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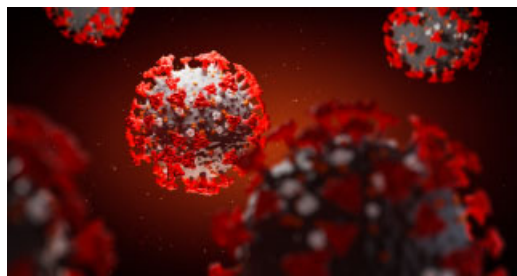
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March 13, 2020

Preparing Public Financial Management Systems to Meet Covid-19 Challenges



Posted by Sandeep Saxena and Michelle Stone [1]

The outbreak of Covid-19 will test public financial management (PFM) systems in many ways, as did previous health emergencies related to Ebola and SARS. The challenges are likely to come mainly from: (i) estimating and finding additional budgetary and financial resources; (ii) ensuring availability of funds to service delivery units and disbursing them efficiently with due regard to controls; (iii) tracking and accounting for resources deployed in emergency response and reporting it transparently; and (iv) ensuring business continuity when faced with large-scale absence 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

PFM systems are critical to support the efficacy of the government's emergency response. Governments around the world are facing the challenges posed by the Covid-19 outbreak. Unprecedented pressures are likely on healthcare systems—both public and private—and governments may be required to provide fiscal stimulus in response to the crisis. Governments need to ensure that their PFM system is equipped to meet the additional requirements and new challenges in terms of:

- Delivery of emergency health services, supporting provision of health care to patients, the purchase of supplies, equipment, and human resources to monitor, contain and mitigate the outbreak of Covid-19;
- Ongoing delivery of essential services that may come under stress during an outbreak;
- Supporting new fiscal policies to assist sections of population in financial hardship; and
- Continued operations despite absence of PFM staff across government.

PFM systems should also be capable of supporting fiscal objectives^{3/4}whether that is finding offsetting savings for increased Covid-19 related spending, or the preparation and delivery of fiscal stimulus packages to support economic activity where appropriate.

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. Typically, the main PFM tools to cope with emergency spending are:

- **Contingency appropriations** within the approved budget (or any revolving contingency 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).
- **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 whether there are any legal or parliamentary constraints on seeking additional funds or reallocating spending that warrant pre-emptive action. This protects against a scenario where it may not be possible to reconvene parliament, or for parliament to meet, when an approval is later needed.

III. Set up institutional PFM mechanisms to meet emergency response

A. 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 cost information for any new services under contemplation.
- Ask 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. Experience has shown that across the board cuts do not produce 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, should not be 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.

B. 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.
- 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. If necessary, additional protocols for information sharing can 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. 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.

C. 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. There could always be tension between controls and efficiency, and a balanced approach should be taken.

- Adopt a risk-based approach to controls. For example, pre-audit can focus only on high-risk payments, while relatively less risky payments may be 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 require advance preparation and cannot be used on-the-fly. 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. Governments will have to devise ways of ensuring timely relief disbursement with an acceptable degree of risk.
- 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.

D. Track and report emergency response expenditure

Tracking, accounting and reporting of expenditure incurred on emergency response is important for ensuring that timely information is available to policymakers for informed decision-making and to the public in general. 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. 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 in one account in the financial statements.
- Create a feedback loop for delivering timely information to policymakers on the utilization on funds.

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

- 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.

F. 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.

IV. Prepare additional policy flexibility

PFM managers should also prepare for the potential need for fiscal stimulus 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.

This article is part of a series related to the Coronavirus Crisis. All of our articles covering the topic can be found on our [PFM Blog Coronavirus Articles page](#).

[1] Sandeep Saxena and Michelle Stone are Senior Economists in IMF's Fiscal Affairs Department.

Note: The posts on the IMF PFM Blog should not be reported as representing the views of the IMF. The views expressed are those of the authors and do not necessarily represent those of the IMF or IMF policy.

- [Preparing Public Financial Management Systems to Meet Covid-19 Challenges](https://blog-pfm.imf.org/pfmblog/2020/03/preparing-public-financial-management-systems-to-meet-covid-19-challenges.html) &uri=https%3A%2F%2Fblog-pfm.imf.org%2Fpfmblog%2F2020%2F03%2Fpreparing-public-financial-management-systems-to-meet-covid-19-challenges.html" class="first">Email this
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Comments

A comprehensive and practical list on what governments can do on the fiscal front to fight the Coronavirus scare. It is heartening to know that, given the willingness, advance preparation can make it easier on the affected people and governments to handle the crisis.

Posted by: [Ashok Rao](#) | [March 14, 2020 at 09:04 AM](#)

Useful blog. A couple of comments in the spirit of starting a discussion on some of the more unusual aspects of this challenge. First, one of the most extreme issues with Covid19 is the social distancing requirement from a public health perspective. This has implications on the government delivery side and on the citizen side. For instance, a cash advance has to be spent - in some countries it is not easy to spend money without physical presence. Physical presence may contradict the social distancing objectives. On the government side, the ability to work remotely will be uneven. In many countries working from home may mean not working at all; this has implications for service delivery (also hard to accelerate expenditure programs for much of government operations when staff are working from home) and also for the ability of those governments to operate PFM systems reliably for any length of time. It is not at all like an earthquake or a tsunami, so needs some special response on this. Second, although the cash requirement to allow increased spending is identified, it is worth pointing out that there is likely to be a substantial drop in revenue immediately and then for the medium term. Governments will be under pressure to allow companies to defer or even write-off tax payments given that their cashflows are no longer commensurate with their tax obligations. This coronavirus is a crown of thorns!

Posted by: [Jim Brumby](#) | [March 18, 2020 at 06:13 AM](#)

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