

PUBLIC FINANCE REVIEWS



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PUBLIC FINANCE REVIEWS ARE A CORE DIAGNOSTIC PRODUCT OF THE WORLD BANK

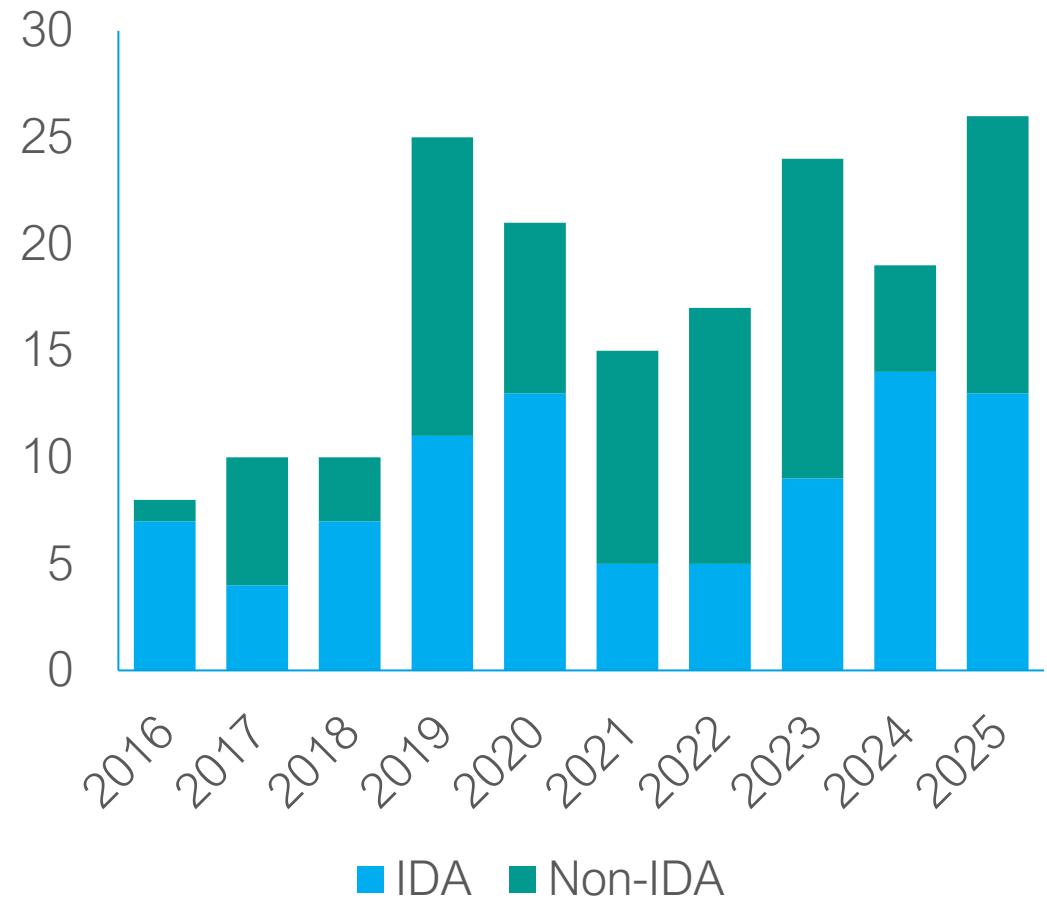
A tool for analyzing the efficiency and effectiveness of public expenditure, growth-enhancing and equitable domestic revenue mobilization, and strengthening budget institutions.

It comprises of three core chapters:

- (i) macro-fiscal – debt sustainability,
- (ii) revenue,
- (iii) expenditure,

and optional deep dives on sectors or topics relevant to the country.

PER/PFR reports, count by year (2016–2025)





PUBLIC FINANCE REVIEWS HAVE BEEN INSTRUMENTAL IN SUPPORTING COUNTRY-LED REFORMS

- The **Indonesia PFR** supported an increase in the statutory VAT rate and adoption of a legal framework to remove statutory exemptions that increased efficiency and overall revenue collection.
- The **Mexico PFR** helped provide tax authorities with new tools to combat tax evasion and avoidance, reducing economic distortions and income inequality embedded in the tax system.
- The **Costa Rica PFR** supported implementation of rules to strengthen the fiscal framework and helped adopt best practices on capital income taxation and Base Erosion and Profit Shifting (BEPS).
- The **Fiji PFR** identified key tax policy reform options in support of fiscal consolidation efforts.
- **PFRs in Ecuador, Peru, Macedonia, Costa Rica, Kenya, and Brazil**, among others, helped identify significant efficiency savings in the procurement of goods and services.
- **PFRs in Guinea-Bissau, Zimbabwe, and Costa Rica**, among others, provided analytical insights to inform wage bill rationalization.
- The **Argentina PFR** provided important baseline to help address regional disparities by improving geographical allocation of resources.
- **Philippines PFR** identified disaster risk related spending and bottlenecks in public financial management.



EXPENDITURE

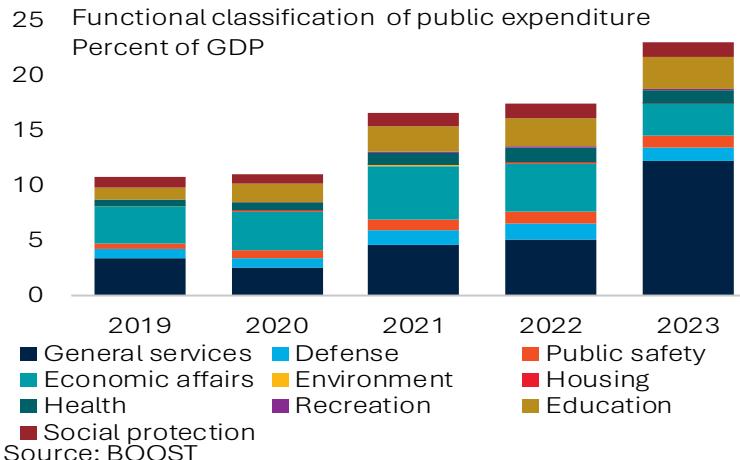


Guiding questions:

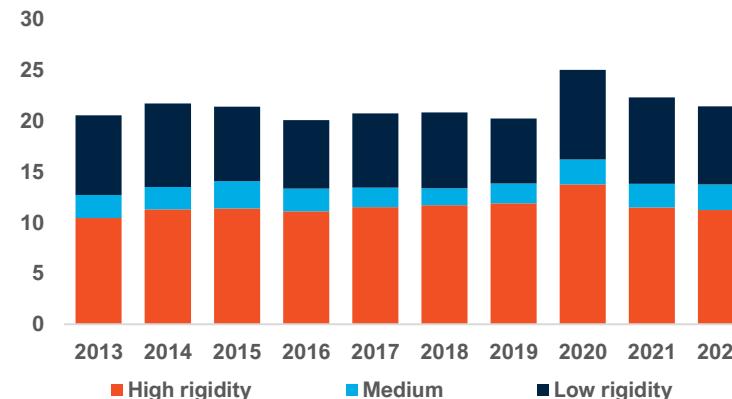
- 1. Is there room for better calibration of the size and composition of public spending for greater effectiveness in supporting sustainable, long-term growth?
- 2. Is there scope for greater efficiency in public spending?
- 3. Is there scope to inject further progressivity in expenditure policy to address income inequalities?

IS THERE ROOM FOR BETTER CALIBRATION OF SIZE AND COMPOSITION?

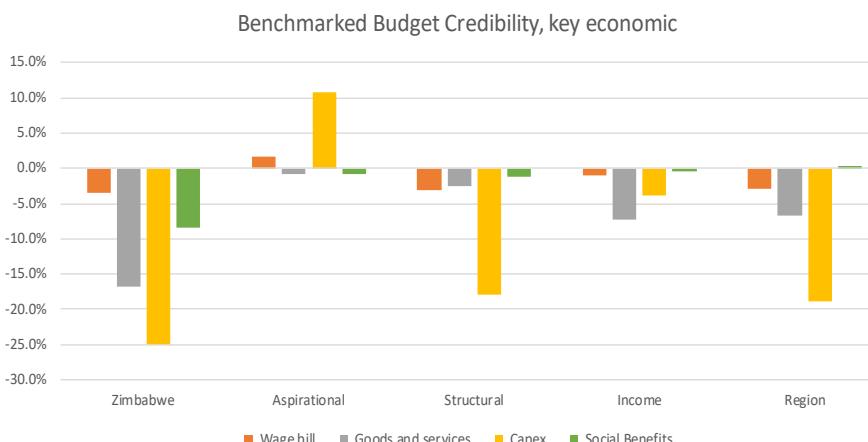
Zimbabwe: Functional classification of expenditure (% of GDP)



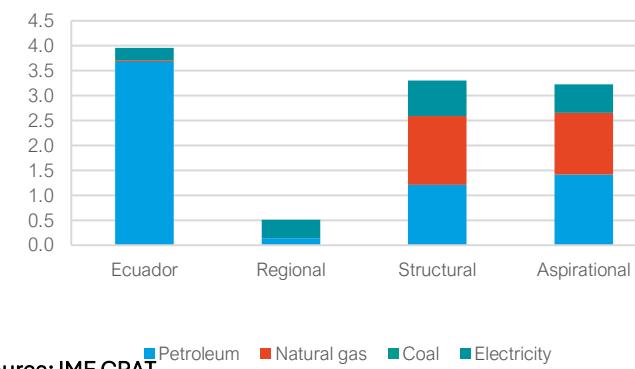
Peru: Evolution of expenditure rigidity (% of GDP)



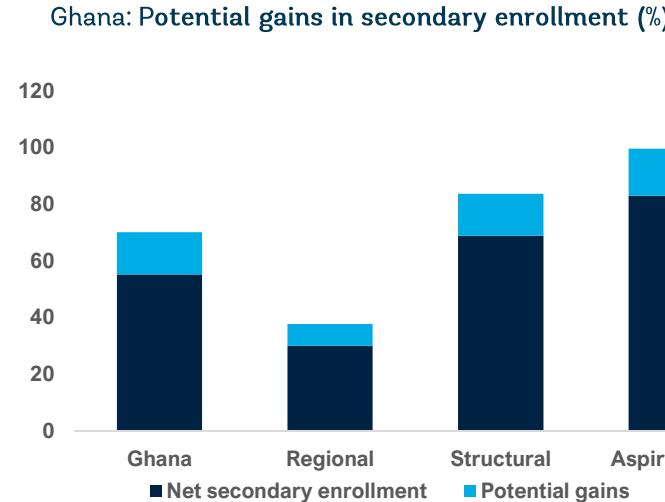
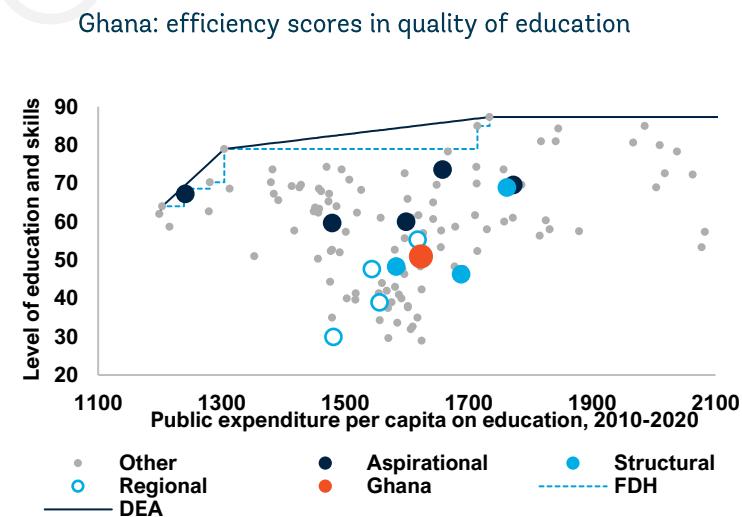
Zimbabwe: Greatest under-execution in procurement & capex



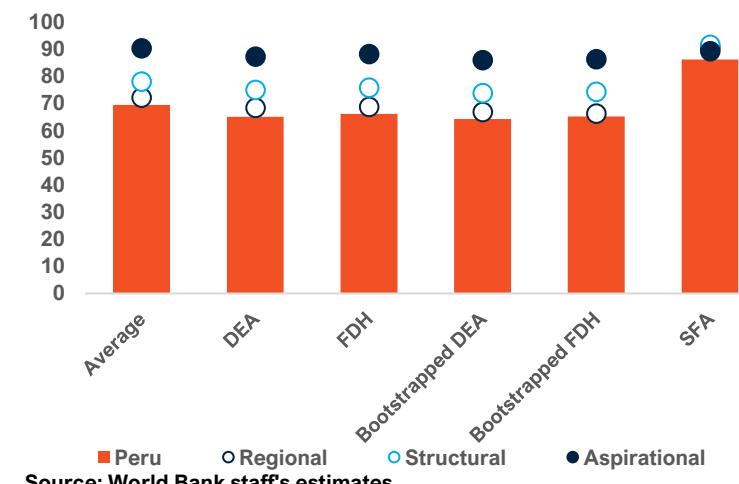
Ecuador: Explicit fossil fuel subsidies (% of GDP)



IS THERE SCOPE FOR GREATER EFFICIENCY?



Peru: Efficiency score under different methodologies
% of frontier



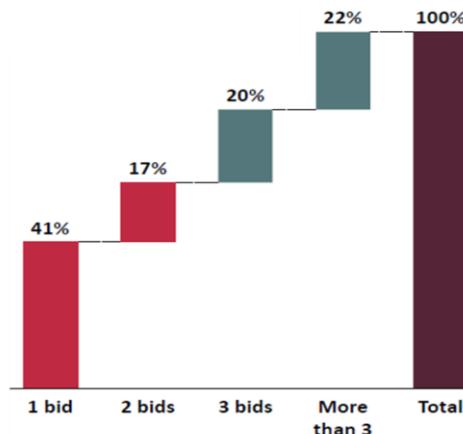
IS THERE SCOPE FOR GREATER EFFICIENCY?

EXAMPLE: Strategic sourcing methodology to identify efficiencies in procurement in Peru

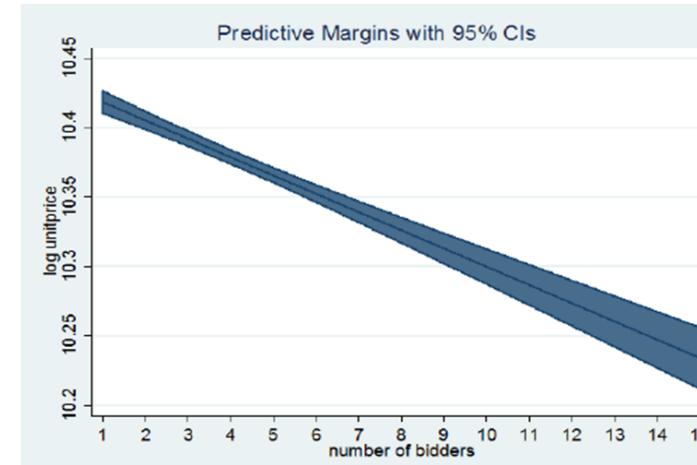
- Around 60% of total cement purchases in Peru, by volume, had less than 3 bidders
- Increasing the number of bidders and allowing more time for bids lowered prices, but the time of year also mattered

Cement purchases in Peru

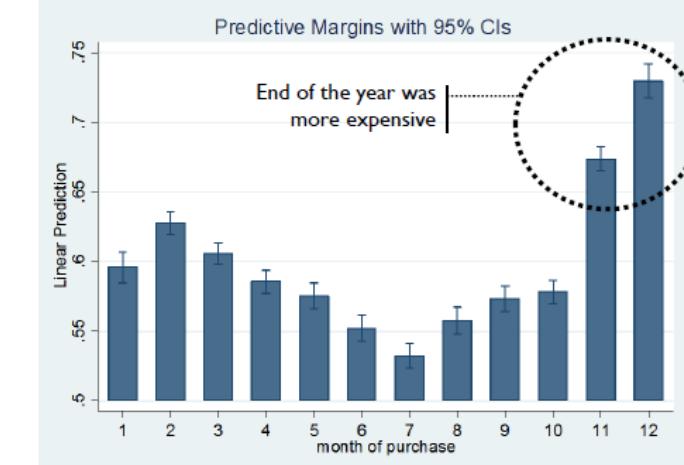
a. Volume, by number of bidders



b. Unit price, by number of bidders



c. Unit price, by month



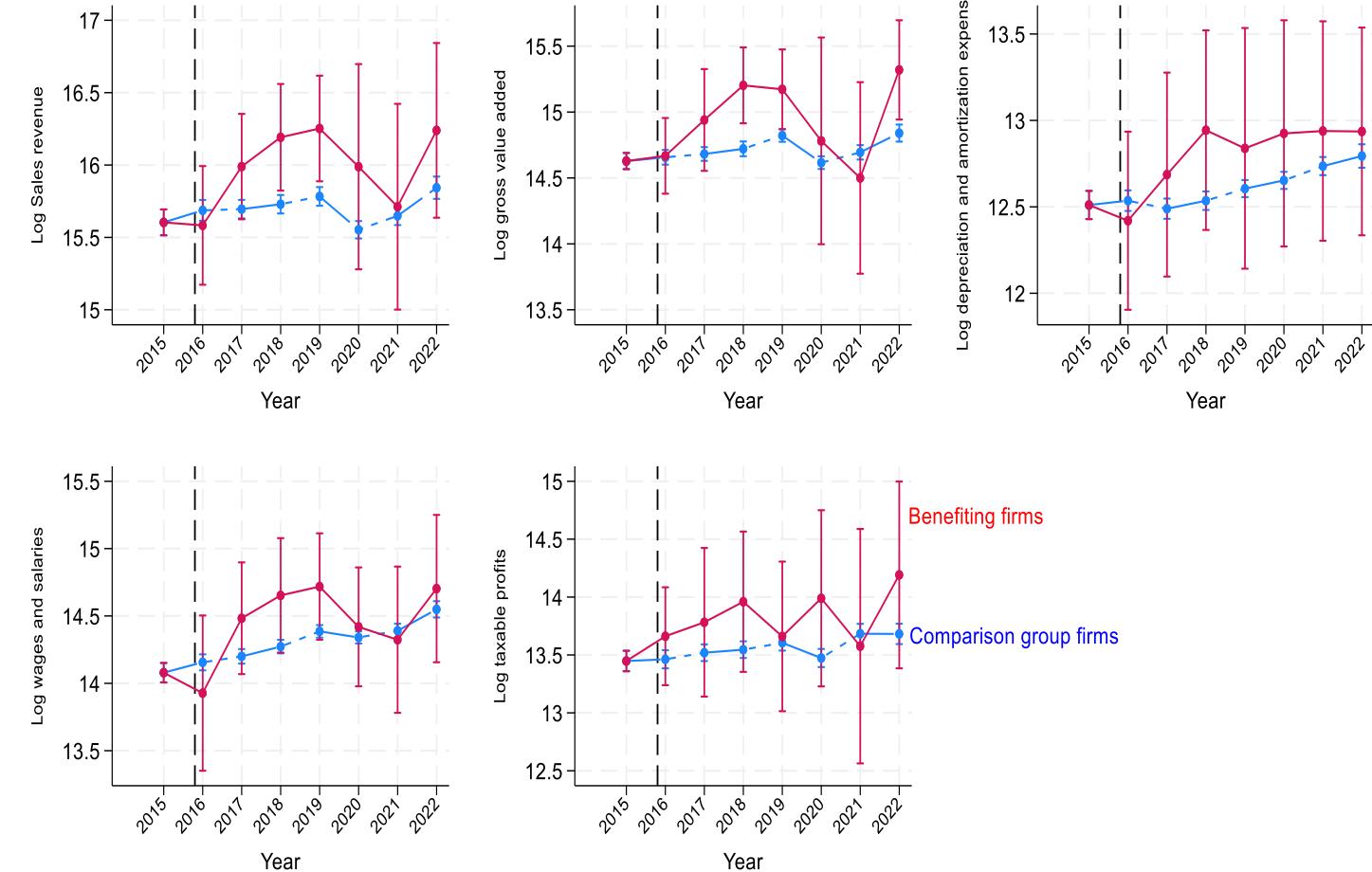
Source: World Bank staff using data from SEACE 2015.

TAX INCENTIVES

EXAMPLE in Cabo Verde:

- Benefiting firms experienced increases in sales revenues and gross value added relative to non-benefiting firms
- There was relatively weak impact on investment, wage growth, and profits
- While useful in initial years, there was no observable gains in firm outcomes after the fourth year

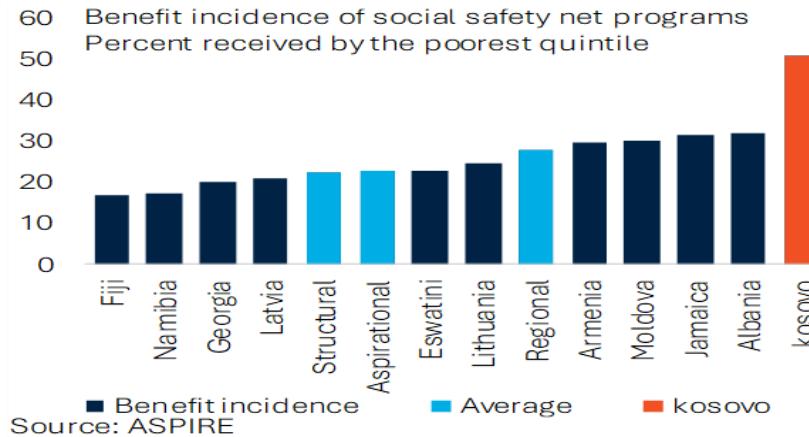
Impact of tax incentives in Cabo Verde, select outcomes (2015–2022)



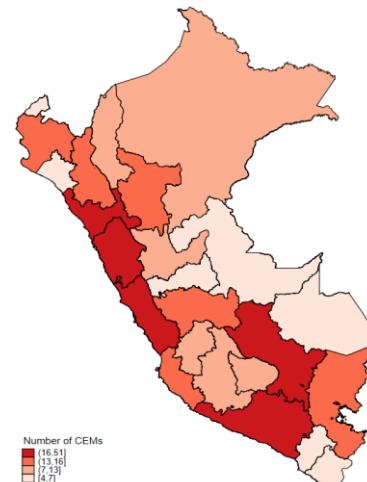
Source: World Bank staff using data from Cabo Verde MOF 2024.

IS THERE SCOPE TO INJECT FURTHER PROGRESSIVITY?

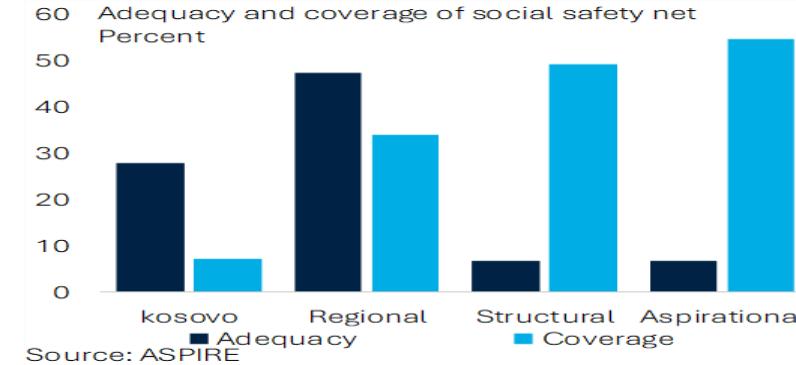
Kosovo: Benefit incidence of social protection
Percent of total safety net benefits, last available figure



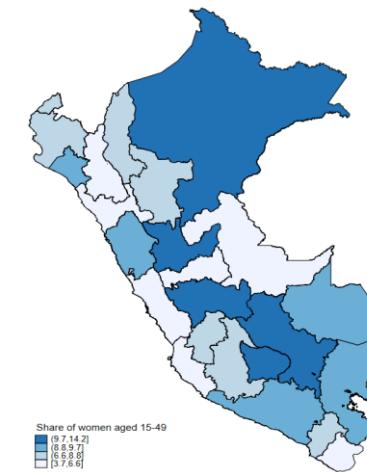
Peru: Number of Women's Emergency Centers, by department, 2023



Kosovo: Adequacy and coverage of social protection %



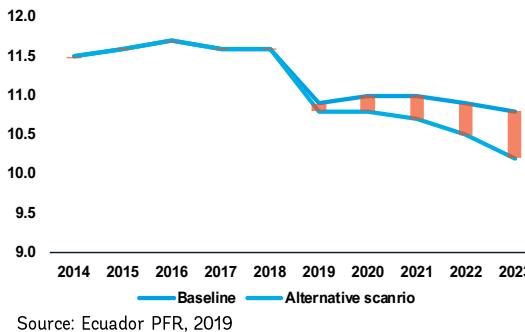
Peru: Prevalence of physical and/or sexual violence against women in last 12 months, by department, 2023



OPTIONAL ASSESSMENTS

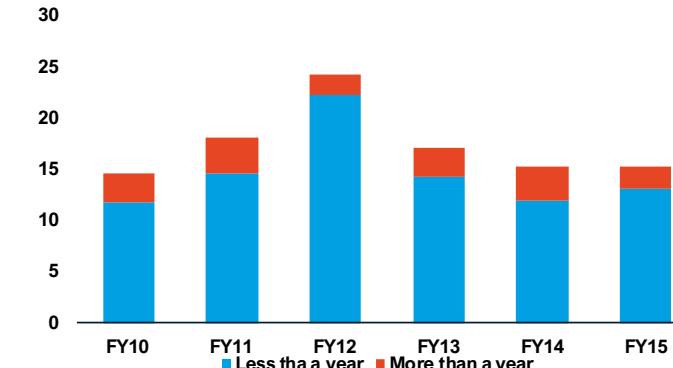
Wage bill management

Simulate alternative public wage bill scenarios
Public wage bill under alternative scenarios, Percent of GDP



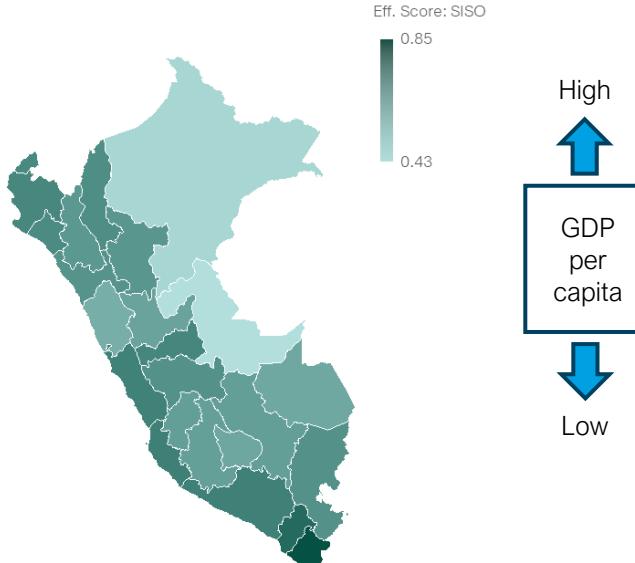
Capital spending/Public Investment management

Deep dive on capital investment operational efficiency
Capital investment by age, percent of total expenditure



Subnational benchmarking

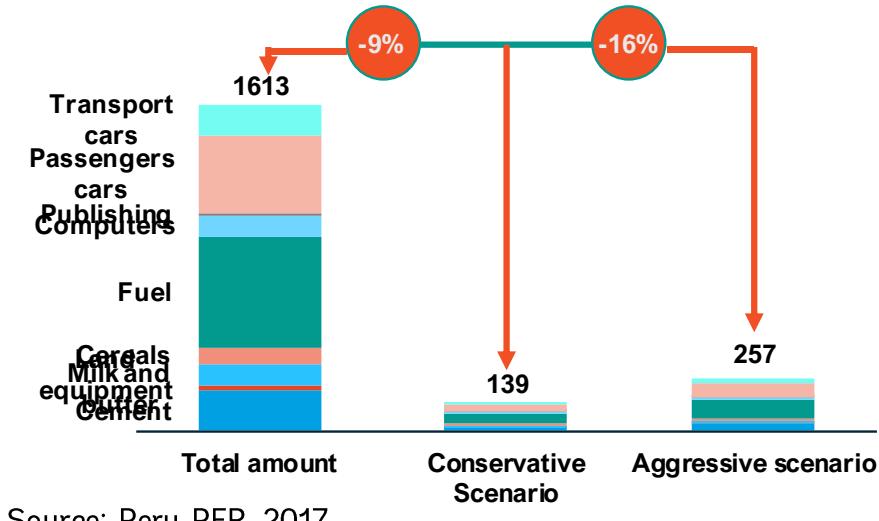
Average efficiency scores of education outputs, Peru



Region	Eff. Score: SISO
Lima	0.70
Callao	0.85
Arequipa	0.70
Ica	0.70
Moquegua	0.76
Apurímac	0.59
Tacna	0.84
Junín	0.65
La Libertad	0.65
Lambayeque	0.67
Huancavelica	0.61
Amazonas	0.66
Áncash	0.57
Ucayali	0.43
Cusco	0.61
Ayacucho	0.61
Piura	0.68
Puno	0.65
Madre de Dios	0.59
Pasco	0.68
San Martín	0.64
Cajamarca	0.64
Huánuco	0.60
Tumbes	0.68
Loreto	0.45

Strategic sourcing methodology

Potential savings in procurement of key products, million local currency





MANY THANKS



PUBLIC WAGE BILL ANALYSIS: FRAMEWORK

International/SNGs comparison

- % of GDP
- % of expenditures
- % of revenue
- size of public employment (% of total, % of formal)

Sustainability

- Wage bill growth decomposition
- Employment dynamics
- Wage/pay components dynamics

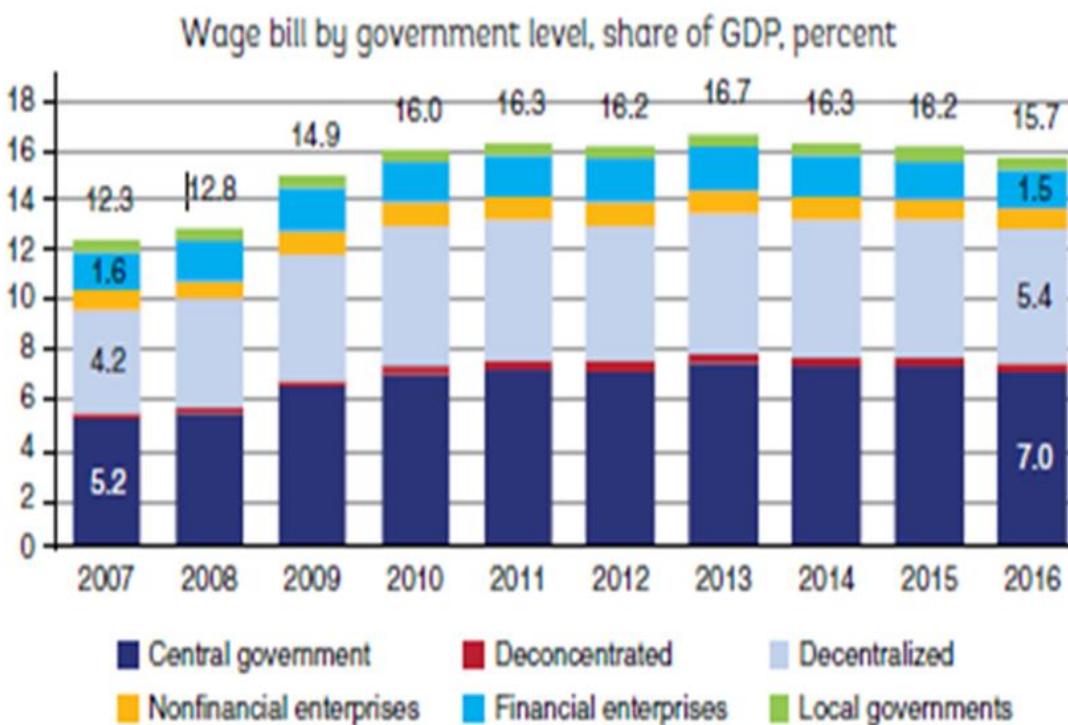
Fairness/Equity

- **Internal** (pay compression/disparities, gender gaps)
- **External** (wage premium)

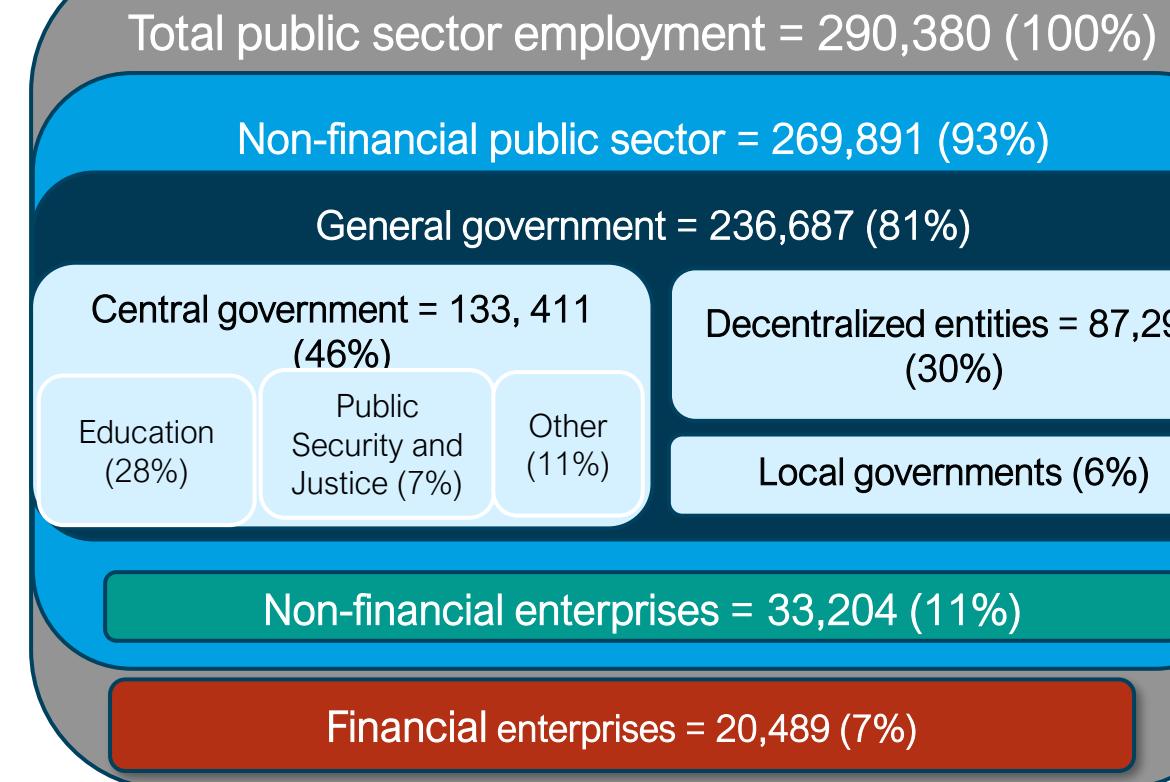
Scenario analysis

- Wage measures
- Employment measures
- Structural reforms (salary reform, functional reviews etc.)

EXAMPLE: COSTA RICA'S PUBLIC WAGE BILL AND EMPLOYMENT COMPOSITION

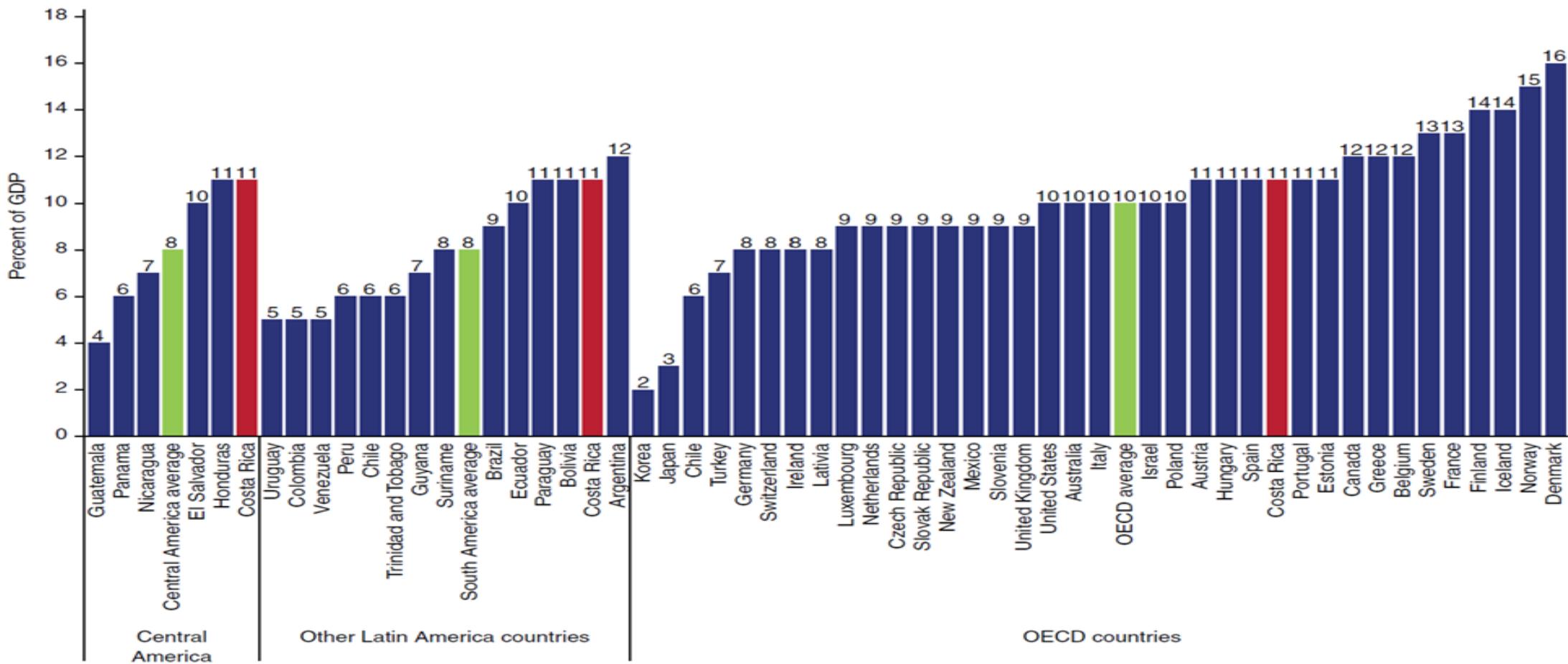


Source: Costa Rica PFR (2019)



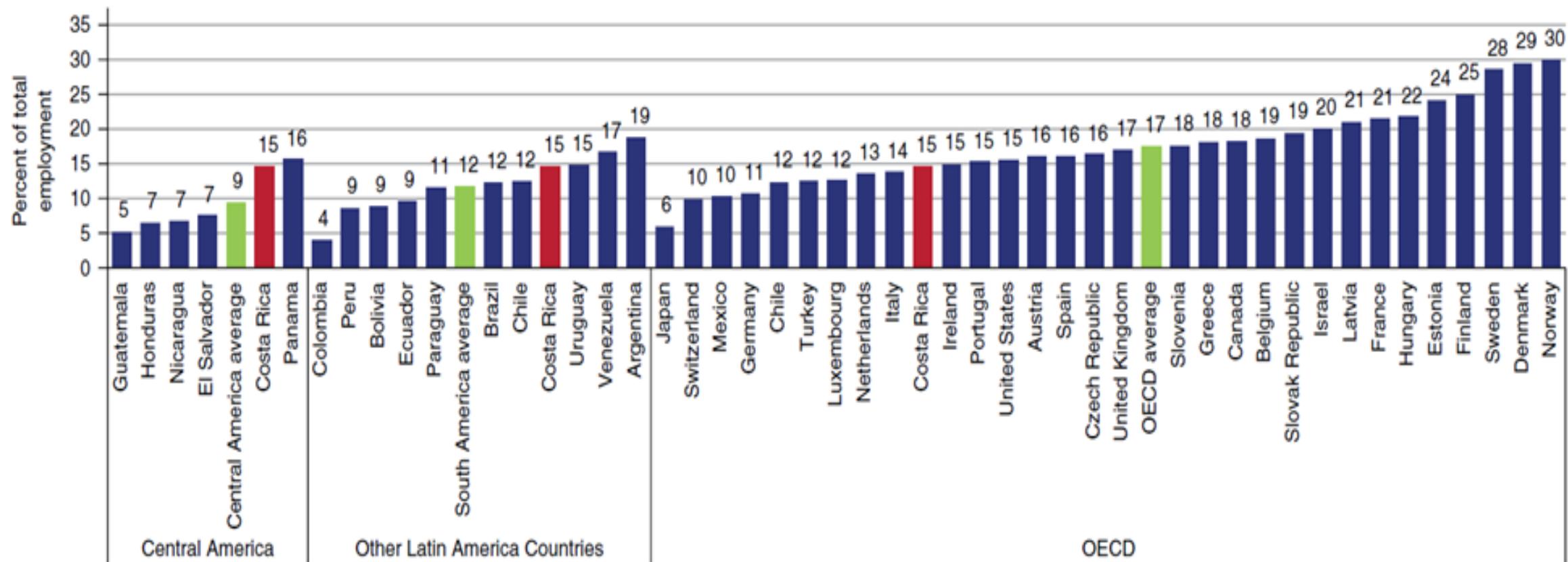
INTERNATIONAL COMPARISON: PUBLIC WAGE BILL AS A PERCENT OF GDP

Costa Rica's public sector wage bill is higher than in most countries in LAC and OECD countries



INTERNATIONAL COMPARISON: PUBLIC SECTOR EMPLOYMENT

Public sector employment as a share of total employment, percent, 2015 or latest available

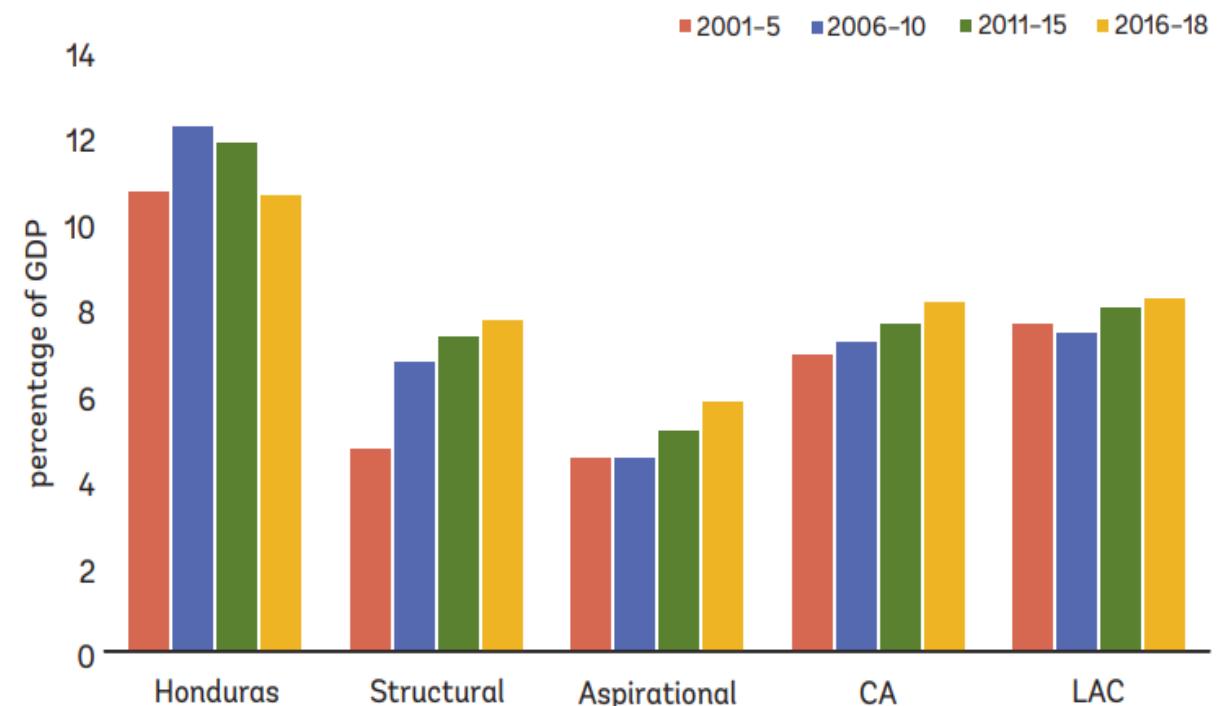


WAGE BILL SUSTAINABILITY

Indicators that provide insights into the affordability and long-term viability of the public wage bill:

- its components' growth trajectory over time (nominal and real terms)
- as % of GDP
- as % of revenue
- as a % of expenditures

Public wage bill over time in Honduras and peer groups



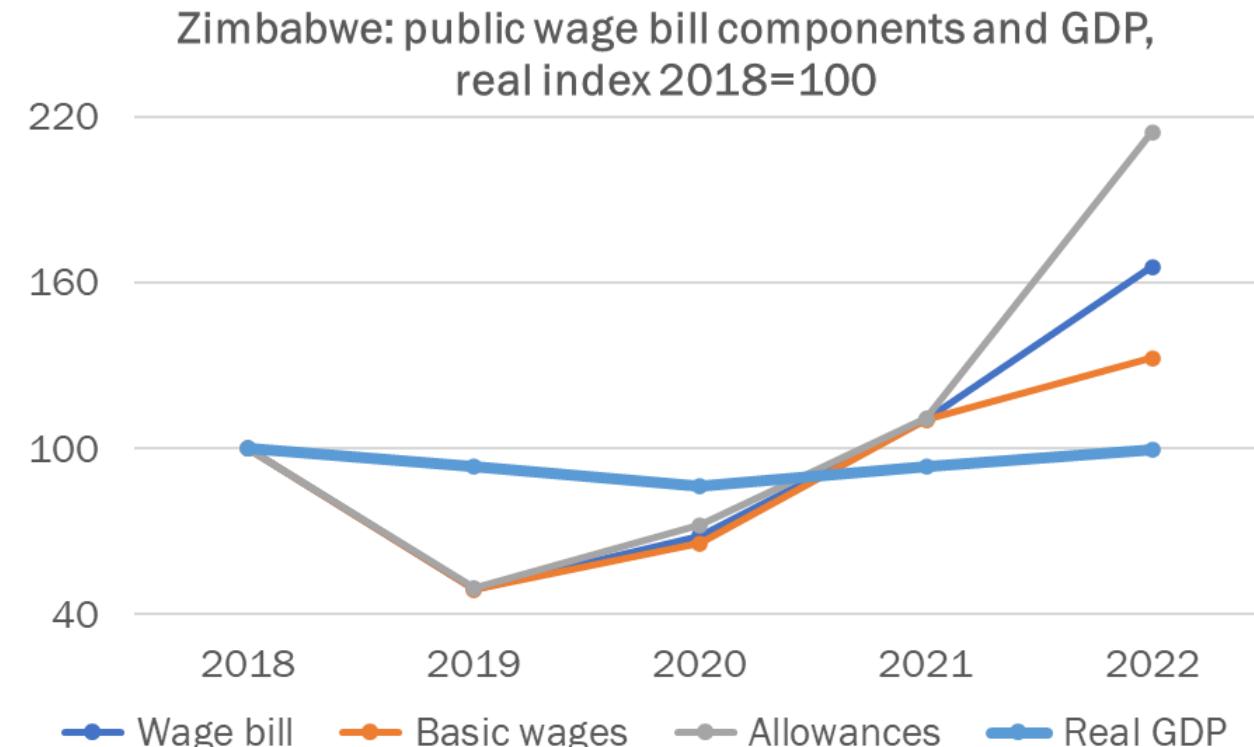
Source: World Bank staff calculations based on public sector wage bill expenditures data from the Worldwide Bureaucracy Indicators and GDP data from World Economic Outlook.

Note: CA= Central America; LAC = Latin America and the Caribbean.

Source: Honduras PER (2022) based on WWBI and WDI databases

WAGE BILL DRIVERS

- Changes in remuneration components/policy and employment levels drive wage bill
- Across-the-board base wage freezes may lead to proliferation of allowances
- Public sector employment may have divergent trends across levels of government, sectors and types of employment contracts

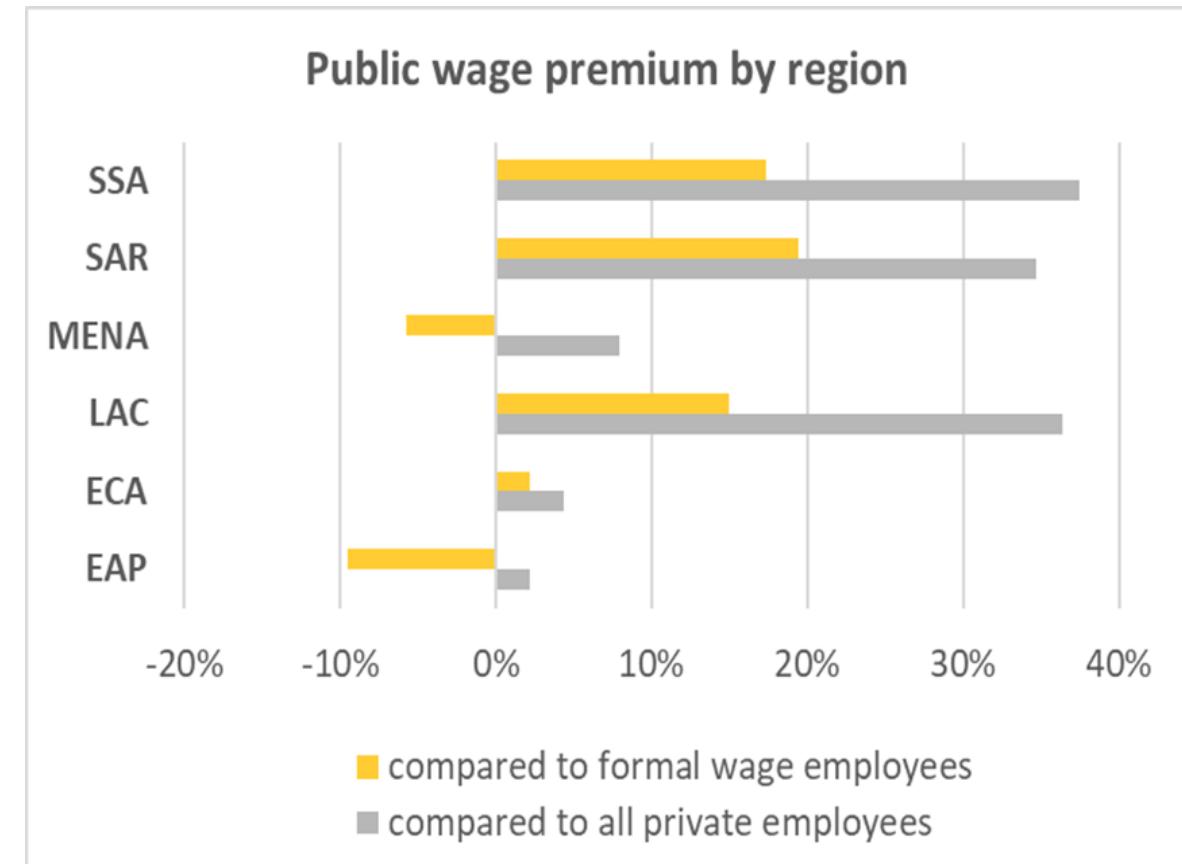


Source: BOOST



WAGE PREMIUM: STYLIZED FACTS

- Public sector workers enjoy on average about 20% higher wages than private employees.
- Premiums are not uniform across regions with higher premiums observed in LAC, SSA and SAR.
- Comparison to formal private sector reduces the premium sizes, especially for LICs.

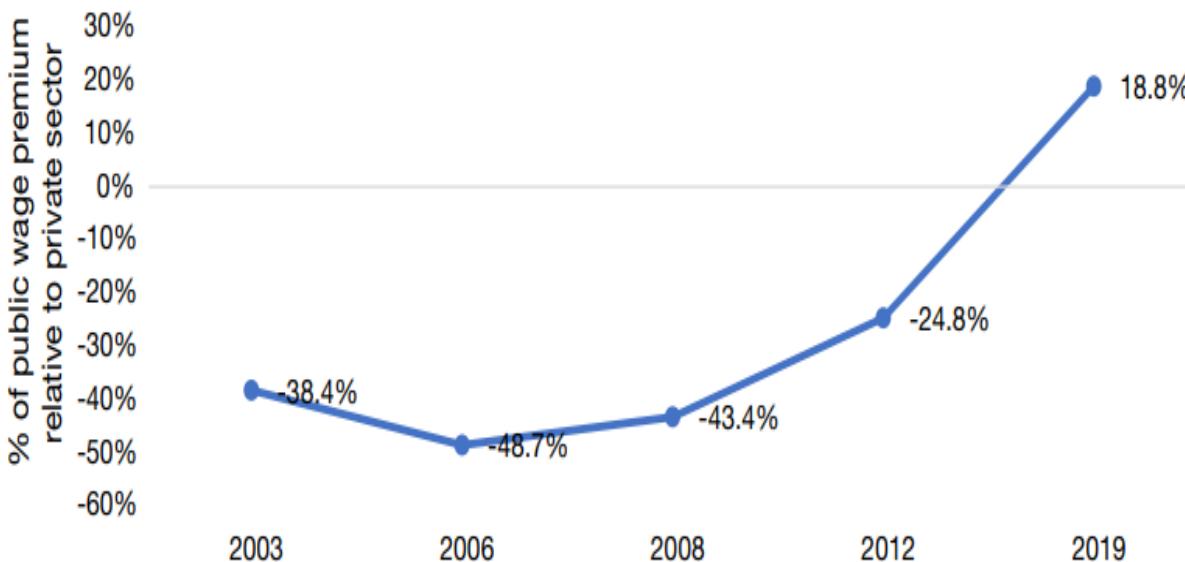


Source: WWDI, unweighted means across countries 2003-2020

WAGE PREMIUM: EXAMPLES

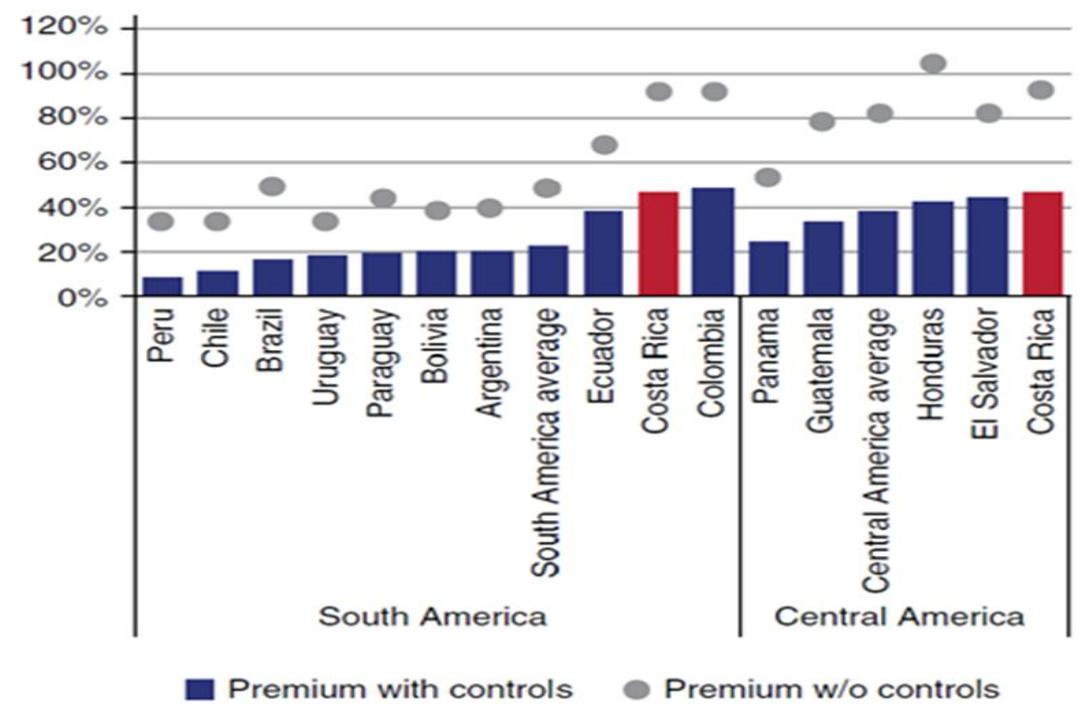
Simple comparison (without control for worker characteristics) of average public and private sector wages overstates the wage premium estimates.

Cambodia: trajectory of public wage premium (with controls), 2003-2019



Source: World Bank's Worldwide Bureaucracy Indicators

LAC: public wage premiums with and w/o controls, 2017



Source: Costa Rica PER (2019)