



Analysis to Action:
An Executive Education Program
on Disaster Risk Finance in Africa

2 – 6 September 2019
Stellenbosch University



- 1) **Definition**: PFM includes all components of a country's budget process... including strategic planning, medium-term expenditure framework, annual budgeting and also revenue management, procurement, control, accounting, reporting, monitoring and evaluation, audit and oversight."
(OECD DAC, 2009)
- 2) PFM deals with the management of public resources: the allocation and use of resources collected from the economy.
- 3) PFM is only one of the [instruments to implement properly public policies](#), but it is probably the more important.

3 basic elements of public finance:

- ✓ Public expenditure
- ✓ Revenues
- ✓ Government debt





Objectives: The broad objectives of public financial management are to achieve overall fiscal discipline, allocation of resources to priority needs, and efficient and effective allocation of public services

Principles:

- Economic efficiency
- Distribution of income and
- Macroeconomic stabilization

The objectives of public finance are achieved by managing and drafting policies pertaining to key areas such as taxation, management of public revenue and expenditure, raising and servicing public debt, fiscal administration at various levels



Specific objectives of PFM

1/Aggregate fiscal discipline

- ✓ *Ensuring macro-economic stability*
- ✓ *Control of totals*



2/Allocation of resource in conformity with policy objectives

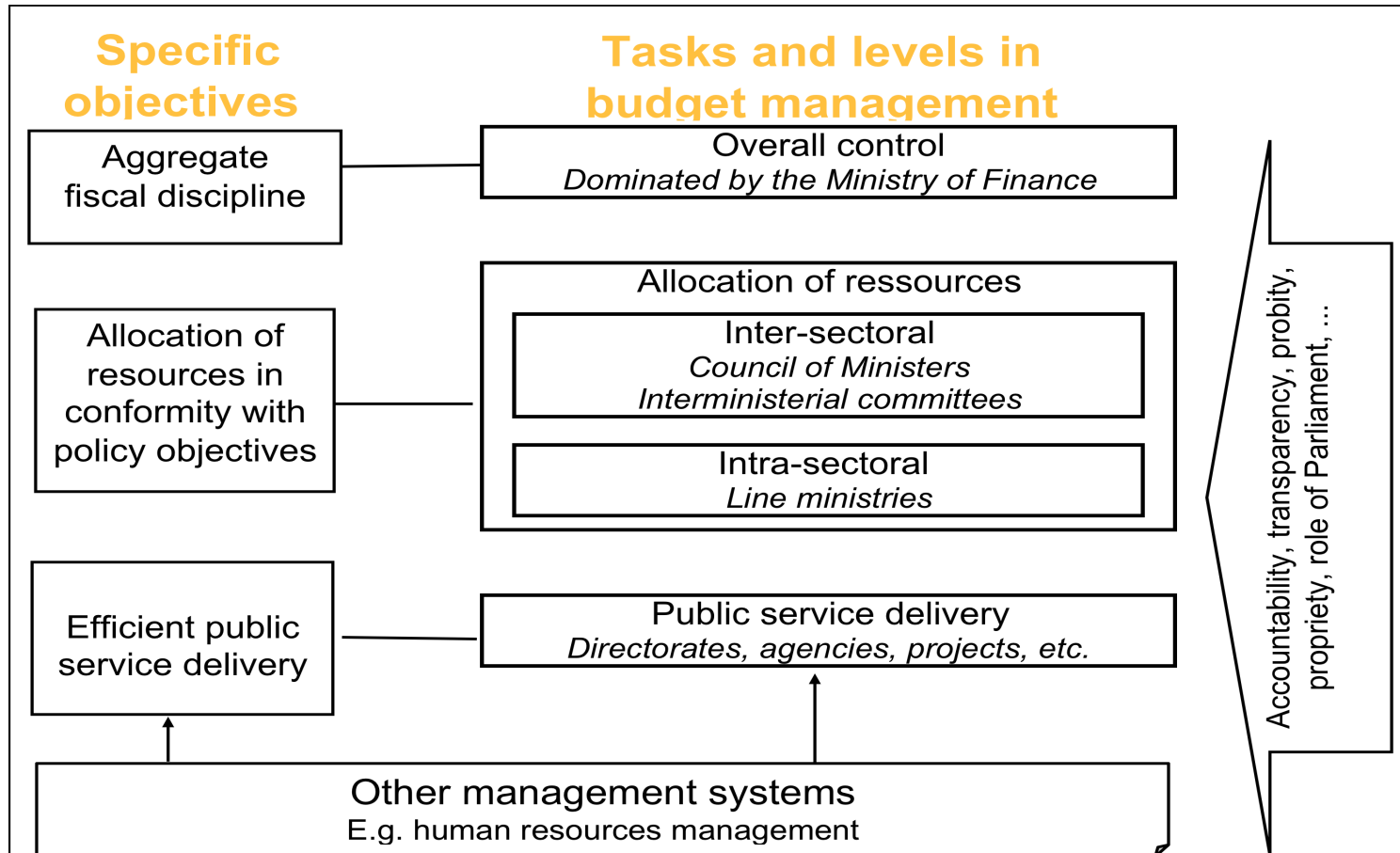
- ✓ *Importance of political aspects*
- ✓ *Requires appropriate mechanisms for revealing policy choices and for policy dialogue*

3/Efficient public service delivery and resource management

- ✓ *Importance of systems (e.g. Treasury system)*



Specific objectives of PFM and Process





What is the Budget?

The most important instrument of the executive to carry out its policies.

"... the plan of the future financial activities of the government [...] prepared annually, comprising a statement of the government's proposed expenditures, revenues, borrowing and other financial transactions [...] It is submitted to parliament, which authorises expenditure..."

Allen & Tommasi (2001)



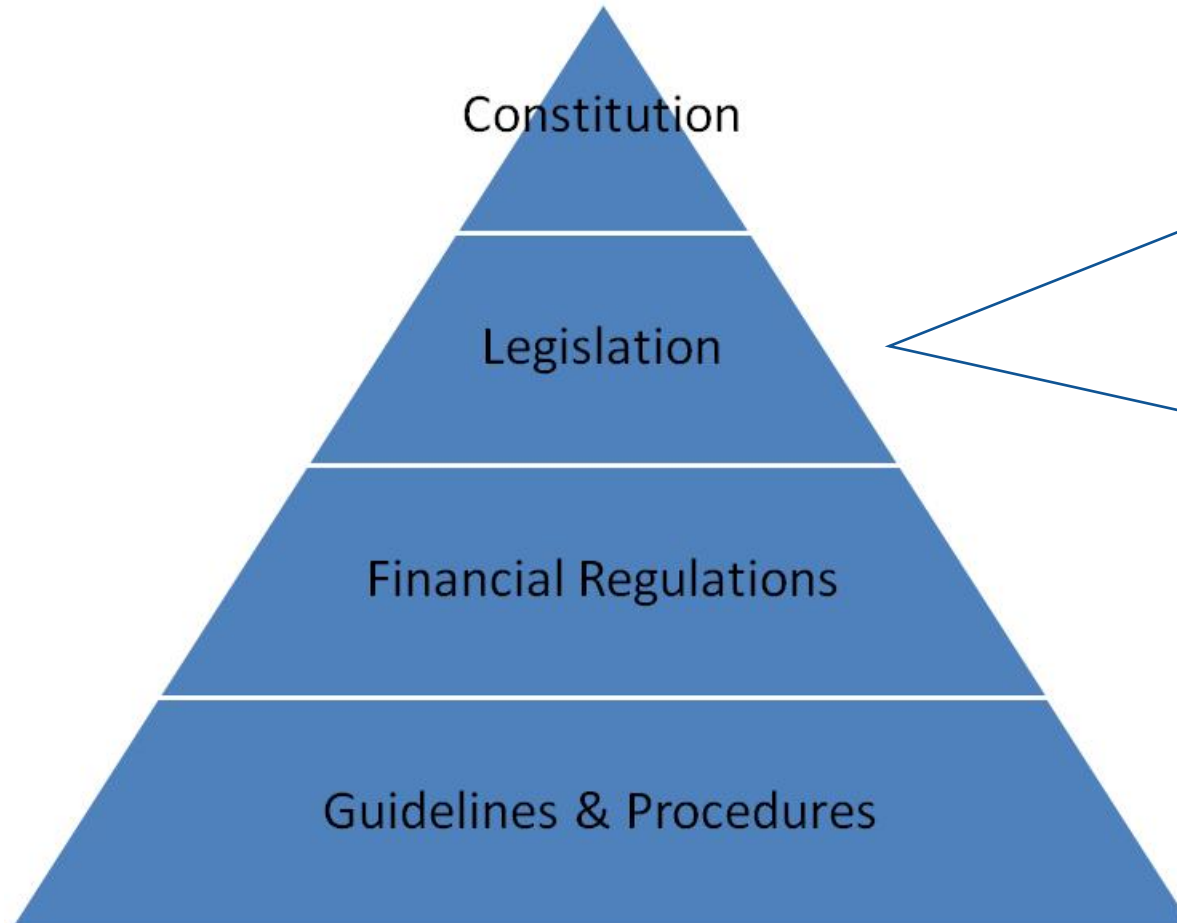
PFM and DRF : Ensuring effective complementarity

- Importance: Why it matters?

It is important to develop mechanisms to guarantee the availability of resources to take care of the needs caused by the occurrence of a disaster, which are based on: i) a clear definition of the assets and emergency actions that can be supported; ii) and the kind of events that can generate highly damage.



The budget preparation process



Principal legislation:

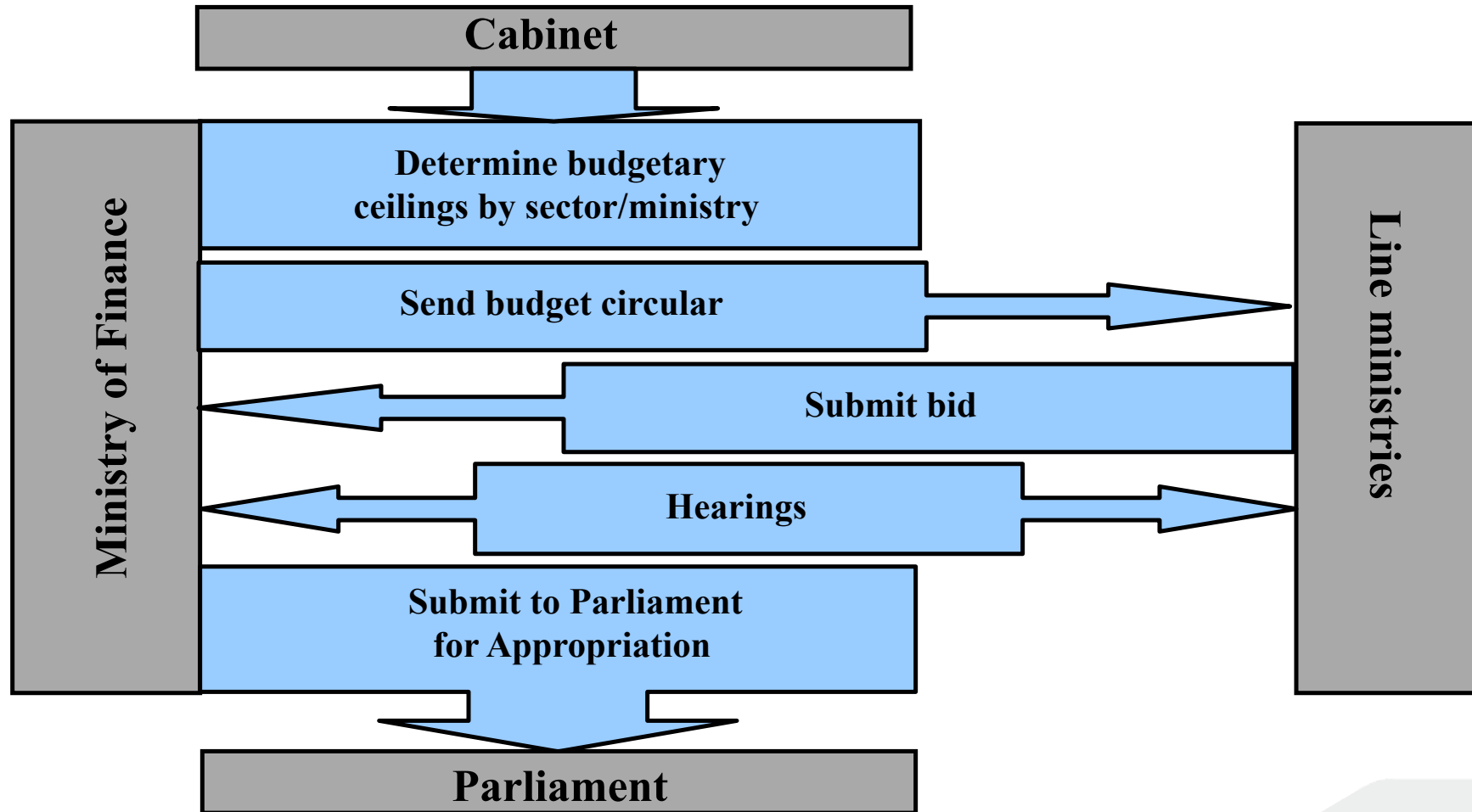
1. Annual Budget Law (Appropriations Act)
2. Organic Budget Law/Public Finance Management Act/Budget Code

Other legislation:

Audit, Local Government Finance, Fiscal Responsibility, Public Procurement...



PFM and DRF : Ensuring effective complementarity





PFM and DRF : Ensuring effective complementarity

- Importance: Why it matters?

The needs of well-planned financing: If disasters are not anticipated and financially planned for, there can be considerable delays in post-disaster response, potentially significantly exacerbating the adverse human and economic consequences of an event.

Consequences: Governments may be compelled to draw heavily on budgets intended for development purposes, hindering long-term growth and development.



Examples of disaster impacts on public finance management (Tropical cyclones Fundi and Chedza)

| 2015 | MGA Billion | USD Million | Total budget (%) |
|---|----------------|----------------|---------------------|
| Madagascar budget (Initial finance Act) | 4 670.4 | 1 668 | |
| Damage costs | 357.4 | 128 | 7.7 |
| Rehabilitation and reconstruction costs | 844.2 | 292.5 | 18.1 |
| State emergency expenditures after disaster | 48.9 | 17.5 | 1 |
| (% to damage costs) | | (13,7%) | |

This scenario highlights that Government capacity is extremely low towards covering disasters costs

This decrease in budget revenue can also be explained by tax exemption measures relating to relief and food products of Government's response activities (0.2% of GDP)



Examples of disaster impacts on public finance management

In most cases, damage and losses (including fiscal impacts) costs compared to GDP are very high impacting negatively development efforts of countries.

Madagascar:

- 2008 cyclone season (3 cyclones) caused damage and losses accounting for 4% GDP
- 2018 just one cyclone (Ava) caused about US\$ 130 million of damage and US\$ 156 million in losses accounting for 2.9% of 2017 GDP)

Damage and losses when affecting productive sectors are causing double negative impacts on country budget: decrease of production → deficit of tax revenue (Importance may be different for countries depending on prevailing fiscal regime)



The needs of financial instruments for a country to avoid negative impacts and enhance resilience

Some specific considerations need to be focused on for re PFM in post-disaster scenario :

- Rapid response, meaning that procurement procedures play important roles (very robust and rigorous but flexible enough)
- Ability to audit (internal)
- Example of contingent funds that have to be based on relevant criteria (this afternoon session)



How DRF supports governments through well planned PFM



How DRF Supports Governments



- Emergency borrowers, struggling to find money in a time of crisis
- Take away already budgeted resources and disrupt planned spending
- Difficult and long negotiations with providers of support and within government to prioritize spending, **have to take place during an emergency.**
- Financial assistance particularly for subnational governments and households is uncertain and unpredictable.



Effective risk managers, planning ahead and being prepared



Dedicated resources are available for disaster response, protecting planned investments and public services.



Negotiations are carried out in advance and clear rules and financing mechanisms are in place that allow everyone to focus on the response.



Subnational governments and households know in advance when they will receive assistance and how much, allowing for improved planning.



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