ReBUILD FOR RESILIENCE

Research for resilient health systems in fragile and shock-prone settings

Resilient public financial management: emerging practice and implications for the health sector – policy brief

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Key points

- Disasters are a key source of fiscal instability and strain on Public Financial Management (PFM) systems, due to additional expenditure demands with added time, constrained revenues and weakened macroeconomic performance.
- Making PFM systems more resilient might involve adapting standard procedures in the wake of an emergency (or improving emergency procedures where they exist), but it can also involve changing PFM practice in normal times (before a disaster occurs).
- Some common-place PFM reforms can be used to support resilience, for example:
  - *Programme budgeting* can be used facilitate investment in disaster risk reduction (DRR) (for example through evidence-based programmes on DRR investment) and can facilitate emergency budget reallocations;
  - *Spending protocols can be simplified to accelerate spending* (for example, through emergency procurement procedures to expedite expenditures);
  - *Fiscal risk registries* can usefully be expanded to cover disaster-related fiscal risks;
  - *Financial management information systems* can be adjusted to integrate the tracking of emergency expenditures; and
  - *Audit mandates* can be expanded to include disaster expenditures, including through application of real-time auditing techniques.
- Making standard PFM processes functional is an important process for preparedness. If the basics – like programme budgeting, or expenditure reporting – do not work during 'normal' times, the system is unlikely to perform well during shocks.
- Some resilient PFM reforms are comparatively widespread but do not always function as per expectations. For example, emergency procurement procedures are commonplace, but are often partial or outdated. By contrast, few countries have tried to quantify disaster related fiscal risks, but results are promising in some of the few cases where it has been done.
- Contingency reserves for disasters can be a useful budgetary financing mechanism for disasters but should be used for more frequent risks to avoid overly high opportunity costs. They are not in place or sufficiently capitalised in many developing country contexts.
- The frequency, severity and complexity of disasters in fragile states has meant that these governments are often reform-leaders in terms of resilient PFM. In these contexts, the overall focus for resilient PFM should be on strengthening, adjusting and simplifying regular mechanisms to ensure fit for purpose during shocks, instead of investing time/policy attention to set up parallel, off-budget entities that have proven to be challenging to administer in times of disaster. There is also a need to strengthen accountability, given the heightened risks of fund misuse and corruption associated with emergency expenditures.

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Background

In November 2022, the ReBUILD for Resilience consortium hosted a webinar on the topic of "disaster resilient Public Financial Management (PFM)", explaining what it looks like in practice, and investigating its implications for the public health sector. For the purposes of the webinar and this briefing note, PFM refers to the laws, institutions, systems, and processes by which public resources are planned and managed. It includes the management of revenues and expenditures, encompassing the mobilisation, allocation, execution and monitoring of public funds.

Resilience is an increasingly important issue in PFM because disaster-related shocks are a growing source of macrofiscal instability, driving additional expenditure demands, constrained revenues, weakened growth prospects, and higher demands on borrowing. In response, shocks force governments to deviate from their intended spending plans, with emergency budget reallocations shown to crowd out other critical public expenditures, including non-emergency spending in the health sector.[1] These realities have left Ministries of Finance across the world grappling with the challenge of how to make public finances less vulnerable to disaster-related shocks.

Broadly speaking, PFM systems can be made resilient in two main ways:

- They can adapt or flex in the wake of a crisis, in order to respond more readily to the specific demands of an emergency (including time sensitivities). Giving greater spending powers to the executive in the wake of a disaster, or streamlining procurement and disbursement procedures, are examples of such ex-post measures.

- PFM practices in 'normal times' (i.e. periods not dominated by a disaster) can be changed to enhance resilience before a disaster occurs, for example by taking the time to model expected fiscal consequences of different disaster scenarios and putting in place budget contingencies to help meet them.

The presentations and discussion in the webinar covered both of these ex-ante and ex-post approaches.

The webinar brought together practitioners from the health financing, PFM and disaster risk finance (DRF) fields to share experiences around how PFM systems can be tool for promoting resilience. They drew on research and programme implementation experience at the regional, national and local levels. Speakers included staff from Oxford Policy Management (OPM) and the Collaborative African Budget Reform Initiative (CABRI), with discussants from the World Bank and World Health Organization. Professor Sophie Witter, Re-BUILD co-Director of Research, chaired the session. This policy brief sets out some of the salient points from the discussion.[2]

[1] See Centre for Disaster Protection, 2023. *Opportunity Cost of Covid-19 Budget Reallocations: Cross-Country Synthesis*. CABRI, 2021. *COVID-19 Public Finance Response Monitor: Budgeting in the context of COVID-19: Trends and tools of reallocations*

[2] For further discussion, see *Public financial management for effective response to health emergencies: Key lessons from COVID-19 for balancing flexibility and accountability (who.int)*

Discussion topics

Building disaster risk into budget formulation processes

At the start of the budget process, when a Ministry of Finance projects aggregate revenues and expenditures, **quantifying disaster-related fiscal risks** can help the Government better understand the potential fiscal cost of disasters and make provisions for them. For example, in Ethiopia, the Ministry of Finance has expanded its fiscal risk registry to include risks from drought, flood, locust infestations and epidemics. It quantified the impact of these disasters (of varying severity) on expenditure, revenue and the trade balance, which is used as an input into the preparation of macroeconomic fiscal frameworks.[3] A similar reform is underway in Pakistan at sub-national level, where provincial governments are now obliged to produce fiscal risk statements on an annual basis, giving them greater clarity on their contingent liabilities in the wake of a disaster.[4]

Budget contingencies (such as reserve funds or general contingency budgets) can be a useful financing instrument for meeting disaster related expenditures, when appropriately designed as part of a portfolio of risk-retention and risk-transfer instruments. In general, budget contingencies for disasters are absent in many fragile or low-income contexts. Research from CABRI on African Governments' responses to COVID-19 found that most of the countries did not have domestic contingency reserves in place to respond to the pandemic, and where they did they were not adequately funded. Ethiopia was typical in this regard; there the Government did not have a disaster reserve fund in place to respond to COVID-19, and the general contingency budget was exhausted by the time the pandemic hit. Similarly, in Pakistan, neither of the provincial governments highlighted in the presentations (Punjab and Khyber Pakhtunkhwa) had disaster reserve funds in place to respond to COVID-19.

Fiscal space constraints, coupled with the prospect of high opportunity costs associated holding funds in a reserve where they could potentially lie idle, are the primary reasons why disaster reserves remain rare, despite the growing frequency of disaster events. Using contingencies for funding more frequent and less severe risks is one strategy for limiting the potential opportunity costs. Moreover, progress on quantifying disaster related fiscal risks (as described above) may have made some countries more willing to set aside resources for disaster contingencies; in Punjab province, for example, following the preparation of the fiscal risk statement, the Government allocated approximately US$30 million to a disaster reserve fund, which was drawn upon to respond to the 2022 flooding. Ethiopia is also in the process of establishing a disaster reserve fund for low severity/high frequency shocks.[5]

Having an explicit entity in government with a mandate to strengthen preparedness can make investment in risk reduction and preparedness straightforward (because a Ministry of Finance can allocate funds to it). In addition, where Governments operate a **programme budget structure**[6], it can be used to build a compelling case for investment in risk reduction and preparedness throughout the budget, through the use of cross-sectoral programmes in DRR and by employing evidence to justify programme allocations. For example, the Building Resilience in Ethiopia programme shared how it has been supporting the Budget Directorate of the Ethiopian Ministry of Finance, alongside key line ministries engaged in disaster response (Agriculture, Health, and the Ethiopian Disaster Risk Management Commission (or EDRMC)), to improve the quality of their programme budget submissions with better use of evidence to justify higher requests. As a result of this support, the EDRMC budget

[3] See Federal Democratic Republic of Ethiopia Ministry of Finance, 2021. *Guidelines for quantifying disaster-related fiscal risks in Ethiopia*
[4] See Punjab's Fiscal Risk Statement 2022/23.
[5] For a discussion on the use of Extrabudgetary Funds during COVID, see this IMF blogpost
[6] Programme budgeting refers to the practice of organising spending according to sets of activities or services with common objectives (typically in a programme/sub-programme/activity structure), as opposed to organising it by input type, or organisational units.

received a 46% increase in 2022/23. Additionally, the Ethiopian Ministry of Finance has been conducting systematic value for money reviews of key budget programmes to identify efficiency gains. One such review was recently conducted on the country's shock responsive social protection programme, producing recommendations on how to improve the timeliness of transfers, as well as the effectiveness of graduation processes.

Building disaster risk into budget execution processes

Emergency procurement procedures are intended to speed up expenditure in wake of a disaster, however performance is patchy. CABRI research found that in line with global trends, African governments' emergency procurement efforts were neither satisfactorily efficient nor fully accountable. Several countries had no emergency procurement provisions, and where they did exist they were not comprehensive or were outdated, necessitating governments to issue additional deviation notices. The lack of digital procurement systems, unclear procurement needs and poor coordination among procuring entities within countries have been highlighted as challenges. Moreover, despite commitments to stringent transparency measures for COVID-19 procurement, corruption was widespread across the continent and there was irregular use of direct procurements, procurements without signed contracts, late delivery of goods, and payment before receiving goods. The research concluded that, "It is not the existence of the emergency per se that should inform whether the emergency procurement processes should be followed, but rather whether the specific requirements of the emergency determine that it is not practical to follow traditional procurement processes," and recommended that African Ministries of Finance and procurement officials develop detailed emergency procurement measures to provide better guidance to those implementing the purchasing with an element of flexibility to respond to the particular needs of any crisis.[7] Punjab Province also made use of emergency procurement tools including front-loading.

Budget reallocations are a commonplace tool for countries to respond to unforeseen expenditure demands following a disaster. CABRI's review of 50 African countries found that 36 produced a supplementary budget in response to the COVID-19 crisis. While in most cases these supplementary budgets represented an increase in overall planned expenditure (on average by 10%), about a third of supplementary budgets reviewed registered a downward trend (averaging 13% reduction of the approved budget envelope).

Despite their widespread use, supplementary budget procedures are often less transparent and participatory. For example, they are often prepared by the Ministry of Finance with limited consultation with line ministries (including the Ministry of Health). Moreover, budget reallocations pose a significant cost in terms of returns foregone from expenditures which are cancelled or postponed. CABRI found that in some African countries budget cuts in response to COVID-19 were applied "across the board", hindering the delivery of essential services. In other instances, "non-essential services" (travel, training, entertainment, salary increase, etc.) were cut first, but social sectors were also impacted by severe cuts, including non-COVID health programmes. For example, in Zimbabwe, resources were allocated from HIV/AIDS, while Côte d'Ivoire, Comoros and Ghana deferred nets and indoor-spraying campaigns during COVID-19. In Ethiopia, budget cuts associated with COVID-19 had an estimated wider economic impact of approximately 0.5% of GDP.[8]

Programme budgeting can also help reallocations, as organising expenditure by objectives enables policymakers to transparently reprioritise budgets toward emergency needs. For example, in South Africa the Government was able to leverage budgetary flexibilities to facilitate allocations towards vaccine purchase and deployment, even though the first budget proposal for FY 2021/22 had no provisions for that spending. However, programme budgeting is not essential to facilitate reallocations, indeed, in Pakistan provinces were able to quickly reallocate funds within a line item budget structure

[7] See CABRI 2021 *Streamlining public procurement processes during COVID-19 : Balancing efficiency and accountability*
[8] See Centre for Disaster Protection, 2023. *Opportunity Cost of COVID-19 Budget Reallocations: Ethiopia*

(where budgets are organised by inputs, as opposed to spending objectives). In Punjab and Khyber Pakhtunkhwa, line departments were requested to identify slow-going areas under their operations and capital spending, which the Finance Departments were able to reallocate to the health sector. The use of a treasury single account system (where all government balances are consolidated into a single set of accounts under the auspices of the Ministry of Finance, as opposed to a fragmented government banking system) also helped the timely identification of idle surpluses.

Building disaster risk considerations into reporting and monitoring processes

Tracking disaster expenditure is an important tool for ensuring transparency and accountability but is challenging in many country contexts. CABRI research found that most Governments in Africa published little or no information on actual vs planned emergency spending on COVID-19, or its performance.[9] The challenge comes because normal Government accounting structures do not comprehensively track emergency expenditure, and changing this accounting structure is a slow and difficult process (usually requiring higher-level approvals, and/or overhauls across the government accounting system). A more straightforward approach adopted by some Governments has been to adjust their financial management information systems (FMIS) in innovative ways to track emergency expenditure, while maintaining the existing accounting coding structures. For example, in Ethiopia, a budget tagging system in the FMIS flags spending on the whole disaster cycle (risk reduction, preparedness, response and recovery). During COVID-19, Benin's FMIS was modified to track in-kind donations related to the pandemic, and Togo's FMIS tracks cash transfer payments, reducing the risk of fraud or delays. Pakistan is introducing provincial-level climate budget tagging systems, which will track expenditures on climatic disasters.

Participation and accountability around disaster related expenditure are important to ensure funds are used effectively and reach intended beneficiaries, particularly at a time when some controls are loosened to facilitate speedy expenditure. In the case of COVID-19, however, **citizen participation** in the formulation of budgets was noted to be mostly non-existent and too condensed (in terms of timing) to be meaningful. There were some notable exceptions. For example, in South Africa the Asivikelane Initiative was effective in advocating for the needs of informal settlements. Engagement in terms of budget execution was more commonplace, and a number of countries saw ad hoc committees established to provide oversight of disbursement. For example, in Burkina Faso, a management unit comprising Members of Parliament (MPs), officials and Civil Society Organisations monitored the use of emergency funds. **Parliamentary oversight** of spending also largely suffered during the crisis, with MPs given less time or less information on which to scrutinise spending plans or were bypassed entirely. **Supreme Audit Institutions** have been effective in bringing corruption to light and some conducted expedited/real-time audits. Mauritius, South Africa and Sierra Leone, for example, published audits for COVID-19 funds before the end of 2020. In the latter's case, this built on experience from the Ebola crisis.

Resilience budgeting in fragile states

Resilience budgeting is highly relevant to many fragile and conflict-affected settings. Some of the key takeaways from the discussion for this group of countries are noted below:

- The frequency, severity and complexity of disasters in fragile states has meant that governments are often reform-leaders in terms of resilient PFM. More can be done to document their experiences.
- The overall focus for resilient PFM should be on strengthening regular mechanisms to ensure they are fit for purpose during shocks, instead of investing time/policy attention to set up parallel, off budget entities that have proven to be challenging to administer in times of disasters. While such

[9] CABRI, 2021. *COVID-19 Public Finance Response Monitor: Budgeting in the context of COVID-19: Trends and tools of reallocations*

- funds can accelerate spending in some disaster contexts, they can also create significant governance vulnerabilities, particularly when the funds operate outside government systems, are managed by officials not familiar with basic principles of financial management and are not subject to robust transparency and reporting standards. This is particularly the case in fragile settings where government capacities are already stretched, and the off-budget funding already in proliferation.

- Budget contingencies can be difficult to justify in fragile contexts where resource constraints are particularly severe, but may still offer value for money if used appropriately (e.g. to finance more frequent, less severe shocks). Development partner co-funding of disaster reserve funds may be valuable.

- Strengthening accountability (through tracking spending, increasing public participation, and strengthening independent oversight of shock-responsive resource use) is important in fragile contexts; it aims to strengthen the effectiveness of public expenditure, and support state-building and peace-building efforts.

The content of this policy brief was prepared based on the presentations and inputs of panelists and discussants, including:

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Research for resilient health systems in fragile and shock-prone settings

ReBUILD for Resilience examines health systems in fragile settings experiencing violence, conflict, pandemics and other shocks. Our aim is to produce high-quality, practical, multidisciplinary and scalable health systems research which can be used to improve the health and lives of many millions of people.

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