Digital Solutions to Support the COVID-19 Fiscal Policy Response

Holger van Eden and Gerardo Una
Thursday, July 23, 2020

IMF Fiscal Affairs Department (FAD)
and
Capacity Development Office in Thailand (CDOT)

Holger van Eden
IMF Regional Public Financial Management Advisor for SE Asia
hvaneden@imf.org

Gerardo Una
Senior Economist
IMF Fiscal Affairs Department
guna@imf.org

Activities of the Regional Advisor are funded by resources for capacity development provided to the IMF by the Government of Japan

Outline

• Introduction

• Why focus on Digital Solutions to support the COVID-19 response

• Three solution areas
  – Streamlining budget execution
  – Enhancing Cash Forecasting and Management
  – Strengthening Fiscal Transparency

• Four ways to track COVID-19 expenditures
Economic Impact of COVID-19 is being felt globally

- Significant decrease of economic growth expected globally
- Growth rate for 2020 in ASEAN down with 6.6% from 4.6% expected in January 2020 to – 2.0% in June 2020. Much worse than the global financial crisis 2008-2009
- In many ASEAN countries impact mainly through tourism and export sectors
- Strong rebound of growth expected in 2021

Fiscal measures to support economies

- Focused on improving health care response, supporting the poorest in society and stimulating the economy
- Fiscal measures are sizeable, ranging from 1-2% of GDP to more than 10%
- Size depends on expected growth impact but also on fiscal space and availability of financing
- Typical COVID measures:
  - Enhanced health care spending
  - Social transfers (cash handouts, enhancement of social security)
  - Wage subsidies for employers
  - Tax cuts for private sector
  - Bailouts of severely impacted industries
  - Loans for SMEs
Size of Fiscal Stimulus for Selected Countries

<table>
<thead>
<tr>
<th>Fiscal Measures (percent of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source: IMF Policy Tracker, WEO, and IMF staff calculations</td>
</tr>
</tbody>
</table>

### Why focus on Digital Solutions

- **Critical to smooth, efficient and transparent implementation of the COVID-19 response**
  - Provides essential information for fiscal and budgetary planning
  - Can help fast-track COVID expenditure, especially procurement and cash handout programs
  - Detailed expenditure tracking allows performance assessment and assures political and administrative accountability
  - Provides an audit trail and reduces the change of corruption

- **IT systems not presently configured to deal with emergency response**
  - Expenditure controls embedded in FMIS are often extensive, sequential and many times redundant
  - Virement processes restrict reallocation
  - Chart of accounts used by FMIS not capable of tracking COVID expenditures; needed report formats unavailable
  - Certain key functionalities and interfaces presently unavailable
Which solutions to tackle

• Changes feasible in limited time frame, 3-12 months
• Relatively low cost, low effort
• Aligned with present state of FMIS development
• Impacting COVID-19 priorities
• With long-term benefits for PFM reform

See more details on IMF’s Special Series Notes on COVID-19: “Enhancing Digital Solutions to Implement Emergency Responses

Focus on solutions in three areas

A. Streamlining FMIS expenditure execution and control processes, and improving their interaction with procurement platforms;

B. Enhancing FMIS capacities for cash forecasting and management;

C. Strengthening fiscal transparency through web portals, open data, and FMIS enabled reporting
A. Streamlining, why and how

Why:
– Reallocation of low priority spending
– Procuring emergency health services/medicines
– Fast execution of emergency expenditure
– Processing of mass payments to poor households

How:
1. Adjusting embedded controls
2. Enhancing processing capacity
3. Strengthening procurement platforms

A.1 Adjusting expenditure control

• Single window control
• Higher thresholds
• Paperless
• Batched payments
• From ex-ante to ex-post control
• Greater autonomy for line ministries/agencies (payment and virement)
A.2 Enhancing Processing Capacity

- To accommodate:
  - More and faster procurement
  - Direct cash transfers to many citizens/poor households

- How:
  - Additional server capacity
  - Additional storage capacity
  - Strengthened internet connectivity
  - Utilizing cloud infrastructure

A.3 Strengthening Procurement Platforms

- Simplified controls and approvals

- Integrating COVID identifiers

- Interface with FMIS to enhance:
  - Capital budget execution
  - Facilitate cash forecasting
B. Enhancing Cash Forecasting and Management

Why:
– COVID will lead to higher expenditure and lower revenues
  – need to adjust cash planning
– Debt markets may be less accessible
– Need to consolidate cash balances more acute
– Avoid disruption of budget execution/cash rationing

How:
1. Enhancing cash monitoring
2. Strengthening cash forecasting and management
3. Using ETF’s and other digital payments

B.1 Enhancing Cash Monitoring

• Increase regularity, from monthly to weekly, from weekly to daily monitoring of cash balance

• Use preliminary, unreconciled data

• Integrate all government bank accounts, not just those in the TSA, into the FMIS through interfaces with bank systems – but no immediate need to integrate payment process

• Integrate bank account records through interfaces with bank system; use or develop automatic reconciliation
B.2 Strengthening Cash Forecasting and Management

- Developing a cash forecasting module or standalone application interfaced with FMIS
  - If a commercial off the shelf solution, doable in a few months
  - Allows for easy exchange of data with FMIS
  - Enables forecasting based on trend analysis and modelling
  - Allows scenario analysis to help manage uncertainty in cash flows
  - Supports planning and scheduling of large COVID-related payments

B.3 Using EFTs and other digital payment mechanisms

- EFTs more efficient, easier to reconcile, more secure
- Eliminates “float” and increase certainty over cash position
- Use credit and debit cards to reduce the needs for petty cash and other advances
- Improves accounting record and provides audit trail
- Supports social distancing
C. Strengthening Fiscal Transparency - 1

FMIS can be instrumental in identifying, tracking and reporting COVID spending
  - Will require amending charts of accounts – various options
    • Use of source of economic, source of fund, administrative, or administrative classification
  - Will require configuring new reporting formats for a variety of users
    • Developed by users, by IT department?
    • Is a reporting tool available in the system?
    • Can data warehouse or business intelligence solutions be developed as applications?
  - Can development partner spending be tracked through the FMIS

How will procurement information be shared?
  - Through existing e-procurement system or dedicated web portal

C. Strengthening Fiscal Transparency - 2

Fiscal Transparency Portals
  - Can be linked to FMIS
  - Users can be given access to data warehouse
  - Use standard reports or develop own
  - Download data series for own analysis

Portals can be refocused on COVID-19 expenditure

If data is unreliable or confidential, policy measures on COVID can be shared, such as done by the IMF in a summary fashion for the whole world here:

Four ways to track COVID expenditure

Why track COVID expenditure?

- Ensure that resources are going where intended both with respect to spending purpose and beneficiary. *For example: what actually arrives at the level of villages and communities?*
- Allows evaluating implementation efficiency and possibly expenditure performance (if spending monitoring is combined with performance indicators)
- Supports cash monitoring and forecasting
- Allows ex-post audit (“keep your bills”). Provides assurances of appropriateness of COVID-spending
- Allows accountability of Ministers towards National Assembly and international partners
How to track COVID Expenditure - 1

Option 1: Add COVID specific “object” codes to the economic classification for selected ministries

• Useful if COVID expenditure only includes a few big ticket items for a few ministries
• Leaves execution, accounting and reporting practices in tact
• Becomes impractical if COVID expenditure is covers a wide range of spending items
  >>> leads to duplication of coding items
  >>> leads to difficulties in consolidation

How to track COVID Expenditure - 2

Option 2: Establish a virtual COVID fund by adding a code in the Source of Fund segment of the COA

• This allows monitoring of all COVID expenditure using existing administrative and economic classifications
• Without a program classification it will be difficult to see the purpose of expenditures
• Does not allow identifying donor funded COVID expenditure (as donor funding is also identified by the source of funds segment)
• May need to be combined with Option 1 (adding specific economic codes for larger spending items)
• Requires limited changes to FMIS and reporting formats
Option 3: Establish COVID Units in all ministries to execute and account for COVID expenditure

• Allows use of the existing economic classification
• Provides highest assurances for accountability and audit
• May interfere with existing execution and accounting responsibilities.
• May provide difficulties in countries with decentralized budget execution
• May require separate bank accounts

Option 4: Establish a COVID-19 Program in the budget of each line ministry

• Within each Program/subprogram existing administrative and economic classification can be used
• May need to be combined with Option 1 (adding specific economic codes for larger spending items)
• Requires some changes to FMIS and reporting formats
• Similar to Option 2, but provides more info on expenditure purpose
• Can be combined with separate bank accounts for COVID expenditure
Which COVID tracking option is best?

- Depends on the scale and diversity of the COVID expenditure
- Depends on how far the COA has already been developed
- Depends on the level of decentralization of budget execution and reporting
- Countries with weak capacity may choose option 2 (COVID-19 virtual fund), with additional coding for large expenditure items (option 1)
  - Limits changes to COA
  - Use of existing execution and accounting processes
  - Limited change to reporting formats
- More ambitious countries will go for option 4 (COVID-19 budget program)

Questions?