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Agenda item 9: Emerging issues in public financial management and budgeting for the SDGs

Budgeting for the Sustainable Development Goals

How could public finances and the management of public funds be made more transparent?

In a book about The Political Economy of Fiscal Transparency, Participation, and Accountability around the World, (Khagram, De Renzio, Fung), the authors study how and why improvements in fiscal transparency and participation come about.

They find that four main causes explain the improvements:

1. Political transitions, from an autocratic rule, to systems where political contestation and alternation are allowed, with greater powers to oversight bodies;
2. Fiscal and economic crises that force governments to tighten controls over public monies and put in place mechanisms and incentives for fiscal discipline and independent scrutiny;
3. Widely publicized cases of corruption that compel governments to provide better public access to fiscal information; and
4. External influences that promote global norms to empower domestic reformers and civil society actors, with gains in the right to access to information and fiscal transparency.

Now, with the COVID19 crisis, in many countries, we are certainly in the presence of two, sometimes three of these causes. Fiscal and economic crises are happening everywhere, and the questions are how deep and how long the crises will be. The role of external influences are also present in many developing countries, as foreign aid and loans are desperately needed.

So, in the next couple of years, if we follow the lessons from the past, we might very much see a new push for more transparency in public finances around the world.

Along these lines, we have witnessed significant increases in budget transparency in some countries analysed by the IBP’s 2019 Open Budget Survey. Look at South Africa, Mexico, Georgia and Brazil, top performers. Two key elements explain their good results: after corruption scandals, a team of government reformers led the budget transparency improvements in a constructive and sustained dialogue with civil society organizations.

The same holds for Guatemala, Indonesia, Kyrgyz Republic, Ukraine and Croatia, which all rapidly improved in relatively short time (reaching sufficient levels of budget transparency with scores above 61 over 100). Corruption scandals, economic crises, external pressure or incentives (such as the open government agendas and better accesso to financial markets) are present in these remarkable examples of the OBI 2019.
Now, let me go back to COVID19. To be clear, the first responses to the health emergency have not always been as transparent as desired. As matter of fact, these exceptional responses have challenged the traditional processes to ensuring transparency and maintaining accountability. There are some cases in which national legislatures have been by-passed in the rush to implement new spending measures, at least at the beginning of the emergency, and popular opinion has seldom been consulted. Many countries have also established special funds for crisis response. Such budget measures are often characterized by a high degree of opacity and may be subject to weak oversight.

COVID-related emergency fiscal measures will be hard to track as countries tend to be less transparent regarding budget execution than they are regarding their budget plans. Although finance ministries may have detailed information on the fiscal measures that have been announced, they may struggle to track emergency funds that are spent in the chaotic environment in which relief efforts are conducted. That said, they are also good examples of fiscal transparency during the COVID19 and the role of CSO and of citizen engagement, has been remarkable in many cases, for designing and for implementing the support package. But this is exceptional.

As a parenthesis: The GIFT network has produced a guide on helping government to disclose up to 15 data sets and 5 data fields related to the fiscal emergency response. The goal of the Guide is to ensure that emergency responses, economic recovery packages and financial rescue plans include, from the outset, transparency requirements and that the datasets of such measures set in place are open by design (see note below).

Overall, fiscal transparency will suffer in 2020 as governments must rapidly shift priorities and realign tax and spending policies to preserve the health of people and economies.

But, after that, the incentives for governments are going to be related to the needs to tighten controls over expenditure, put in place mechanisms for budget efficiency and independent scrutiny. External influences will press for more transparency as preconditions for investment and support. In such scenarios, spending better, avoid misallocations and waste, access to financial markets, discuss significant tax reforms, will undoubtedly favour fiscal transparency.

Another important legacy of COVID19 is the role of digital tools. Many digital tools have been used to disseminate crucial information about policies, programs and spending, such as dedicated website https://sacoronavirus.co.za/ in South Africa and mobile messenger application systems. In respect to disseminating information on support measures, dedicated portals that includes the precise eligibility criteria for accessing benefits, such as the Brazilian and the Australian portal. Paraguay is ensuring access to open data on procurement, subsidies and COVID19-related funds, in a way that allows tracking spending.

In the relationship between governments and citizens, digital tools can help to target new and specific groups, enhance the implementation of processes, scale up participation in processes, and lead to practices of openness by default, creating cultures of participation in every organization. Digital tools can also be instrumental for participatory budgeting; citizen assemblies and other types of consultations; feedback, complaint mechanisms and engagement methods. Proactive data disclosure can provide timely, regular and broad access to larger important datasets. All these developments can become extremely useful governance tools for better public financial management.

As such, as you can see, and in spite of the drastic costs of COVID19, I see some opportunities for fiscal transparency and citizen engagement in the aftermath.
How can countries incorporate the SDGs into national budgeting systems?

The COVID-19 pandemic has caused an unprecedented global recession. We have witnessed budgetary measures not seen in a generation. Fiscal rules have been put on hold (deficits, debt, adjustment, readjustment, etc). It has forced all governments to respond with enormous fiscal packages.

If the pandemic will eventually favour fiscal transparency, and rely more on digital tools, the conditions might be also set for enhancing accountability and more participation from NGOs and other stakeholders. Given that the impact of the pandemic is so bad for inclusiveness, poverty, health, education among other SDGs, the scene might also be propitious for pushing for a political debate and increased accountability, one of the main characteristics needed for SDG budgeting.

Tremendous costs has been and will be paid. But that opens a possibility to realign priorities towards SDG objectives, especially in those areas in which the impact has been more salient of negative. Under these conditions, the UN could plan for a call for resuming the work on SDG, after COVID19, given the dramatic rollbacks we have and will experienced in 2020 on the path to SDGs.

According to the excellent Note prepared by the Secretariat Budgeting for the Sustainable Development Goals, budgets are a crucial vehicle to achieve SDGs, although they must be part of the holistic financing for SDG approach, which entails a multiyear policy framework. If SDGs are not visible in the budget documents in some form, then SDG implementation will be at risk. So informing budgets on SDGs is important.

Now, to enable SDG budgeting, the Note suggests that the following characteristics must be fulfilled:

1. The country’s SDG framework must be aligned with its national context and priorities, which can be cross-sectoral. High-level political support is an important condition for success, since ultimately the entire process of SDG budgeting is political.

2. The finance ministry must be involved and preferably leading such a budgetary exercise or supporting it, and the SDGs are a management tool to negotiate on resource allocations and advance coherence within the overall national budget. That said, it is paramount to have the buy-in of all parts and levels of government, and not just that of the Ministry of Finance.

3. Political debate and increased accountability: it is essential that the tools and processes developed to integrate the SDGs into national budgets are taken up by stakeholders, such as NGOs, parliamentarians and supreme audit institutions, as these actors are crucial in holding governments to account regarding their commitments to the 2030 Agenda.

4. On the PFM technical side: a) universal SDG budget classification system may also prove to be useful in integrating the SDGs into budgets. The advantages would be increased international comparability than would otherwise result from the sporadic introduction of budget tagging systems applied to cross-cutting SDGs such as gender or climate change. b) The effective mapping of budget information onto the SDGs also depends on budgets being linked to performance information. Even if they do not have them, governments can set up a simple system to monitor and report on them alongside monitoring and reporting on the financial numbers. c) More important is to promote more discussion around the ways in which governments around the world can find ways to usefully track public resources invested in pursuing the SDGs. This will greatly facilitate overall monitoring and enhance accountability of the sustainable development agenda.
Have the short-term emergency needs of the Covid-19 pandemic shifted the focus of policymaking away from the SDGs?

The COVID-19 pandemic has caused an unprecedented global recession with adverse consequences for unemployment and poverty. It has forced all government to respond with enormous fiscal packages.

What is the size of the global fiscal support today? According to the IMF, the total is about $9 trillion. That is the equivalent to the GDPs combined of Germany, France and the UK.

The breakdown looks like this: 1) direct budget support is currently estimated at $4.4 trillion globally, 2) Additional public sector loans and equity injections, guarantees, and other quasi-fiscal operations (such as non-commercial activity of public corporations) amount to another $4.6 trillion.

The total revenue and spending measures for G20 countries account for 4.5 percent of GDP on average, larger than those during the global financial crisis. But in many cases, the fiscal packages will generate deficits not seen since World War II, of more than 11% in developing countries (15% in the USA, 12% in Canada and 7% in the Latin American region (9% in Brazil, Chile 8% and Mexico’s Colombia more than 4%) by 2020.

The fiscal measures take various forms and have different budgetary and debt-related implications. That is, these packages have been including a variety of revenue and expenditure measures:
- additional expenditure on healthcare;
- cash transfers to households and businesses;
- procurement of goods and services to support public service delivery;
- temporary tax relief;
- deferral of taxes and social security contributions;
- loan guarantees,
- and equity injections.

Some important lessons of the fiscal responses to COVID19:
- Reallocation of funds to priority sectors (healthcare);
- Fiscal rules are suspended;
- Unprecedented use of reserve funds;
- debt and foreign aid;
- Significant adjustments when possible (lower high level employees’ salaries, eliminate spending that is not indispensable);
- Selling public assets.

Again, from many perspectives, the emergency can mark something similar to a tabula rasa for many countries, with unimaginable reconsiderations and reallocations in the budget process. Again, that opens a possibility to realign priorities towards SDG objectives, especially in those areas in which the impact has been more salient of negative, such as:
- Ending poverty (Goal 1);
- Health systems investments and reforms (Goal 3);
- Reconsider education systems (Goal 4);
- Sustainable energy for all (Goal 7);
- Peace, inclusive societies and institutions, accountability and justice for all (goal 16)
- Partnerships and domestic resource mobilization (goal 17)
What budgetary and financial management responses are needed for post-pandemic recovery?

Given their large fiscal costs, many current measures should be embedded in a medium-term fiscal framework. And measures that are not included in revenue or expense, such as government guarantees of business loans, should be transparently managed and recorded to mitigate potential fiscal risks.

According to the IMF (Fiscal Monitor 2020):

**Advanced economies** with ample fiscal space can take advantage of low interest rates to boost already weak potential growth by increasing spending on health care, research and development, training, and infrastructure—alongside changes to tax-benefit systems that can enhance resilience and raise productivity (Germany, the Netherlands).

**Advanced economies with limited fiscal space** should strive to reconfigure their spending and revenue mix to allow for greater capital spending (Italy, United States), particularly in sectors where the quality of public capital has deteriorated (for example, health care and transport infrastructure).

**Emerging market and developing economies**’ health systems generally have limited capacity, infrastructure needs that are pressing and substantially larger, and social safety nets that are relatively less developed (in coverage and adequacy) compared with advanced economies. In general, policymakers should finance development in a fiscally responsible way, improve the efficiency of public investment, and strengthen social safety nets.

**Low-income developing countries** should strike a balance between addressing development needs and safeguarding debt sustainability once the health crisis wanes. Achieving this balance requires adhering to sound medium-term fiscal frameworks, raising domestic revenues, improving the efficiency of spending, and facilitating private sector activity through structural reforms and improvements in governance and the rule of law. Priorities include the following:

- Mobilizing domestic revenues when the pandemic abates;
- Improving debt management and transparency (Despite improvements in debt management and transparency in many low-income developing countries (Cameroon, Ghana), important gaps remain in some countries, including insufficient audits, lack of operational risk management, and incomplete coverage of debt statistics).

In the near term, these countries should reprioritize expenditure toward health care while safeguarding priority spending on other social protection, capital maintenance and repair, and key public services (transport, energy, communications) to support the vulnerable and limit the detrimental impact on medium-term growth.

They should also seek aid and concessional emergency financing for the health sector and budgets from development partners and multilateral financial institutions.

Chapter 2 of the IMF Fiscal Monitor 2020 argues that fiscal policies are at the forefront of facilitating an economic recovery from the COVID-19 pandemic once the Great Lockdown ends. Policymakers can achieve this objective with IDEAS:
- Invest for the future—in health systems, infrastructure, low carbon technologies, education, and research; adopt well-planned;
- Discretionary policies that can be deployed quickly; and
- Enhance Automatic Stabilizers, which are built-in budgetary tax and spending measures that automatically stabilize incomes and consumption. Importantly, improving unemployment benefit systems and social safety nets can protect household incomes from adverse shocks and strengthen resilience against future epidemics.

How can subnational governments be supported during the Covid-19 crisis in order to implement SDGs?

The search for more effective mechanisms to deliver public services has been at a core of policies enacted by governments around the world. The quest for value for money. In the Public Financial Management community, this challenge has taken several forms over the years:

- The development of programmatic and results-based budgeting, with performance indicators;
- The devolution of decision making to regional and local governments;
- More recently, attempts to develop greater involvement of citizens in the preparation, execution and monitoring of the budget.

On the second point, devolution to local government, and in addition to health spending, policymakers need to monitor and ensure smooth coordinated budget execution among various health and non-health agencies and across different levels of government, and expedite procurement of medical needs (makeshift hospitals, equipment, and medical supplies). National governments should continue to allocate sufficient funds for subnational governments to spend on health services or mobilize medical resources (for example, masks, medicine, disinfectants, hires and overtime hours of medical personnel) to affected locations (China, India, Korea, United States). Wage subsidies can be provided for medical personnel.
GIFT Fiscal Transparency Guide on COVID19 response

GIFT stewards and partners have been working collectively in the development of the Guide that we present today for public consultation. The objective is to identify the fiscal datasets and data fields that are required to ensure transparency in the COVID-19 fiscal responses and economic recovery. Drawing on joint experiences, the Guide seeks to assist in informing the strategic prioritization of data and the accompanying development of processes to gather, organize and publish data.

Achieving impactful fiscal transparency in the COVID-19 context requires the proactive publication of the information underlying the strategic emergency adjustments in ways that enable its internal and external reuse. It is crucial to allow the public to understand what is being done in a sufficiently detailed manner, together with the mechanisms adopted, the aims of the strategies adopted, and how the success of the strategies can be measured and thereby assessed and adapted.

Therefore, the goal of the Guide is to ensure that emergency responses, economic recovery packages and financial rescue plans include, from the outset, transparency requirements and that the datasets of such measures set in place are open by design.

With this in mind, GIFT seeks to help governments clearly identify the datasets and data fields that should be integrated and disclosed to ensure that transparency is embedded in their policy responses. For civil society and advocacy groups, the objective is to simplify the process of prioritizing the data required to enable tracking, analysis and informed participation. Although each case will adapt the Guide to its context and needs, a broader aim is to generate a standardized list of the minimum data requirements required to ensure fiscal transparency and facilitate engagements between governments and the public.

The required 15 datasets are classified into four dimensions:
- Emergency and countercyclical spending,
- Tax relief measures and deferrals,
- Revenue adjustments and additional funding sources and
- Macroeconomic framework impact.

Each of the dimensions is presented with a set of guiding questions posed from the point of view of the different hypothetical user types, to assist identifying the datasets with purpose. For each of the datasets a compendium of key data fields is identified. It should be borne in mind that country-specific circumstances may require the publication of customized information for fiscal transparency.

The COVID-19 emergency, with its potentially catastrophic impact on the health of populations and economies, requires commitment, cooperation and collaboration from all. There are incredible opportunities we must definitely seize, such as digital tools that can be used to bring the governed closer to their authorities. Any scenario that includes a promising outcome after the emergency, requires transparency in the use of public resources, and informed participation. With your engagement, GIFT’s mission is to continue working towards these goals.