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Public financial management in times of emergency and implications for the credibility of budgets

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Note by the Secretariat

The Secretariat has the honour to transmit to the Committee of Experts on Public Administration the paper prepared by Committee members Juraj Nemec, Katarina Ott and Lamia Moubayed Bissat, in collaboration with fellow Committee members Yamini Aiyar, Rolf Alter, Linda Bilmes, Ronald Mendoza, Carlos Santiso, Aminata Touré and Najat Zarrouk.

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Public financial management in times of emergency and implications for the credibility of budgets

Summary

Public financial management in times of emergency should ensure that countries continue to make progress towards achieving the Sustainable Development Goals and should guarantee that the core principles of public financial management, in particular fiscal discipline, legitimacy, predictability, credibility, participation, transparency and accountability, are respected as much as possible.

The authors argue that achieving greater budget credibility, particularly in developing countries, is a critical aspect of effective public financial management in the light of the uneven and turbulent budgetary situation in many countries.

The strengthening of public financial management and budgetary decision-making in times of crisis is challenging for several reasons, including a lack of data, institutional flexibility, policy coherence and multilevel governance; a reliance on non-evidence-based budgetary policymaking; and challenges related to digital governance and to development aid.

Budget credibility, also known as budget reliability, represents a critical principle of good public financial management and refers to a government's ability to meet its revenue and expenditure targets as planned. Deviations in budget execution as compared with approved budgets are especially visible in less developed countries and increase in times of crisis, when countries may need to spend more despite experiencing a decrease in their public revenues.

Budget credibility falls under the governance principle of transparency and is closely linked to all the other principles of effective governance. These links, together with related practical examples, are highlighted in the annex to this paper.

In times of emergency, budget credibility becomes a more complex issue, especially as acute crises normally have unpredictable and significant impacts on planned government revenues and spending. Changes in budgets are inevitable but should be realized through evidence-based and transparent processes.

The authors recommend possible ways to improve budget credibility and the overall quality of budget management in times of crisis.

I. Background

1. The present paper builds on the previous work of the Committee of Experts on Public Administration on public financial management and budgeting for the Sustainable Development Goals. It focuses on public financial management in times of emergency and implications for the credibility of budgets.

2. Over the years, the Committee has explored various aspects of public financial management, including means of building capacities and effectively mobilizing, allocating and managing budgetary resources for the implementation of the 2030 Agenda for Sustainable Development; ways to prevent, expose and deal with corruption; the strengthening of fiscal management at the national and subnational levels; emerging issues in public financial management; and accountable, transparent and participatory budgeting. Some of these topics are directly linked to the new challenges faced by public financial management as a result of multiple ongoing crises. The issue of budget credibility has been discussed, both directly and indirectly, in previous expert papers prepared by Committee members.

3. At its eighteenth session, the Committee stressed the issue of budget transparency as a valuable tool for holding governments and public bodies accountable. It noted that fiscal transparency was still in its infancy in many developing countries and a plethora of vulnerabilities in fiscal systems could hamper its achievement. At its twentieth session, the Committee focused on participatory budgeting, a tool that needs greater support from both national and subnational governments, given its critical importance.

4. At its twenty-first session, the Committee discussed public financial management in times of emergency, noting that expanded efforts to develop and adopt international norms and standards on managing fiscal stimulus packages and fiscal policy in times of crisis could be valuable. The Committee also noted that budget credibility needed to be strengthened, as budget deviations could endanger the provision of even basic public services in key sectors, particularly in developing countries. Underspending in social sectors was often significantly higher than the aggregate underspending. It was necessary to explore the factors behind such deviations, which could erode the legitimacy of and trust in the government.

5. The ongoing coronavirus disease (COVID-19) pandemic, the war in Ukraine and inflation, and the consequent looming crisis, reinforce the need for improved public financial management and increased budget credibility, particularly in developing countries. The scale of the financial needs of developing countries and their probable reliance on developed countries to mobilize the required funding can make budgeting especially challenging.

II. Public financial management in times of crisis

6. Today, there is an almost permanent state of emergency, with governments and the public sector being hit by multiple, frequent and overlapping crises which result in unpredictable, uncertain, inconsistent and complex problems and threats that are constantly changing. Public sector governance and public financial management, in particular, must make improvements in how they deal with this growing issue.[1]

7. Member States noted in the 2030 Agenda for Sustainable Development that global health threats, more frequent and intense natural disasters, spiralling conflict, violent extremism, terrorism and related humanitarian crises and forced displacement

[1] For ROBUST project results see https://robust-crisis-governance.eu/.

of people threatened to reverse much of the development progress made in recent decades.

8. In the Addis Ababa Action Agenda of the Third International Conference on Financing for Development, Member States noted that the world financial and economic crisis of 2008 exposed risks and vulnerabilities in the international financial and economic system. This message is just as relevant today, in the turbulent times caused by the COVID-19 pandemic and the energy and inflation crises. Also in the Agenda, Member States committed to promoting innovative financing mechanisms to enable countries to better prevent and manage risks and develop mitigation plans.

9. In the ministerial declaration of the high-level segment of the 2022 session of the Economic and Social Council and the 2022 high-level political forum on sustainable development, Member States committed to support the implementation of integrated national financing frameworks to align financing policies and strategies with national investment priorities, legal frameworks, and disaster risk and sustainable development strategies consistent with the 2030 Agenda, the Sendai Framework for Disaster Risk Reduction 2015–2030 and the Paris Agreement's long-term goals.

10. According to the International Monetary Fund (IMF) *Fiscal Monitor*, general government revenue as a percentage share of gross domestic product for the period 2013–2027 is projected to average about 36 per cent in advanced economies (and as much as 46 per cent in the euro area), compared with only about 14 per cent in low-income developing countries. Discrepancies are also visible when it comes to general government expenditure as a percentage share of gross domestic product, which in advanced economies is projected to average 39 per cent, and jumped to more than 46 per cent in 2021 (with an average of 48 per cent in the euro area, jumping to about 53 per cent in 2021), but which in low-income developing countries is projected to average only about 19 per cent. Discrepancies also exist with regard to general government gross debt as a percentage share of gross domestic product, which in advanced economies is projected to average more than 100 per cent, and jumped to more than 120 per cent in 2020, compared with only 48 per cent in low-income developing countries, despite constant increases since 2013, in particular since the onset of the COVID-19 pandemic. These data highlight the clear necessity of increasing both revenues and expenditures in poorer countries, which would enable them to be more flexible in addressing emergencies and shocks.[2]

11. Governments worldwide took action to mitigate the economic and financial effects of the COVID-19 pandemic on their budget expenditures. The majority introduced measures in the areas of health, education and public services and in relation to improved tax compliance. Some undertook construction projects for medical centres and hospitals (Plurinational State of Bolivia), projects related to the use of renewable energy to provide a permanent electricity supply for hospitals (the West Bank and the Gaza Strip), and measures to support employment and small and medium enterprises (Chile) and youth employment (Samoa). Some established funds for the reimbursement of COVID-19 treatments, covering the cost of vaccines and critical care supplies (Belize and Albania), while others redirected resources in order to pay for ventilators, scanners, fever clinics and awareness-raising activities relating to health (Fiji). Actions were also taken to reinforce human and physical resources and social programmes (Jamaica and Mexico) and to support vulnerable groups (Suriname) and the recovery of the tourism, wholesale and retail sectors (Cambodia).[3]

[2] International Monetary Fund (IMF), *Fiscal Monitor: Helping People Bounce Back* (Washington, D.C., 2022).

[3] Srinivas Gurazada and others, "Government budget credibility and the impact of COVID-19", World Bank, 13 October 2022.

Some Governments increased their social welfare budgets by 100 per cent. However, responses to the pandemic have, in some cases, hindered the implementation of new projects, in particular those related to renewable energy.[4]

12. The slower-than-expected recovery from the COVID-19 pandemic is compounding challenges to strained public finances in both developing and developed countries. Emergency transfers to cushion the social impact of the pandemic and untargeted social subsidies, in particular, should be scaled back or removed for political economy reasons, especially as inflation is rising steeply. In addition, efforts to embrace the green and digital transitions are based on public spending and fiscal incentives at a particularly inauspicious moment owing to the global energy crisis caused by the war in Ukraine.

III. Challenges related to the strengthening of budgetary decision-making in turbulent times

13. Governments need to mobilize, allocate and manage often scarce budgetary resources to cope with the severe impacts of the aforementioned ongoing crises on public finance and the well-being of their citizens. However, they are facing multiple challenges.

Shortage of data for evidence-based decision-making

14. The design of protective measures for households and the private sector for times of emergency requires microdata on income and consumption, including in relation to individual expenditure items (e.g. energy and food), to ensure the efficiency of support programmes. In the absence of such data, and without the use of targeting and means testing, general and often generous programmes are approved and implemented. Such programmes not only increase fiscal costs, but they can also provoke a public debate about fairness and equal treatment among different population groups.

15. The linking of existing government data (e.g. on income tax paid or social financial support received) to eligibility criteria could be an adequate approach. Data on individual energy consumption at the household level, for example, are in principle available where modern measuring instruments have been installed in homes and apartments. With regard to the private sector, income tax, value added tax or withholding tax would provide ample information for establishing eligibility criteria. However, in many countries, privacy requirements prevent such usage and combination of personal data.

16. Targeting beneficiaries of crisis-driven support programmes becomes more complex when timeliness is considered an imperative; this stands in the way of efforts to mobilize and combine different databases. Narrowing the data gap, which has been identified as a potential area of work under the topic of better data governance for the implementation of the Sustainable Development Goals, entails the improvement of data collection through institutional reform and investment in the resources and competencies of national statistical offices.

17. The political economy of the budgetary process can be deeply influenced by either the presence or the absence of data and evidence to guide resource allocation. For some sectoral advocates, it pays to underinvest in evidence generation since such evidence may actually undermine their efforts to maintain resource allocation to their

[4] Public Expenditure and Financial Accountability, “SDG indicator 16.6.1 speaks how budgets are affected by COVID-19 pandemic”, 1 August 2022.

sectors. Furthermore, the culture of non-evidence-based policymaking, including in relation to budgets, may be exacerbated by anti-science and anti-expertise tendencies associated with recent waves of populism. Overcoming such challenges during periods of austerity will be critical in enabling countries to allocate and spend resources much more effectively.

Lack of institutional flexibility

18. Budgeting cycles in most countries are well defined and have become enshrined in the praxis of decision-making by governments. While risk management considerations are integrated into the process, they have proved to be inadequate in crisis management mode. The current accumulation of crises calls for an urgent overhaul of budgeting processes if governments wish to comply with the principles of effective governance, including transparency.

19. A key weakness has been identified in terms of the role of parliament in the budgeting process in times of emergency. Frequently, emergency legislation has enabled the executive to take decisions without the formal participation of parliament, preventing a substantive debate among members of parliament or consultations with other stakeholders, such as civil society or the private sector.

20. Time pressures also weigh on the choice of instruments. As budget expenditures are considered the most effective instrument of crisis management, regulatory alternatives have rarely been suggested or approved. At the same time, some measures, such as COVID-19 lockdowns, have been met with increasing resistance by the population in some places. The lack of proof of concept, assessment of secondary consequences and consultations have undermined the effectiveness and credibility of public policies and trust in government more generally.

Lack of policy coherence

21. Progress in integrating the Sustainable Development Goals into policymaking and budgeting processes has contributed to advancing their implementation. However, progress has stalled with the onset of the COVID-19 pandemic.[5]

22. The current policy responses to the ongoing crises do not bode well for the resumption of an upward trend. On the contrary, most current fiscal measures point towards a shift in priorities whereby policies related to the Sustainable Development Goals are abandoned or at least cut back to provide short-term relief from inflationary pressures, energy disruptions or food shortages.[6]

23. Earlier commitments towards achieving a sustainable recovery from COVID-19, such as the first European Union-wide recovery plan that puts emphasis on a green recovery, digitalization and resilience, have been compromised by fiscal measures for income security, employment guarantees and private sector support.

Challenges related to digital governance

24. Public financial management, particularly in times of crisis, can be supported through digital innovations in government and investments in critical digital public infrastructure that enable better spending. The use of digital payments, for example,

[5] Jeffrey D. Sachs and others, *Sustainable Development Report 2022: From Crisis to Sustainable Development – The SDGs as Roadmap to 2030 and Beyond* (New York, Cambridge University Press, 2022).

[6] Organisation for Economic Co-operation and Development (OECD) and United Nations Development Programme, “Closing the SDG financing gap in the COVID-19 era”, scoping note for the G20 Development Working Group, 2021.

can reduce direct costs to governments, fraud and leakage, increase convenience for beneficiaries and create pathways to financial inclusion.

25. Greater scrutiny regarding the efficiency of public spending on technologies calls for better management of ambitious public digital investments, in particular at the subnational level. Particular attention must be paid to government procurement to ensure value for money.

26. Better data on government spending on digital technologies are required; however, such data do not often exist. Anecdotal evidence, however, suggests that digital investments often fail or result in large cost overruns.

27. Countries with better digital public infrastructure, such as digital identification and government payment and data-sharing systems, have been able to more quicky, safely and effectively transfer resources to those in need in response to the COVID-19 pandemic. In Türkiye, for example, 7.2 million households received emergency social transfers thanks to the existence of interoperable digital platforms and information systems that allowed the seamless flow of information and the trusted sharing of data across different government databases. In Brazil, around 70 million beneficiaries received a payment through the country's social assistance programme in response to COVID-19. Under the programme, the Government set up a digital savings account that allowed individuals to access funds remotely. An estimated 40 per cent of those beneficiaries did not have a savings account before the pandemic. In Colombia, almost 3 million beneficiaries of the country's social assistance programme in response to COVID-19 received their payments through an account and more than 1.3 million new mobile accounts were created for that purpose. In India, in the midst of the first nationwide lockdown in 2020, food support reached nearly 80 per cent of households in rural areas; however, access to cash was far lower, at 47 per cent. In urban India, access to cash dipped to 26 per cent. The reason for this drop in cash transactions was that the Government was held up trying to resolve the challenge of identifying who should receive payments.[7]

28. Governments and cities are also increasingly relying on open-source digital solutions and software applications to roll out critical digital public infrastructure. This type of infrastructure refers to solutions and systems that enable the effective provision of essential society-wide functions and services in the public and private sectors. The Philippines, for example, uses a single national identification system, called PhilSys, for all citizens and residents. In Estonia, all government services are accessible through the e-Estonia platform. The platform is supported by X-Road, a secure data exchange layer for sending and receiving data between both private and public sector organizations. This enables the nation's various public and private sector e-service information systems to link up and function in harmony.

Lack of multilevel governance

29. Crisis management has provoked massive expenditure increases at the national government level, reducing the voice of and affecting the space for action of subnational and local governments. The lack of consultation and coordination with lower levels of government implies insufficient consideration of regional and local insights and experiences in designing expenditure programmes. Equally important, it puts at risk the principle of localizing the Sustainable Development Goals; a principle that has emerged as an important building block for accelerating their implementation.

30. Rising inequalities within countries manifest themselves in differences of public service delivery at the national and subnational levels, lost opportunities to develop a

[7] World Bank, "The role of digital in the COVID-19 social assistance response", 2022.

coherent response to crises and higher indebtedness at lower levels of government when they are entrusted with contributing to central government measures without adequate financial compensation.

Challenges related to development aid

31. Budgets inevitably face problems of uncertainty. Hence, those managing national budgets devote considerable effort to forecasting revenue streams as well as managing expenditures. During crises and emergency situations, potential revenues are likely to be even more volatile. In recent years, many developing countries have relied on multilateral development banks, United Nations entities, bilateral or other foreign aid, private sector lenders and other sources to address budget shortfalls by acquiring critical supplementary funding (through loans, grants, in-kind transfers and other mechanisms). There is a wide variety of such institutions, including more than 100 large development banks, infrastructure banks and institutions, and hundreds of development trust funds operating under their auspices. However, these sources seldom provide steady and reliable streams of funds, for the reasons set out below.

32. Firstly, donors often make pledges that fail to materialize or fall short of the promised amounts, as it is far easier for donors to make promises and attract political goodwill than to supply the promised funds. In some countries, the Head of State or Government requires the approval of the legislative branch, which may not be forthcoming. In addition, recipient countries frequently receive the funds later than the required time frame; this is a key driver of budget credibility problems in many countries in Africa.

33. During the height of the COVID-19 crisis, the global funding response was reasonably effective in that it totalled 125 billion dollars, 64 per cent of which was disbursed. However, the funds were distributed inequitably. Countries that experienced the largest increases in extreme poverty received only 41 dollars per capita, compared with 108 dollars per capita in countries with minimal extreme poverty.[8] Furthermore, most funding arrived after the worst-affected countries had already incurred costs. The key determining factor for determining how much a country received was its ability to borrow in times of crisis.

34. Unfortunately, this is a chronic pattern. For example, the Group of Seven promised 600 billion dollars under the Partnership for Global Infrastructure and Investment to support road and energy infrastructure and other projects in low-income countries. These funds have not yet materialized.[9] Donor countries also often commit to providing money or resources for conflict stabilization through United Nations peacekeeping missions, but then provide far less than originally promised.[10]

35. Secondly, there is the question of what counts as development aid. Western donors have sometimes used questionable accounting, exaggerating the amount of funds they have provided by, for example, treating loans as grants and counting pure commitments as actual disbursements. Recently, a number of member countries of the Organisation for Economic Co-operation and Development (OECD) included support for refugees from Ukraine in their total aid budgets, while maintaining their

[8] Yi Yang and others, “Funding COVID-19 response: tracking global humanitarian and development funding to meet crisis needs”, Working Paper, No. 5 (Centre for Disaster Protection, 2021).

[9] Ian Mitchell and Nancy Birdsall, “The unkept promises of western aid: how donor countries cook their books and let down the developing world”, *Foreign Affairs*, 14 September 2022.

[10] International Peace Institute, “Financing UN peacekeeping: avoiding another crisis”, April 2019.

overall aid at the same budgetary level, thereby reducing their support for developing countries.[11]

36. Thirdly, donors and private lenders often provide loans and transfers with conditions that recipient countries cannot meet attached. These may include reporting or technical requirements, but often comprise much more. In many cases, the consequences of failing to meet these criteria or the concessions a recipient may be asked to make are also unclear. In addition, donors often fund capital projects but fail to provide sufficient funds for the operating expenses, such as training, equipment and maintenance, making the project too expensive to maintain or further straining operating budget deficits in the recipient country.

37. For all these reasons, it is difficult for developing countries to rely on the funding promised for ongoing crises. In 2009, for example, developed countries pledged to mobilize 100 billion dollars per year from 2020–2025 to support climate action in developing countries. OECD recently reported that developed countries were still 16.7 billion dollars short of the annual finance goal of 100 billion dollars set for the initial target year 2020.[12] Additional funding is therefore urgently needed to cover this gap and to contribute to the newly created loss and damage fund for vulnerable countries, a historic arrangement made at the twenty-seventh session of the Conference of the Parties to the United Nations Framework Convention on Climate Change. Furthermore, the Sharm el-Sheikh Implementation Plan called on the shareholders of multilateral development banks and international financial institutions to reform multilateral development bank practices and priorities. Overall, when it comes to the actual needs for meeting climate change, biodiversity and land degradation targets, there is a financing gap of an estimated 4.1 trillion dollars.[13]

IV. Budget credibility

38. Budget credibility, also known as budget reliability, could be defined as a government's ability to meet its revenue and expenditure targets as planned. Deviations from the planned budget arise when actual spending is lower than the amount allocated (underspending) or when actual spending is higher than the amount allocated (overspending). Governments can under- or overspend in relation to the overall budget, or on specific budgetary items, at both the national and subnational levels.

39. Budget credibility falls under the governance principle of transparency and is closely linked to all the other principles of effective governance. These links, together with related practical examples, are highlighted in the annex to the present paper.

40. Budget credibility is important, as citizens expect their governments to adhere to their plans and programmes for delivering public goods and services. A government's success in executing the planned budgets, without deviations from planned amounts, could increase the confidence and trust of citizens and consequently in the long run contribute to better policymaking.

41. In the 2030 Agenda for Sustainable Development, Member States acknowledged the essential role of national parliaments through their enactment of legislation and adoption of budgets and their role in ensuring accountability for the effective

[11] Mitchell and Birdsall, "The unkept promises of western aid".

[12] OECD, "Aggregate trends of climate finance provided and mobilized by developed countries in 2013–2020", 2022.

[13] Ivo Mulder and others, *State of Finance for Nature: Tripling Investments in Nature-Based Solutions by 2030* (Nairobi, United Nations Environment Programme, 2021).

implementation of commitments.[14] The importance of credible national budgets is recognized in target 16.6 of the Sustainable Development Goals, aimed at developing effective, accountable and transparent institutions at all levels, and measured through indicator 16.6.1 of the Goals, namely, on the basis of the primary government expenditures as a proportion of original approved budget, by sector (or by budget codes or similar).

42. Measuring indicator 16.6.1 has been challenging, however, researchers from the University of Oxford and the Global Change Data Lab, through their Sustainable Development Goal Tracker, have been trying to capture the reliability of government budgets in the form of primary government expenditures as a share of the original budget (for the period 2004–2021). Although the data are rather patchy and therefore not appropriate for assessing country performance, they are indicative of trends of over- and underspending in individual countries, with fluctuations between countries ranging from almost 140 per cent to less than 60 per cent.[15,16]

43. A 5–10 per cent deviation threshold is often used as a reference to assess whether countries have budget credibility problems. The data presented in "The Sustainable Development Goals extended report 2022" of the Department of Economic and Social Affairs are based on collected data related to Sustainable Development Goal indicator 16.6.1 for 152 countries in the period 2010–2021. It was found that half of those countries showed a deviation of less than 5 per cent in actual budget execution compared with approved budgets, one third showed a 5–10 per cent deviation and 18 per cent showed a deviation of more than 10 per cent. A total of 11 out of 43 countries assessed in sub-Saharan Africa showed the highest deviation, of more than 10 per cent, followed by Latin America and the Caribbean. Looking at countries by income levels, two fifths of the low-income countries assessed had deviations of more than 10 per cent in rates of budget execution.

44. Achieving the Sustainable Development Goals will require additional financial mobilization and prioritization of budget allocations for their achievement, while also ensuring that the funding committed is spent as planned. The International Budget Partnership (IBP) investigated the budget credibility of 13 countries in the period 2019–2020. The study focused on seven sectors linked to 10 Sustainable Development Goals: agriculture and food (Goal 2), education (Goal 4), environment (Goals 13, 14 and 15), gender equality (Goal 5), health (Goal 3), social protection (Goals 1 and 10), and water and sanitation (Goal 6). Among the key findings of IBP was that even countries with relatively good budget credibility at the aggregate level had variations in budget deviations across sectors, suggesting systemic challenges in budget implementation within those sectors.

45. Most countries deprioritized social spending during budget implementation. On average, the lowest rates of budget implementation were found in relation to gender equality, agriculture, and water and sanitation. IBP found the underspending in relation to gender equality to be particularly worrying, with some countries spending only half of their foreseen budget for their gender-related ministries or programmes. Published data were often inconsistent and unreliable, deviating from data published in the voluntary national reviews of countries and the data relating to indicator 16.6.1 in the Global SDG Indicators Database. The COVID-19 pandemic has not necessarily worsened budget credibility patterns, but countries have often shifted funding away from key sectors, such as education, and water and sanitation.

[14] See also, *Financing for Sustainable Development Report 2022* (United Nations publication, 2022).

[15] Expenditure between 85 and 115 per cent of original budget is considered consistent with good international practice.

[16] SDG Tracker, available at https://sdg-tracker.org/peace-justice.

46. While numerous countries have established policies on promoting gender equity, few have established systems that link those policies to budget tracking or analysis. Mexico, for example, has since 2008 published an annex to its annual budget covering programme expenditures relating to gender issues, however, with mixed success, as civil society has questioned the transparency and clarity of the methodology used. Senegal implements a gender-responsive planning and budgeting approach in 11 ministries, resulting in increased allocations for the implementation of gender policies. In Argentina, the National Budget Office has been labelling programmes that are aimed at reducing gender equality gaps, which has resulted in a substantial increase in funding identified as being targeted towards gender equity.[17]

47. Ensuring budget credibility at the subnational level is even more challenging. For the period 2016–2021, the Public Expenditure and Financial Accountability (PEFA) programme analysed a range of municipalities, regions, districts and overseas territories of 22 countries. The budgets of over half of the assessed subnational governments deviated by more than 15 per cent, while only about one third deviated by less than 5 per cent. It is interesting to note that, in some countries, some subnational governments have higher budget credibility than do their national Governments.[18]

48. In the Addis Ababa Action Agenda, Member States committed to working to strengthen regulatory frameworks at all levels to further increase the transparency and accountability of financial institutions and the corporate sector, as well as public administrations. Moreover, fiscal and budget transparency can lead to higher budget execution rates. It reduces a Government's informational advantage, increasing the likelihood that it will undertake and implement its programmes in line with the publicly released plans and projections contained in its budgets, as it raises the Government's awareness that its progress is being monitored by the public.

49. Monitoring the efficiency of budget execution, that is, whether Governments spend what they plan to spend, is a critical measure of a country's financial credibility. It is important to note that such efficiency should be evaluated in context and along with other measures of an economy's fiscal performance. Long-term trends need to be considered. The PEFA framework helps countries to develop effective, accountable and transparent processes for budget monitoring, which are critical to long-term financial sustainability.

50. Functional classifications for all budgetary documents need to be used in order to enable the comparison of allocations and executions by sector (for example, education, health or environment) and administrative classifications need to be used to enable the tracking of expenditures by ministries, agencies and other entities. This is particularly important at the subnational level of government, where many tasks related to the Sustainable Development Goals are undertaken.

51. Governments often fail to provide the reasons that explain budget deviations, or the information provided in that regard is insufficient, as highlighted in IBP research.[19] Regular reports on budget implementation can provide justifications that are plausible, transparent and regulated by the budgetary process. After budget execution, the executive should also provide the reasons for any deviations, to enhance accountability for results.[20] Moreover, oversight institutions, such as

[17] International Budget Partnership, "Connecting budget credibility and the Sustainable Development Goals: results from 13 country investigations", October 2022.

[18] Gurazada and others, "Government budget credibility".

[19] International Budget Partnership, "Assessing the quality of reasons in government budget documents", October 2018.

[20] *Sustainable Development Goal 16: Focus on Public Institutions: World Public Sector Report 2019* (United Nations publication, 2019).

supreme audit institutions, may play a critical role in identifying budget deviations and shedding light on the drivers and factors that may explain such deviations both at the aggregate and entity or programme levels.

V. Budget credibility in times of crisis

52. Achieving budget credibility in times of crisis is a very complex challenge, especially as acute crises normally have unpredictable and significant impacts on planned government revenues and spending.

53. While in such times, unplanned spending, whether in the form of underspending or overspending, is a necessity, as the benefits far outweigh the costs of budget deviations and countries would be worse off without them, it is important to offer relevant explanations, both to legislative bodies and to citizens, as to the reasons for the deviations and to elaborate on planned future measures necessary to return to spending in accordance with budgets and make up for previous under- or overspending. Moreover, it is necessary to transparently publish such explanations, engage the public when discussing problems of budget reliability and, whenever possible, engage civil society organizations in raising awareness of and identifying possible solutions for such problems.

54. The COVID-19 pandemic has had a significant impact on budget credibility, as fewer countries have been able to maintain such credibility during the pandemic period, compared with the five-year period preceding its onset. Primary government expenditures as a proportion of the original approved budget have been strongly impacted, either by changes in revenue or in externally financed expenditures, and/or special funds or suspense accounts. Comparing 31 countries in the period 2015–2021, the maximum deviation in underspending reached 6 per cent in Latin America and the Caribbean and Oceania. During the pandemic period, between 2020 and 2021, Governments in Oceania underspent by more than 10 per cent in comparison with budgeted amounts. Governments in Central Asia and Southern Asia, sub-Saharan Africa and Latin America and the Caribbean underspent by 5–10 per cent, and a few countries in Latin America and the Caribbean even underspent by more than 40 per cent. Deviations in the form of overspending in North America and Europe averaged 8.5 per cent (between 5 and 10 per cent), with some countries deviating by as much as 41 per cent.[21]

55. A review of government budget credibility and the impact of COVID-19 conducted by the World Bank in 2022 similarly concluded that many countries had not been prepared for the shock of the pandemic, noting that budgets had been disrupted and that it had been necessary to draw on a wide range of resources to finance emergency spending and additional investments through the budget or through special funding arrangements.[22]

56. The issue of budget credibility is also included in the IMF Fiscal Transparency Code and Fiscal Transparency Evaluations. The IMF report of 2021 entitled *Fiscal Monitor: Strengthening the Credibility of Public Finances* elaborates on ways to strengthen the credibility of public finances in the context of impacts caused by the COVID-19 pandemic, such as high levels of debt.[23]

[21] Public Expenditure and Financial Accountability, “SDG indicator 16.6.1”.
[22] Gurazada and others, “Government budget credibility”.
[23] IMF, *Fiscal Monitor: Strengthening the Credibility of Public Finances* (Washington, D.C., 2021).

VI. Recommendations

57. The measures set out below are recommended in order to improve budget credibility and the overall quality of budget management in times of crisis.

Budgeting for implementation of the Sustainable Development Goals and for emergencies

58. There is a need to re-prioritize the implementation of the Sustainable Development Goals in the budget process, while at the same time making provisions for budget expenditure for emergency purposes.

59. Revenue forecasting and planning, and implementation and improvement of public financial management should be strengthened, without forgetting the need for accountability, transparency and public participation in the public sector overall. In addition, tax collection and redistribution systems should be reformed to make them fairer.

60. As budgetary allocations have a significant impact on the achievement of the Sustainable Development Goals and efforts to "build forward better" in recovering from the COVID-19 pandemic, countries should appropriately plan and execute relevant budgetary allocations while ensuring budget credibility.

61. Emergency transfers to cushion the social impact of the COVID-19 pandemic, and untargeted social subsidies in particular, should be scaled back or dismantled.

Budget coordination and capacity-building

62. Mechanisms to maintain budget coordination across different levels of government in emergency situations should be established, which will help to increase budgetary efficiency, respect of national fiscal rules and alignment with the imperative of Sustainable Development Goal implementation.

63. Functional classifications need to be used for all budgetary documents in order to enable the comparison of allocations and executions by sector, and administrative classifications need to be used to enable the tracking of expenditures by government entities. This is particularly important at the subnational level of government, where many tasks related to the Sustainable Development Goals are undertaken.

64. Institutional flexibility should be improved when reviewing and modifying the institutional budget architecture, starting with the extension of risk management capacity throughout the entire budget cycle. Contingent liabilities need to be assessed in terms beyond their financial impact. In addition, efforts to institutionalize risk- and emergency-based budgeting processes need to be undertaken in line with the principles of transparency and participation.

Budget deviations

65. Budgetary deviations need to be analysed to determine which sectors and groups are most underprioritized (for example, women and vulnerable populations), in order to prevent the impact of underspending on the achievement of the Sustainable Development Goals and ensure that no one is left behind.

66. While crises can make occasional unplanned spending necessary, it is important to offer, both to legislative bodies and to citizens, and openly publish relevant explanations as to the reasons for the deviations and to elaborate on planned future measures necessary to return to spending in accordance with budgets and make up for previous underspending. In addition, the public should be involved when discussing

problems of budget reliability and, whenever possible, civil society organizations should be engaged in raising awareness and identifying possible solutions.

67. Independent supreme audit institutions, which are usually in charge of auditing budgetary documents, should focus more on budget credibility issues. The forthcoming IBP/Department of Economic and Social Affairs handbook on how supreme audit institutions can shed light on budget credibility (to be published in early 2023) could be used for guidance and will hopefully encourage more engagement among supreme audit institutions on such issues.

Data

68. Governments should base difficult budget decisions on reliable data that are transparent and comprehensive, in order to ensure accountability.

69. Data collected to inform Sustainable Development Goal indicator 16.6.1 at the aggregate and sectoral, and national and subnational government levels should be used, not only for measuring budget credibility, but also for raising awareness of the most deprived sectors and the overall necessity of well-targeted and sustainable budgetary funding for implementation of the Sustainable Development Goals.

Digitalization

70. To enhance budget credibility, digital innovations in government and the development of critical digital public infrastructure should be fostered, including by expanding the use of digital payments. Digital public goods should be considered as building blocks for digital public infrastructure, especially at the subnational level.

71. Ambitious investments in the digitalization of the public sector, in particular at the subnational level, should be better managed and monitored, with particular attention being paid to government procurement to ensure value for money. Better data on government spending on digital technologies are required.

Development aid

72. International donors and multilateral institutions should deliver on their commitments, including by providing not only loans but also grants based on actual needs and by taking into account the costs of operation and long-term maintenance.

73. At the same time, recipient countries should assess their needs and plan realistically, strengthen their budget capacity and financial preparedness, develop their capacity to transparently and accountably manage funds received, produce a consolidated centralized debt budget (that includes all entities within the country that borrow abroad) and develop performance metrics. In times of crisis, they should strengthen their response planning before the crisis deepens.

Annex

Budget credibility and the principles of effective governance

Budget credibility falls under the governance principle of transparency and is closely linked to all other principles of effective governance. The following table highlights the most important links, supported by concrete examples from various countries.

Governance principle	*Relation to budget credibility*	*Examples*
Competence	• An efficient public financial management system is central to the achievement of fiscal discipline and value for money. State capacities, particularly in relation to budget planning and auditing, are vital for mitigating related politically embedded biases. Budget credibility is contingent on human capacities. • Governments, particularly those of fragile States, do not always have the human resources or administrative structures in place to manage the budget cycle or ensure its credibility. Those processes require various skills, such as management, financial accounting, medium-term and performance-based budgeting and auditing. Capacities are also required to manage credibility-enhancing software, such as integrated financial management information systems. • The establishment of budget credibility-enhancing instruments requires teams with diverse competencies.	• In Liberia, the roll-out of an integrated financial management information system has allowed the management of government transactions and budget formulation to be automated. The interface has integrated key components, such as appropriations, administrative expenditure and treasury management, while providing control through an embedded "do not exceed" instrument. Nevertheless, a lack of competencies and resistance to change must be tackled to foster its use.[1]
Sound policymaking	• The linking of budget planning to concrete outcomes brings together policymaking and budget credibility. • Budget credibility is often the "gateway reform" in middle- and low-income countries, as it allows revenue gaps and capacity to be estimated and expenditures to be linked to strategic allocations of resources. • Sound policymaking is a lever of budget credibility, particularly since the overall macroeconomic position of a government contributes directly	• Peru deployed the second iteration of its integrated financial management information system, an electronic system enhancing the obtention of financial statements, in 2015. It has allowed the Government to operationalize the principle of sound policymaking by integrating a results-based budget approach to expenditures. It is the only country in Latin America to run a single system for all levels of government

[1] Benjamin Wilson, Jr., "Liberia integrated financial management information system: advantages and challenges", presentation for the integrated financial management information system capacity-building programme, May 2021.

Governance principle	*Relation to budget credibility*	*Examples*
	to its overall credibility and trustworthiness. Macroeconomic goals are achieved when funds are disbursed in line with original commitments. • Sound policymaking and budget credibility are thus mutually reinforcing. • Information technology systems, such as integrated financial management information systems, can provide support for decision-making by providing visibility on revenues and spending trends, thereby rendering results-based budgeting possible. • Political will is crucial to achieve budget credibility.	(approximately 1,450 spending units).[2] • Budget credibility checks have also acted as levers for sound policymaking in Argentina, allowing policymakers to better account for inflation. The country's E-SIDIF online integrated financial information system allows outcomes identified in the budget to be linked to strategic goals, greatly enhancing the country's ability to estimate needs in the light of embedded risks. From 2016 to 2018, the deviation rate between aggregate expenditure out-turn and the approved amount dropped from 136 per cent to 115 per cent, while allowing government officials to account for inflation in spending by increasing the approved amount.[3]
Collaboration	• Although multi-stakeholder collaboration sometimes creates bottlenecks, budget credibility can reinforce communication between institutions and stakeholders, thereby enhancing policy coherence. • Increased collaboration between institutions allows budget-planning authorities to access larger quantities of institutional data, thus contributing to greater budget credibility. Collaboration is key, not only at the intergovernmental level, but also within line ministries and, in particular, within ministries of finance. • Collaboration and budget credibility become mutually reinforcing in the long term.	• Inter-institutional collaboration and better planning allowed the Dominican Republic to increase its score from the lowest to the highest in the budget credibility assessment of the Public Expenditure and Financial Accountability programme in 2018.[4] Greater collaboration enabled the integration of a large number of institutional data sets and the production of three budget execution reports. • The United Republic of Tanzania and Kenya have both included ministry- and sector-related reviews of public expenditure in the budget process. Nine sector-specific working groups review the components of the expenditure proposals of ministries and benchmark them against priorities. In addition, open sector hearings are organized in Kenya, at which stakeholders have a chance to

[2] Gerardo Uña and Carlos Pimenta, "Integrated financial management information systems in Latin America: strategic aspects and challenges", in *Public Financial Management in Latin America: The Key to Efficiency and Transparency*, Carlos Pimenta and Mario Pessoa, eds. (New York, Inter-American Development Bank, 2016).

[3] World Bank, *Argentina: Public Expenditure and Financial Accountability Performance Assessment Report* (Washington, D.C., 2019), pp. 21–22.

[4] Guillermo Herrera, "Making and keeping promises: why budget credibility matters", International Budget Partnership, 31 July 2018.

Governance principle	*Relation to budget credibility*	*Examples*
		comment on sector policies and allocations.[5]
Integrity	• Integrity and budget credibility have a mutually reinforcing relationship. • Integrity means that public funds are spent according to plan and in the interest of citizens. Moreover, the achievement of fiscal outcomes improves State legitimacy by reducing both real and perceived corruption. At the same time, budget credibility excludes the possibility of practices such as unrealistic or hidden budgeting. • Integrity allows deviations to be accounted for and safeguards against the establishment of spending "black boxes", such as special purpose funds, to be established. • While aggregate budget credibility, as determined by the Public Expenditure and Financial Accountability programme, tends to become less important in fragile States, evidence suggests that a positive and statistically significant relationship persists in such States with regard to compositional budget credibility and on the basis of the World Bank's definition of fragility.[6]	• The Philippines embarked on an ambitious budget reform to improve the integrity of its budgetary process, which had been exposed to abuses, particularly given the existence of special purpose funds, special accounts in the general fund and off-budget accounts, as well as weak oversight. During the period 2010–2016, the Government curtailed the use of these mechanisms, unified reporting requirements and ended budget re-enactments.[7] • Prior to the war, the Government of Ukraine, following the "integrity revolution", had implemented a new public procurement law to reduce abuses that were undermining public bidding processes. The objective was to improve budget credibility by directing funds where they were most needed. The e-procurement system "Prozoro" became a best practice example in the field.
Transparency	• Budget credibility falls under the governance principle of transparency and can reinforce it. • At the same time, fiscal transparency and reporting are critical for budget credibility, one reason being that punctual reporting allows real-time management of public resources. Transparent budgetary systems correlate with greater credibility and fiscal discipline. • Software that permits improvements in budget credibility also provides	• Jordan sought to improve its budget credibility and overall public financial management practices through an enhancement of fiscal transparency. Since then, fiscal reports have become more comprehensive, forward-looking and connected to five-year medium-term budget frameworks, while a programme classification system has been introduced. This has contributed to more effective fiscal forecasts.[8]

[5] Anwar Shah, ed., *Budgeting and Budgetary Institutions*, Public Sector Governance and Accountability Series (Washington, D.C., World Bank, 2007), p. 20.

[6] Jens Kromann Kristensen and others, *Public Expenditure and Financial Accountability, Public Financial Management, and Good Governance*. (Washington, D.C., World Bank, 2019), p. 63.

[7] The Philippines, Department of Budget and Management, "Budget integrity and accountability", 2016.

[8] International Monetary Fund (IMF), *Jordan: Technical Report – Fiscal Transparency Evaluation*, Country Report, No. 21/224 (Washington, D.C., 2021).

Governance principle	*Relation to budget credibility*	*Examples*
	fiscal transparency through open, clear, valid and reliable data that can be published and made accessible to a large number of stakeholders.	• Liberia and the United Republic of Tanzania were able to increase budget credibility by dividing their budgets into line-itemized core and contingent sections, and then disbursing contingencies when revenues that exceeded core budget requirements became available.
Independent oversight	• Independent oversight, including by supreme audit institutions, is central to ensuring budget credibility. It greatly enhances the credibility and accuracy of public accounts, particularly in relation to the budget cycle, both committed and enacted, as it allows the evaluation and validation of revenues and expenditures and the inspection and justification of deviations. • Recurrent audits of State budgets foster improvements in public financial management and budget credibility more broadly and can emphasize the role of supreme audit institutions for society. The participation of civil society organizations and non-governmental organizations adds an additional layer of credibility to such assessments. • Independent oversight strategies improve budget credibility through the involvement of external stakeholders and the population at large.	• In Serbia, Transparency Serbia, a non-profit organization and member of the International Budget Partnership, examined ad hoc transfers of contingency funds from the national budget; those funds were suspected of being used for political patronage. The issue gathered media attention and public engagement sufficient for the Fiscal Council to commit to examining the issue. Independent oversight therefore generated momentum towards greater budget credibility.
Leaving no one behind	• National development objectives and service delivery are correlated with the achievement of parity between commitments and actual revenues collected and spent. This is particularly relevant when addressing the socioeconomic needs of the poor and other vulnerable and marginalized groups. • A lack of budget credibility has a human cost, as deviations in expenditure imply reduced or inconsistent spending on policy areas that need it the most. In relation to the Sustainable Development Goals, underspending can have tragic consequences for livelihoods.	• Uganda protects certain segments of the budget from in-year cuts, ensuring that those segments are subject to greater oversight and monitoring than the rest of the budget. This has shifted budget allocations towards social services, improved the predictability and monitoring of spending in these areas and strengthened donor-government relations.

Governance principle	*Relation to budget credibility*	*Examples*
	• The principle of leaving no one behind is particularly relevant in fragile and conflict-affected countries, where improvements in budget credibility can contribute to more coherent public financial management practices, which in turn reduce the risk of conflict relapse, consequently shielding the most vulnerable.	
Non-discrimination	• The application of the principle of non-discrimination in budget preparation and execution is crucial, as it prevents the exclusion of specific groups and ensures the equal treatment of all groups regardless of race, colour, sex, language, religion, political or other opinion, national or social origin, property, birth, disability or other aspect. Moreover, non-discrimination strategies can lead to the identification of previously invisible needs of marginalized groups.	• In Colombia, the public advocacy organization Dejusticia has engaged the Constitutional Court in order to prioritize health coverage for vulnerable groups, including the poor and refugees, and to cover their needs through the emergency fund established in response to the COVID-19 pandemic. This reinforces the crucial role that civil society and non-governmental organizations play in preventing discrimination and fostering inclusion.
	• Using the principle of non-discrimination to examine spending versus commitment also allows the re-examination of the core assumptions on which spending is based. This could facilitate the integration of gender equity objectives. Focusing on impact rather than on spending trends can also lead to greater data disaggregation.	• In Senegal, the Federation of Associations of Persons with Disabilities has successfully fought for the social inclusion of persons with disabilities, including access to basic services and COVID-19-related relief.
	• Non-discrimination can reinforce budget credibility and vice versa, provided that the following measures are applied: public debate, cooperation with legislative bodies and the judiciary, the involvement of those directly affected or discriminated against and the harnessing of new technologies. In that regard, the role of non-governmental organizations has proven to be instrumental.	• In India, where the Dalit community continues to face marginalization, the National Campaign on Dalit Human Rights has developed an application to monitor the roll-out of emergency expenditures, in order to measure their impact at the community level. This has paved the way for the outlining of key recommendations to the authorities on adequate budgetary measures to best address the community's marginalization.[9]
	• Tools such as social audits are essential, as they enable policy inputs to be traced from the initial budget preparation phase and budget disbursements to be examined up to the point when they are received by the intended recipients (the budget	

[9] María José Eva, "As COVID-19 spreads, CSOs argue that government budgets should address inequality and discrimination", International Budget Partnership, 15 September 2020.

Governance principle	*Relation to budget credibility*	*Examples*
	execution phase), thereby revealing possible "black boxes".	
Participation	• Legislative consultation and public participation are required, in particular when introducing major budget amendments, in order to avoid weakening budget credibility. • Governance reforms, including the enhancement of budgetary credibility, are dependent on an implicit exchange that entails the provision of benefits to stakeholders in exchange for support. • Consequently, public involvement is a key lever for budget credibility. • Public involvement can also improve the meaningfulness of data collected and reported.	• The Ministry of Finance of Malaysia has established a reporting unit through which feedback is gathered from the public on fiscal measures that comprise, in emergency cases, deviations from foreseen spending plans.[10]
Subsidiarity	• The principle of subsidiarity allows the operationalization of budget credibility through strategies that achieve a balance between subnational autonomy and stable relations with the central or federal Government. • Financial management systems that can integrate all levels of government can promote budget credibility by ensuring that transfers to the subnational government level are visible, efficient and correspond to the needs of constituencies. Similarly, effective fiscal consolidation at the subnational government level requires a high degree of accuracy in forecasting tax revenues and in estimating public expenditures. Therefore, subsidiarity and budget credibility are mutually reinforcing.	• The roll-out of budget credibility-enhancing systems, such as integrated financial management information systems, can lead to the buy-in of many users and improves subsidiarity. Such systems can have more than 4,000 users. In some cases, as in Brazil, they can have more than 100,000 users, thereby providing more effective geographical and institutional coverage to estimate the needs of regions and municipalities.[11] • South Africa publishes a media statement on budget credibility at the local level, including analyses of over- or underspending trends, conditional grants and recommendations, on a periodic basis.[12] This practice fosters transparency, collaboration and positive relations between central and local government.
Intergenerational equity	• The application of the principle of intergenerational equity imposes on the entire budget cycle several considerations related to budget credibility and the indicators used to	• Tunisia achieved substantial improvements in its fiscal position by reforming its subsidies and reducing them from 2.8 per cent of gross domestic product in 1990 to 1 per

[10] International Budget Partnership, "Promoting transparency, oversight and participation in budgeting during emergencies", February 2022, pp. 4–5.

[11] Uña, and Pimenta, "Integrated financial management information systems", p. 309.

[12] South Africa, Department of National Treasury, "Local government revenue and expenditure: fourth quarter local government section 71 report (preliminary results) for the period: 1 July 2020–30 June 2021", media statement, September 2021.

Governance principle	*Relation to budget credibility*	*Examples*
	measure it, including the centrality of generational buy-in, whereby each generation derives benefits in accordance with its contribution. • Intergenerational equity is based on the assumption that the benefits derived by the current generation from expenditures must not destabilize the fiscal position of future generations. Subsidies to reduce the price of goods in the short term, for example, distort a country's long-term fiscal and monetary position, thereby hampering intergenerational equity. • The application of intergenerational equity within the budget cycle improves budget credibility by increasing fiscal discipline and by equating spending trends that hamper future fiscal positions with long-term deviations. • Moreover, intergenerational equity is based on a delicate balance between debt financing and debt amortization, which in turn requires expenditure decomposition to be enacted in terms of current, tax financed expenditure and capital, debt financed expenditure. This distinction can often be difficult to ascertain, particularly in relation to assets.[13] • Intergenerational equity strategies and considerations can also improve budget credibility at the procedural level through the identification and flagging of vulnerabilities.	cent in 1999.[14] Such reforms increased budget credibility by reducing embedded risks to fiscal and monetary positions in the long term.

[13] Greg Coombes and Brian Dollery, *An Analysis of the Debate on Intergenerational Equity and Fiscal Sustainability in Australia*, University of New England, School of Economics, Working Paper Series in Economics, No. 2002-5 (2002).

[14] Sanjeev Gupta and others, *Equity and Efficiency in the Reform of Price Subsidies: A Guide for Policymakers* (Washington, D.C., IMF, 2000).