

6.3 Spending reviews

Spending reviews are a core instrument for expenditure prioritisation and reallocation. They offer a way for governments to support the sustainability of public finances by systematically analysing existing expenditure. They also provide opportunities to align spending with government priorities and improve its effectiveness. Efficient public spending needs information and evidence to support the reallocation of resources or reformulation of programmes that are not delivering the expected results or may no longer reflect the priorities of citizens. Spending reviews are gaining momentum in Latin American and Caribbean (LAC) countries, especially considering the impact of the COVID-19 pandemic on the region's public budgets. Their scope varies from country to country, and their implementation also requires customised institutional setups. Spending reviews require the participation of all ministries or public agencies within a country. However, certain individual reviews require either the participation of a single ministry or several ministries, if it is a cross cutting review. Their roles depend both on the country's set up and which stage of the process they are involved in (e.g. implementation or decision-making phase). In 2022, 7 out of the 12 surveyed LAC countries (58%) reported carrying out spending reviews – the Bahamas, Chile, Colombia, the Dominican Republic, Mexico, Peru and Paraguay – while Brazil is considering adopting the practice. However, this share is lower than across the OECD in 2020 (84%) (Figure 6.7).

When conducting spending reviews, each government establishes its own objectives based on its needs and goals. All seven LAC countries which reported conducting spending reviews in 2022 aimed to enhance the effectiveness of their policies and programmes. This objective was shared by 29 out of 31 of the OECD countries conducting spending reviews in 2020 (94%). Another common objective for LAC countries was to align spending with government priorities, set by 71% of the LAC countries implementing spending reviews (5 out of 7), compared to 65% of OECD countries (20 out of 31). Only Chile, Colombia and Mexico (43%) aimed to control spending levels during their reviews, compared to 65% of the relevant OECD countries (20 out of 31) (Figure 6.8; OECD 2021, Figure 5.7).

Spending reviews usually fall under the responsibility of the Finance Ministry, although other government bodies always need to be involved. With regards to decision-making, the Minister of Finance approves the spending reviews topics in three out of the seven LAC countries that conduct spending reviews (43%), a larger share than of OECD countries (12 out of 31, 39%). The Minister of Finance is also in charge of making the final decision on the methodology to be used for the reviews in three LAC countries (Chile, Mexico and Peru), while in Paraguay it falls into the remit of a spending review unit, and in Colombia the National Planning Department has this task and also approves the spending review topics. In the Dominican Republic these functions are carried out by the Minister of Finance jointly with a line minister. The final decisions on spending review

reports fall to the same entities as the decision on the methodology in most countries, with the exception of Mexico, where this function is granted jointly to the President's office and the Minister of Finance (Figure 6.9).

Methodology and definitions

Data are drawn from the 2022 OECD/IDB Survey on Spending Reviews and the 2020 OECD Spending Review Survey, encompassing responses from 12 LAC countries. Where spending review practices are in place, the survey gathers information on practice design, implementation and any remaining challenges. Respondents were predominantly budget officials within central budget authorities. Responses represent the country's own assessment of current practices and procedures. The surveys considered existing or planned practices as of end-December 2021 (OECD/IDB survey) and end-December 2020 (OECD survey).

Spending reviews are tools for systematically analysing the government's existing expenditure. They are clearly linked to the budget process. The purposes of a spending review include: 1) enabling the government to manage the aggregate level of expenditure; 2) identifying savings or reallocation measures; and 3) improving effectiveness within programmes and policies.

Further reading

- Doherty, L., & Sayegh, A. (2022), "How to design and institutionalize spending reviews", *IMF How To Notes*, Vol. 2022/004, <https://www.imf.org/en/Publications/Fiscal-Affairs-Department-How-To-Notes/Issues/2022/09/20/How-to-Design-and-Institutionalize-Spending-Reviews-523364>.
- IDB (2018), *Better Spending for Better Lives: How Latin America and the Caribbean Can Do More With Less*, Inter-American Development Bank, Washington, DC, <http://dx.doi.org/10.18235/0001217-en>.
- OECD (2021), *Government at a Glance 2021*, OECD Publishing, Paris, <https://doi.org/10.1787/1c258f55-en>.
- Tryggvadottir, Á. (2022), "OECD Best Practices for Spending Reviews", *OECD Journal on Budgeting*, Vol. 22/1, <https://doi.org/10.1787/90f9002c-en>.

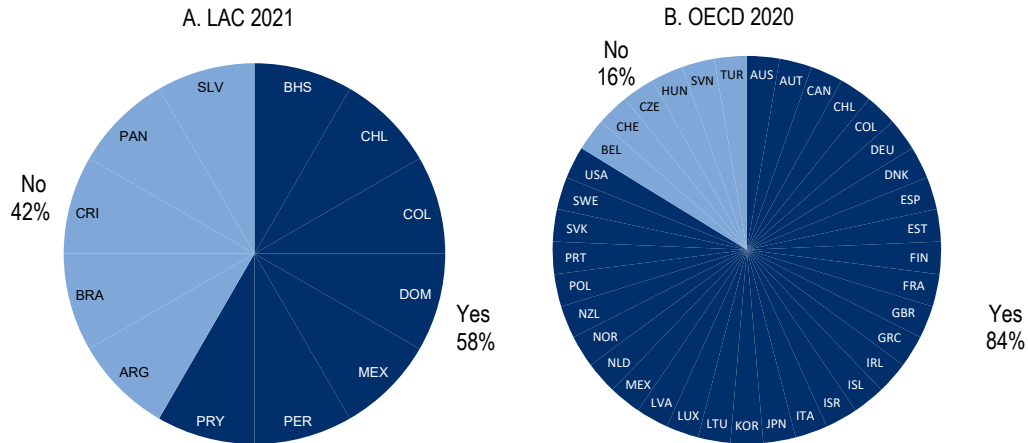
Figure notes

For 2022, data for Honduras are not available. Data for Colombia and Mexico are drawn from the 2020 OECD Spending Review Survey.

Figure 6.7. Data for the OECD are from 2020 and do not include Costa Rica.

Figure 6.8 and Figure 6.9. only show data for the LAC countries that conducted spending reviews.

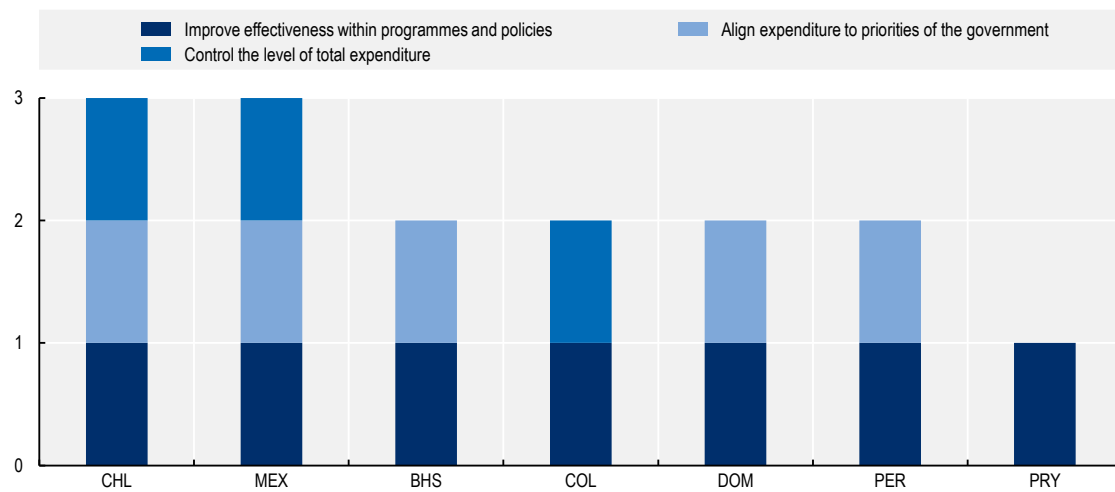
Figure 6.7. Countries conducting spending reviews in LAC and OECD members, 2021



Source: OECD-IDB (2022), Survey on Spending Reviews; OECD (2020), Spending Review Survey.

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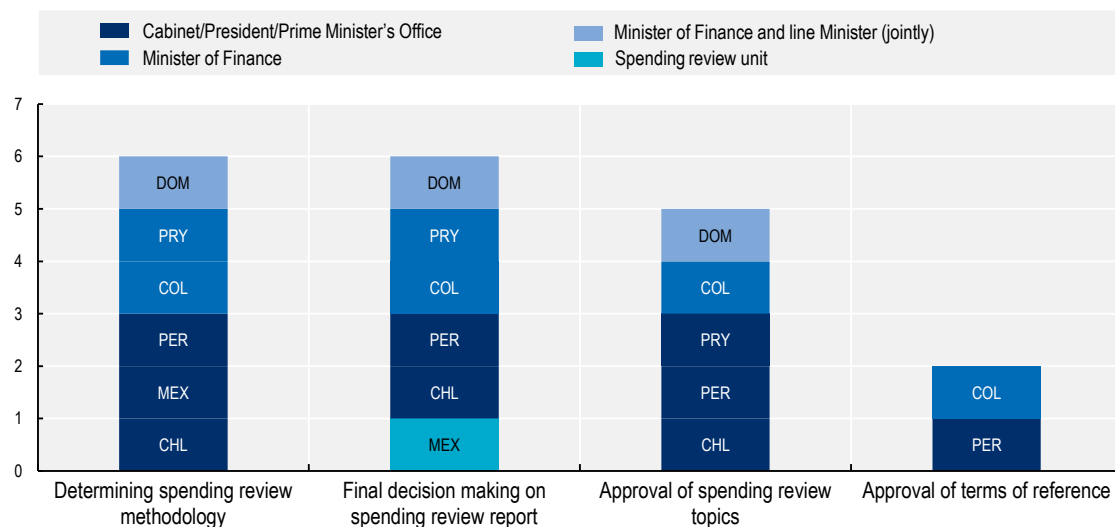
Figure 6.8. Main objectives of spending reviews over the previous three years, 2021



Source: OECD-IDB (2022), Survey on Spending Reviews; OECD (2020), Spending Review Survey.

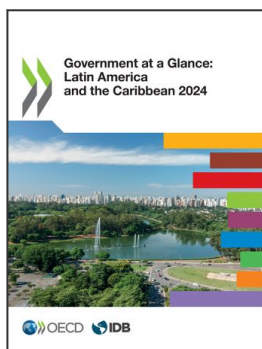
StatLink <https://stat.link/4irj1d>

Figure 6.9. Actors responsible for decision making on spending reviews and their functions, 2021



Source: OECD-IDB (2022) Survey on Spending Reviews; OECD (2020), Spending Review Survey.

StatLink <https://stat.link/j5lmfq>



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