focus on analysing the efficiency of current spending and identifying remaining data gaps, while the final report uses this as input to make specific reform recommendations.*

**27. Enhanced engagement of ministers and senior officials is needed to ensure that the analysis, conclusions, and recommendations are jointly owned and supported by the MoF and MoLSF.** Joint commitment at the technical level needs to be reinforced through increased engagement of ministers and senior policy officials with the review process. This could be achieved through the presentation of the interim findings of the technical team to ministers and senior policy officials from MoLSF and MoF prior to the completion of the interim report by end-April 2017 to discuss the findings of the reviews internally and with key external stakeholders. This could in turn be followed by joint presentations by both ministers of the spending review conclusions to Cabinet, and eventually joint press conferences by both ministers to announce the reforms agreed as a result of the reviews.

**Recommendation 4.6: The technical team should establish an explicit plan and timeline aimed at enhancing the engagement of ministers and senior policy officials with the spending review.** *This could be achieved through the presentation of the interim findings of the technical team to ministers and senior policy officials from MoE and MoF prior to the completion of the interim report by end April 2017 to discuss the findings of the report internally and with key external stakeholders. This could in turn be followed by joint presentations by both ministers of the report findings at a joint press conference.*

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