

Public Expenditure Review

“Improving expenditure efficiency to achieve greater impact within a sustainable fiscal framework”

Synopsis of initial findings

1. Introduction

Public Expenditure Reviews (PERs) are core diagnostic studies prepared to help countries establish effective and transparent mechanisms to allocate and use available public resources in a way that promotes economic growth and helps reduce poverty. In 2019, the Ministry of Economy, in partnership with the World Bank, completed a PER. The objective was to help identify inefficient and poorly targeted spending in general, and specifically for the education and health sectors as compared to other capital spending. The outcome was to provide recommendations on public expenditure policy aimed at fiscal consolidation through expenditure-based reforms.

The Government of the Republic of Fiji (GoF) is taking steps to move towards best practice in public financial management (PFM). In order to fully implement the reform, certain conditions need to exist. The GoF welcomes the findings of the PER and will be incorporating its recommendations in the Fiji PFM reforms that are currently underway. Below is a synopsis of the PER's findings.

2. Summary: Observations on macro-fiscal context

- Overall: Macro-fiscal situation positive, but fiscal risks increasing;
- Fiscal deficit: budget prudently and monitor closely in-year;
- Public debt: monitor carefully, including through supplementary metrics, and manage prudently (grants, highly concessional financing);
- Planning and budgeting for revenue and expenditure: address large discrepancies (technical improvements, dialogue) to increase confidence in projections;
- Documentation: consider documenting revenue, expenditure and debt projections and underlying assumptions in more detail in the fiscal strategy (as part of budget supplement and/or separately), including how medium- and long-term fiscal targets will be reached.

3. Summary: Observations on aggregate spending patterns by segment

- Overall: Aggregate expenditure in real terms increased gradually and mostly within reasonable limits since 2009;
- By segment:

- Expenditure composition by main segments has improved substantially through a shift away from debt servicing;
- Sharp increases in capital and goods & services spending need to be monitored;
- Recent personnel spending increases could add further fiscal pressures;
- Measurable reductions in debt servicing are commendable; however, recent increases in public debt will likely add pressure in the future.

4. Summary: Observations on aggregate spending patterns by sector

- By sector:
 - Social services receiving the highest funding share;
 - The infrastructure sector, and to a lesser extent the economic sector, have seen substantial real increases;
 - Large and growing unallocable funding/miscellaneous services may distort the picture and should be split up in the future.

5. Education Sector

5.1 Summary: Observations on education spending, planning & budgeting

- While overall resources appear adequate, gradually balancing spending across levels is important;
- To achieve this, is there need/room to strengthen the sector budgeting process involving all stakeholders?
- A substantial share of the sector budget is allocated under Miscellaneous Services. Can this be addressed in budget process?
- More detailed expenditure analysis to follow (e.g., by segments and items, education outcomes):
 - More detailed IFMIS and FEMIS data is being collected and analyzed;
 - This will also allow comparison/validation of data in WDI database.

5.2 Summary: Observations on education access

- Access to primary and secondary education is high in Fiji and substantially above the levels expected for the country's income;
- Tertiary education enrolment appears to be lower than expected;
- Early-childhood education enrolment data in WDI database is outdated (2009); latest MEHA data is under compilation;
- All data is from global WDI dataset; comparison with government data will be added.

5.3 Summary: Observations on education quality

- Comparison of quality across countries difficult;
- Indicators on literacy very high-level and often based on self-assessment;

- More detailed analysis will be added to make evidence-based observations on quality aspects of education;
- PILNA (Pacific Islands Literacy and Numeracy Assessment): Regional benchmarking:
 - Fiji was not part of 2012 and 2015 regional assessments, but joined for the 2018 assessment;
 - In the past, regional reports did not include country-specific data;
 - But Pacific Ministries of Education have access at least to their own country's data and can compare it against Pacific averages;
 - Important to use data proactively.

6. Health Sector

6.1 Health financing challenges in small island states, many of which will be familiar to the Fijian health sector

- Global experiences:
 - High service delivery costs;
 - Inventory management across a wide, sparsely-populated geography;
 - Lack of market competition (e.g., pharmacies) in isolated locations;
 - Overseas care costs;
 - Overseas care shifts expectations for domestic care (e.g., drug list);
 - Rent-seeking (e.g., pursuit of sole distribution rights for drugs);
 - Reliance on expatriate health workforce may result in wide variation in clinical practice (and thus difficulty of enforcing care guidelines).

6.2 Summary: Observations on the Fijian health sector

- Health outcomes are generally improving but areas of concern remain (e.g., child health indicator trends);
- Access to basic health services is mixed;
- Disease patterns are shifting and lifestyle-related risk factors on the rise;
- Public expenditure on health is relatively low & decreasing in real terms;
- Increases in public spending will need to be gradual and well-targeted to ensure absorptive capacity and value-for-money;
- Total available resources appear broadly well-balanced & trends positive;
- Further analysis of public expenditures is ongoing to allow for more detailed, evidence-based conclusions;
- Many of the health financing challenges pronounced in small island states are likely also applicable to Fiji.

7. Capital Segment

- The infrastructure sector dominates capital spending, while unallocable and economic sector spending is growing;
- Capital spending driven by capital grants & transfers, which multiplied more than six-fold in real terms since 2009;
- Budget execution levels are low, with large and growing underspending of budgets;
- All sectors have had issues with capital budget execution, with economic and unallocable sectors having the least problems (*large spending shares for non-physical assets);
- Strong focus on transport and water investments, followed by economic areas, while social infrastructure sees low spending (*school reconstruction under misc. services);
- Stabilizing and increasing reliability of capital spending is an important area going forward;
- Planning and prioritization:
 - Long-term, integrated plans important, many of which already exist;
 - Evidence-based prioritization and sequencing of planned projects within a sustainable fiscal framework, which needs adequate resourcing;
 - Consider market capacity to avoid driving up prices and prolonging project implementation periods.
- Budgeting:
 - Realistic assumptions on project timelines (e.g., at first only project design and preparation funding, factor in average procurement process durations);
 - Multi-year budgeting (whether formalized in budget documentation or not) important for line agencies;
 - Project preparedness: Critical for project success → adequate resourcing important (funding & time);
- Budgeting of different types of capital spending could potentially be more differentiated.

8. Personnel Segment

- Increases in personnel spending can develop into long-term fiscal pressures and expectations need to be carefully managed;
- Prudent wage bill management important to avoid fiscal risks, including of the new performance-based pay elements.

9. Transfers & subsidies

- Goods and services spending is driven by operating grants & transfers, further analysis is awaiting detailed IFMIS data;
- Fiji's social protection system is a good practice, but requires continuous efforts to maintain targeting efficiency;

- The budget points to multiple private sector support programs with substantial resources, further analysis is awaiting detailed IFMIS data;
- Business environment reform progress is critical, given limitations and complexities of direct private sector support.

10. Cross-cutting issues

- Data availability and consistency is critical to arrive at sound conclusions;
- A few observations on public financial management;
- Chart of Accounts reform:
 - Four sectors are quite broad → planned sector alignment with COFOG can facilitate analysis of spending patterns;
 - In some sectors, following COFOG sub-sector breakdown can also be useful (e.g., education sector), but not always;
- Budgeting:
 - Ensure accurate classification of expenditure items;
 - Basic approach to multi-year budgeting for capital projects.
- Reporting:
 - Requirements for timely annual reporting by line agencies.