Preparing Public Financial Management Systems for Emergency Response

Challenges

The COVID-19 pandemic will test public financial management (PFM) systems in many ways. As with previous health emergencies (e.g., Ebola, SARS), key challenges are likely to come from (i) reassessing fiscal policy needs and identifying additional financial resources; (ii) ensuring timely availability of funds to service delivery units; (iii) tracking, accounting for, and reporting in a transparent manner the resources deployed for emergency response; and (iv) ensuring business continuity when faced with absences of staff. This note outlines steps that governments can take to prepare and strengthen the capacity of their PFM systems to respond to these challenges.

I. PFM OBJECTIVES IN RESPONDING TO A PANDEMIC

Governments around the world are facing emergency-response needs posed by the COVID-19 outbreak. Healthcare systems—both public and private—are experiencing unprecedented pressures. Governments are required to address these pressures and provide broad-based fiscal support in response to an unfolding economic crisis. PFM systems are critical to support the efficacy of the government’s emergency response. Governments need to ensure that their systems are equipped to meet the new requirements and challenges in terms of:

- Supporting the delivery of emergency health services (including the direct provision of health care services); purchase of supplies and equipment; putting in place the human resources needed to monitor, contain, and mitigate the COVID-19 outbreak;
- Ensuring the ongoing delivery of essential public services that may come under stress during an outbreak;
- Implementing new fiscal measures (including various support mechanisms) to assist businesses and people experiencing economic hardship; and

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Ensuring smooth PFM services despite absences of staff across the government.

PFM systems should be capable of supporting fiscal objectives—whether finding offsetting savings for increased COVID-19 related spending, or preparing and delivering fiscal response packages to support economic activity.

II. IMMEDIATE CONSIDERATIONS: IDENTIFY LEGAL FRAMEWORK FOR ADDITIONAL BUDGET FUNDING

Finance ministries should identify what emergency response mechanisms are at their disposal to meet unforeseen demands. Most countries will have access to one or more of the following tools to cope with emergency spending:

- **Contingency appropriations** within the approved budget (or any revolving continuity fund). Governments should look to use them judiciously and transparently. Clear prioritization of demands on contingency provisions would be needed to ensure that funds remain unencumbered and available to meet high priority needs.
- **Emergency spending provisions** may be permitted in some jurisdictions. These allow for spending in excess of budgeted amounts when certain circumstances arise, usually under a streamlined approval mechanism (e.g., approval of a head of state). They can also allow spending to continue if it is not possible to pass the annual budget.
- **Expenditure reprioritization through reallocations and virements** can create space to accommodate additional requirements. Reprioritization and reallocation would normally be expected to be done transparently within the legal framework for virements.
- **Supplementary budgets** may be needed if new resource requirements cannot be met within the delegated authority of the executive or the available budget envelope.
- **External grants** – sector specific or for emergency response – may be explored.

It would be prudent to determine if seeking additional funds or reallocating spending warrant pre-emptive action, such as parliamentary approval. If so, such authorization should be pursued at the earliest opportunity to prevent a scenario where it may not be possible to reconvene parliament. Where relevant, and needed, authorization to deviate from numerical fiscal rules may also be obtained.

III. SET UP INSTITUTIONAL PFM MECHANISMS TO MEET EMERGENCY RESPONSE

Reprioritize Spending

*Given the additional need to support health and essential services during an outbreak, finance ministries should estimate resource requirements for emergency response, and identify low priority spending that could be reduced to create room for priority spending.*

- Prepare quick estimates of additional resource requirements. Costing for increased scale of existing services should be relatively easier if cost drivers and price and volume parameters are already available. Require relevant line ministries to provide broad cost estimates for any new services under contemplation.
- Require line ministries to provide savings in their respective budgets on a consideration of policy priorities, progress, any available slack, and items that can be postponed to a later period. This will help central authorities in moving resources from lower priority areas (e.g., sports) to high priority areas (e.g., healthcare, social support programs). Experience has shown that across the board cuts do not produce a desirable impact.
- Care must be taken to ensure that high priority expenditure, including that to support the vulnerable and to meet essential items, such as debt service, is not adversely impacted. Spending cuts would ideally avoid impacting on sectors already under stress due to COVID-19 impact (e.g., tourism and small business sectors).
- Consider the impact of reprioritization on the medium-term budget framework.

**Ensure Liquidity, Recalibrate Debt and Cash Requirements**

*Liquidity management will be critical to enable the government to meet its extended obligations and provide relief to affected population. Even where offsetting savings are available within the budget, a pandemic response will likely require higher disbursement of cash in the near term. Government debt and cash managers should start planning for increased financing and liquidity needs at the earliest opportunity.*

- Consider any implications for debt—both in terms of its size and composition—and make suitable adjustments to the annual borrowing program and issuance calendar.
- Recalibrate the cash buffer level, if needed, to account for the increased uncertainty, as forecasting cashflows becomes more challenging due to sudden and unpredictable cash needs and falling revenues.
- Explore alternative financing sources, such as additional credit lines with banks and arrangements for on call short-term borrowing from cash rich state-owned enterprises and pension funds. Opportunities should be explored for tapping any significant pool of government cash outside of the treasury single account system and bringing it under treasury’s control.
- Cash managers should closely monitor the government’s cash balance, ideally based on real-time information. Cashflow projections should be revised and updated more frequently (ideally daily). If necessary, additional protocols for information sharing should be put in place with the central bank and commercial banks providing banking services to the government.
- Put in place a mechanism to prioritize payments to the priority sectors/purposes, for use if faced with a temporary cash crunch. Countries with centralized payment systems—through the treasury—should be in a better position to ensure payment prioritization. Decentralized payment systems will have to rely on prioritization at the local level, and clear instructions from the central authorities on prioritization will help.
- Financing support from international financial institutions (e.g., the IMF and the World Bank) and other donors could also be explored and readied where needed.

**Ensure Timely Fund Disbursement**

*Robust budget execution processes will ensure that resources are made available to service delivery units in a timely and efficient manner to meet their (additional) obligations. Clearly articulated and well understood procedures for priority disbursements would ensure timely budget releases and processing of claims. The idea will be not to bypass established controls but create a stream for handling priority items and fast track expenditure authorizations. A balanced approach would help manage tension between controls and efficiency; some calculated risks may be worth considering to achieve efficiency enhancements.*

- Adopt a risk-based approach to controls. For example, pre-audit can focus only on high-risk payments, while relatively less risky payments subjected to post-audit.
- Where feasible, consider greater delegation of financial authority—both for reallocation of funds and payment approvals—to frontline ministries, such as the health ministry.
- Where possible, use of a real-time gross settlement (RTGS) system would enable moving funds swiftly across the country’s financial system. Such systems may be designed primarily for high-value transactions between financial institutions. Nevertheless, treasury authorities should discuss with the central bank the possibility of using them, if not already in use. RTGS would be particularly useful in transferring resources to subnational governments and frontline public and private agencies in a secure and speedy manner.
• Direct deposits through banking channels are likely to be the fastest, secured and most certain way, in case the government decides to extend wage subsidies and cash transfers to large sections of affected population. Account ownership and the ability to receive direct deposits will have critical value for individuals affected by the crisis. For those without a bank account, mobile payments and prepaid cards—with facility to top-up—may be good alternatives. These methods, however, require advance preparation and cannot be introduced instantaneously. Early action from the authorities—especially at the local level—will be critical for ensuring the efficacy of such mass disbursement systems.

• The biggest challenge will likely be the beneficiary authentication and fraud prevention.2 Beneficiary identification/registration processes need to be carefully designed to tap and make use of all available information, with an acceptable degree of risk. Information sharing among agencies—public and private—will be critical to support the authentication process. Governments should start early to minimize the lead time before payments can start, as beneficiary registration and authentication process can be time consuming.

• Some governments may resort to cash advances to make available resources to service delivery units promptly, especially if the normal disbursement procedures are cumbersome and take time. It will be important to track and account for advances properly and ensure their utilization and prompt settlement. Advances should be approved by a designated authority and recorded in an advance register (preferably automated) at the time of release, clearly identifying the amount, purpose, recipient and the person responsible for its closure. Records should be maintained in such a way that it is possible to carry out an itemized analysis of advances at any time. This will help monitor outstanding advances and their timely settlement.

Track and Report Emergency Response Measures

It is important to set up transparent mechanisms for tracking, accounting, and reporting of emergency measures to ensure that comprehensive and timely information is available to policymakers and the public. Appropriately quantified information will help policymakers make informed decisions and take timely corrective actions, as needed, based on the measures’ medium-term impact on economic growth and expected future fiscal costs and risks. This would also help ensure the sustainability of public finances. Good recording will also make it easier to cease temporary spending arrangements once the need is over.

• Establish dedicated budget lines to facilitate tracking of funds (e.g., the French supplementary budget obtained in March 2020 categorizes all emergency response policy measures under a dedicated “mission”). Ensure that all budgetary resources deployed for emergency response, including any external grants, flow through these budget lines. Replicate these budget lines in the government chart of accounts, so that fund utilization is recorded and reported distinctively in the financial statements.

• Create a feedback loop for delivering timely information to policymakers on the utilization on funds.

• Ensure that there are mechanisms in place to control and monitor fiscal risk exposure from measures taken to combat the crisis.3 Ongoing management of fiscal risks will be critical to containing the costs of responding to the crisis and avoiding further adverse shocks to public finances.

Ensure Business Continuity

Governments should be ready with their business continuity plans to deal with large scale absence of staff, as more and more people report sick or are required to refrain from attending offices. While proper business

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2 A forthcoming FAD note, Digital PFM Solutions to Cash Transfer, discusses these issues in greater detail.

continuity plans may take time to develop and implement, simple measures undertaken on urgent basis can make a big difference.

- Establish a crisis management team, tasked and empowered to manage operational risks.
- Identify business-critical process (e.g., disbursements) and infrastructure (e.g., financial transaction processing system). The objective will be to ensure that these continue to operate unimpeded.
- Assign back-up responsibilities of staff for critical processes and software applications. In the transaction processing system, create suitable roles and grant access rights to the back-up staff.
- Test software and communications systems for remote operations.
- Organize systematically important documents and information on a protected shared drive to ensure its availability to authorized staff.
- Where possible, expose a wider group of staff to critical processes and applications. Prepare flow charts and step-by-step guides for business-critical operations that can be followed and used by even untrained staff should a need arises.
- Consider the impact any possible supply chain disruptions may have on PFM operations.

**Establish Effective Coordination with Lower Levels of Government**

Coordination with subnational governments/entities will be important in understanding the needs at the grassroots level, to provide the necessary funding to enable them to meet the enhanced service delivery requirements, and to improve the quality of response.

- Establish, if not already in place, a centralized coordination channel for systematically exchanging information on funding needs of subnational governments, their liquidity position and implementation progress.
- An important element in coordination, particularly in low-income countries, will be the coordination of healthcare provided by different levels of government. This will enable resources to be directed where they are most needed and avoid duplication.

**Prepare Additional Policy Flexibility**

PFM managers should also prepare for the need for fiscal measures to support economic activity. This gives decision makers the policy flexibility to respond quickly to developments.

- Early work could, for example, include exploring potential for accelerating expenditure plans and reviewing the infrastructure pipeline to identify ‘shovel ready’ projects or projects in delivery that can be accelerated.

**IV. ENSURE GOVERNMENT ACCOUNTABILITY**

Over the medium term, the effectiveness of government policies will be measured in terms of their achievements on key policy targets.

- Countries with well-developed program budgeting or performance management frameworks should be able to track and measure the impact of policy measures through carefully designed performance indicators (for example, number of jobs preserved/created). Where needed, simple “rules of thumb” could be used to link program goals with key policy targets (for example, linking program goals, such as delivering x number of

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4 A forthcoming FAD note, Transparency and Accountability of Emergency Policy Response and Implementation, discusses these issues in greater detail.
new social housing units with the policy target of creating x number of jobs). Other countries could aim to use simple tracking indicators (for example, number of beneficiaries, average amount per beneficiary).

- Ex post studies, of the impact of both budgetary and off-budget measures (e.g., guarantee schemes) will be useful in understanding the policy impact, establishing accountability and help distill lessons for future.
- Supreme audit institutions could play a key role in assessing whether public funds were appropriated for the right use, the ex post impact of measures, and establishing accountability.
- Governments should also plan for disseminating information on policy impact in clear and succinct manner among citizens. Citizen's budgets, for example, could be a useful channel of disseminating this information.