How to budget for COVID-19 response?
A rapid scan of budgetary mechanisms in highly affected countries

HÉLÈNE BARROY¹, DING WANG², CLAUDIA PESCETTO³, and JOSEPH KUTZIN⁴
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The COVID-19 pandemic requires sufficient public funding to ensure a comprehensive response. Re-prioritizing public spending toward bolstering the economy and the health system requires timely action from government leaders and a supportive public finance environment. Highly-affected countries have taken various approaches to budgetary allocation, depending on their public financial management (PFM) and regulatory systems. Adjustments are required on the revenue side of budgets (e.g. loans) to account for these new economic and fiscal constraints. Quick decision-making on the expenditure side is also needed. That will be the focus of this blog. Every country must develop specific processes for allocating budget funds to the response. To inform budgetary response in countries where the pandemic may spread in the near future, a summary of observed budgetary practices in some highly-affected countries, is provided below, with the aim of informing other countries about responses to three key questions:

— What are the immediate spending actions that can be taken with existing budgets?
— How to secure budget for COVID-19 response through revisions in finance laws?
— What can be done to accelerate budget execution and funds release to the frontlines?

1. Using existing budgetary flexibility and exceptional spending procedures to fund first measures

PFM systems, in most affected countries, provide some level of flexibility for the executive branch to use budgeted allocations. Re-prioritization through virements between line items or within budgetary program envelopes (subject to thresholds) is a first permitted action to secure budget funding for immediate COVID-19 response. Further, most legal frameworks provide for activation of contingency funds by the executive in emergency situations. For instance, the declaration of a national emergency by the President allows the US administration to utilize the Stafford Act, a federal law governing disaster-relief efforts, making US$50 billion in emergency funding available to states and territories. Similarly, in China, the budget adjustment procedure for emergency situations defined in the 2018 budget law was used to allow for budget reallocations and the activation of contingency funds and reserves.

¹ World Health Organization, Headquarters
² World Health Organization, Western Pacific Regional Office
³ World Health Organization, Regional Office for the Americas
⁴ World Health Organization, Headquarters
In several countries, the senior-most members of the executive such as the head of state or the finance minister can also take emergency regulations to authorize urgent spending for an immediate response within existing budgets and through simplified approval mechanisms. China’s Ministry of Finance issued a budget notice on 31 January 2020 serving as budgetary regulations for budget holders, sub-national entities and purchasers to ensure prompt budget funding for the prevention and control of COVID-19. Similarly, the heads of state or finance ministers in several European countries (e.g. France, Germany, Italy) used decrees to free-up budgetary resources for service providers. Governments of lower-income countries have moved quickly to reduce recurrent, non-priority spending and to reprioritize public spending toward responding to the crisis. The Finance Minister of Indonesia said on 18 March 2020 that the government would halt non-urgent spending and reallocate up to US$650 million from the state budget for COVID-19 relief.

State budget flexibility allows many countries to increase budget transfers to sub-national levels and purchasers. In most countries affected by the pandemic, sub-national levels (e.g. provincial governments in China) and/or purchasing agencies (e.g. national health insurance funds in Korea and Japan) have delegated authority for healthcare spending. Under normal conditions, these levels receive budget transfers approved within the state budget or through a separate budgetary development and approval process (e.g. a separate finance law for the national health insurance fund in France). China increased central budget transfers to Hubei, the province at the centre of the outbreak, at the height of the crisis to 6.2 billion RMB for prevention and control of COVID-19 (as of 05 March 2020). France adopted an ad hoc budget increase of 2 billion euros for the national health insurance fund to pay for masks and tests.

2. Accelerating revision of finance laws to secure a budget for the response through expenditure earmarking

Existing flexibility in the use of budget resources may facilitate urgent spending. However, the scale of the resources needed for the response often require supplementary budgets. The budget enactment process secures funding through expenditure earmarking. In several countries, the legislature enacted spending plans for the response (e.g. Korea, France, Germany, Japan, US, UK). Countries have developed rapid costs estimates and identified low-priority spending, which is preferable to across-the-board cuts. That said, some countries have opted for such measures, with reductions of 15–30% of the operating budgets of ministries not related to the response. Some legislatures have adopted their spending bills using curtailed processes allowed in such emergencies, many with all-party support. (submitted 18 March 2020 by French PM and adopted 19 March by national assembly and 20 March 2020 by senate), and with health precautions taken for their votes.

While several executive decisions have been made in the US over the past two weeks, on March 18, the Families First Coronavirus Response Act was signed into law with bipartisan support from Congress. As of March 25, the Presidential administration and Congress reached agreement toward passing an unprecedented relief package of US$ 2 trillion. In parallel, at least twelve states have enacted legislation that either appropriates additional funding for the COVID-19 response or authorizes a transfer of funds from the states’ rainy day funds.
In a context of closing legislatures, the adoption process has been curtailed, too. For example, in Canada:

“Estimates usually involve a detailed discussion of spending numbers in a week’s worth of committee meetings, but (this) procedure was limited to a three-hour debate in the chamber. The government made sweeping changes to speed up proceedings that stretched late into the night. If we do not pass this budget expeditiously we will not have the certainty that come April 1, the first day of the new fiscal year, that we will have the funds required to pay our doctors and nurses in this time of crisis.”

Premier Jason Kenney in the Alberta Legislative Assembly, March 17 2020

From a budget formulation and structure perspective, supporting documents should be as robust as possible. Supplementary bills from the US, France, or Germany include costs estimates, explanations of cuts and re-allocations, a description of the planned activities, which is essential for executing and tracking expenditures. For instance, France’s proposal for its revised finance law is a 44-page document and includes four main parts: a report on the economic and budgetary situation and justification for modifications; a detailed presentation of modifications; an analysis by program of the changes; and a performance framework. When countries formulate budgets by budgetary programs, it allows them to group supplementary expenditures for the pandemic into a budgetary envelope earmarked for the response. France is earmarking through the creation of a specific budgetary programme dedicated to the response (i.e. “Emergency plan for health crisis”), with two sub-programs each with a related action. Similarly, in the first budget under the new government in the UK, provisions include supplementary programme lines for the National Health Service (£5 billion), provided that other changes in the public budget will be presented in the autumn budget 2020. Countries that present budgets by line items may need to create a temporary lump sum/programme-type line in supplementary budgets to secure funding and facilitate execution process for the response.

In some other highly affected countries, the spending plan continues to be implemented through the executive branch using exceptional procedures without enacting a new budget. Chinese leaders managed their response through a series of MoF “Notices” (31 January 2020 and 4 March 2020) at the central level since the lockdown in Wuhan, addressed to budget centres, sub-national levels, insurance funds and service providers. The central government adopted a rigid earmarking process to ring-fence COVID funds. The MoF notice issued on 31 January 2020 explicitly mentions that earmarked transfers to sub-levels should only be used for the response and forbid fungibility:

“Before, during, and after the event, standardize the procedures for approving funds, and ensure that funds are earmarked for special use. It is strictly forbidden to use financial subsidy funds for over-standard renovation or purchase of equipment, equipment, and transportation that are not related to epidemic prevention and control.”

Australia, whose new budget was due mid-May, decided to delay the submission of the 2020–2021 budget to October due to the uncertainties in crafting a budget in this context. In the meantime, the government introduced a “supply bill”, a precautionary measure used in an emergency to ensure financial supply when appropriation bills are not passed in the usual timeframe.
3. Releasing public funds to frontline service providers timely and facilitating expenditure tracking

It is essential for countries to explore ways to ensure public resources are made available to the frontlines through timely and effective budget execution processes. Throughout the crisis, China has provided flexibility in execution rules. In a 31 January 2020 budget notice addressed to sub-national entities and purchasers, the finance ministry indicated:

“Local financial departments should accelerate the disbursement process, allow advance appropriation and fast-track payment to meet the spending needs. The local financial departments at all levels should strengthen the analysis and judgment of the situation of the treasury funds, orderly and standardize the organization of fund dispatch, and if necessary, take measures such as advance allocation and advance payment to prioritize the allocation of funds for epidemic prevention and control”.

While flexibility is provided in the use of resources, control procedures are typically adjusted to accelerate disbursement. France has adopted a fast-track expenditure authorization procedure, where a step in the spending authorization procedure has been removed to accelerate the release of funds. In the revised law, full amounts are automatically released for expenditure authorization and are equal to appropriations. Put another way, the ability to spend is facilitated and accelerated. Other priority disbursement procedures can be adopted by governments within supplementary budgets to accelerate the availability of funds and/or allow quick purchasing through a simplified procurement process. For instance, cash advances have been implemented in China, where advance payments have been made by insurance funds to health facilities to lessen the financial pressure on Hubei province. As of 19 February, insurance funds had disbursed more than 17 billion RMB to health facilities. Australia also provided swift supplementary allocations at the federal level, earmarking funds for primary health networks to set-up respiratory clinics. Countries can also use ex-post and/or risk-based controls (e.g. focus controls on high costs such as large purchases or infrastructure upgrades that are more susceptible to fraud), especially in cash-based management settings.

While accelerating the release of funds and softening spending procedures, countries should act to secure reporting and accountability mechanisms in the use of resources for the response. Several countries have started to define performance frameworks. France’s new budgetary programs are accompanied by clearly defined policy goals and performance indicators and targets. In the same vein, China strengthened reporting and supervision capacities at the provincial level. To secure accurate reporting, IFIMS or any alternative system used to monitor public spending needs to be updated to reflect changes in budget lines and allow a consolidated reporting of COVID-19 expenditures. Program envelopes can facilitate expenditure tracking and secure accountability in resource use, if all expenditures for the pandemic are to be reported under the same program code.

While multi-actor spending is often needed, typically finance authorities take a lead role in the financial accountability of the response. New spending plans are generally under the finance minister’s or the prime minister’s authority, as in China, Germany and France. The new budgetary programme in France is under the budget ministry, while spending can be executed by various
ministries and entities and accounted for under the budgetary mission code reported by budget ministry.

In conclusion, as the pandemic starts spreading through lower-income countries and in fragile contexts where PFM systems already suffer from systemic weaknesses, learning from higher-income countries about how to budget for the response is essential. Ensuring an appropriate balance between flexibility and accountability is relevant now more than ever under these exceptional circumstances. Governments and legislature need to ensure sufficient budgetary funds, by reprogramming existing spending and earmarking additional funds. Funds need to be made available rapidly to the frontlines, while setting effective expenditure tracking mechanisms to guarantee the effective use of resources and accountability. Finally, it is recommended to countries to engage as early as possible in the budgetary process to secure rapid response from domestic sources, while they also streamline external sources toward that goal.

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