

BUDGET REALLOCATIONS

Introduction to instrument

To meet post-disaster costs for recovery and reconstruction, government agencies can request budget allocations through the regular budget process, use some of their existing budget lines, use savings, or modify the issued allocations. While reallocation will likely be the first funding available to government agencies (and in many cases the only funding available), it can have a very negative impact on planned development priorities.

When considering the use of the regular budget for disaster response, the government should also pay particular attention to the necessary budget management, reporting, and control mechanisms to ensure efficient use of funds even during a crisis period.

Uses / advantages / disadvantages

When disasters strike, governments have to act expeditiously to provide relief for affected populations and restore services. To do so, they often draw first on the available budget. This approach, however, reduces the spending planned for normal development priorities. For example, the government may not be able to build new schools that had been planned, or routine maintenance may suffer as maintenance funding is used for rehabilitation instead.

The opportunity cost of post-emergency budget reallocations is widely acknowledged but rarely quantified because of the challenges involved in tracking disaster-driven reallocations. Such reallocations tend to be poorly documented and cannot always be determined ex post through a review of routine budget data. This is because budget data are usually recorded at a high level, so that reallocations occurring at the more granular project level may be hidden. Because decisions to reallocate budgets after disasters are not recorded, it is difficult to distinguish between reallocations resulting from the disaster and others that were made for different reasons.

Mechanics

The urgency of disaster response gives rise to additional considerations to ensure effective controls and accountability. To ensure disaster response and recovery funds are allocated fairly and support people most in need, transparency is particularly important. Expedited spending should take place within control mechanisms that can be adapted and streamlined to ensure timeliness without compromising safeguards. For example, no single individual or small group should be able to initiate, approve, undertake, and review the same action. Separation of functions to reduce the risk of fraud or misappropriation is under ordinary circumstances one of the most important features of an internal control plan; it is equally important when a disaster strikes.

A country's readiness to reallocate budget after a disaster depends on whether its laws and regulations facilitate adjustments in budgets in response to disasters. Readiness can be assessed by answering the following questions:

- Does the budget include programs and/or activities for disaster response and recovery that can be activated as needs arise?
- Does the central finance agency have authority to reallocate funds without approval of the legislature?
- Do spending agencies have the authority to reallocate funds without the authorization of the central finance agency, or is authorization required?
- Is there access to contingency, reserve, stabilization, and disaster funds for disaster response?
- Are there escape clauses for fiscal rules in the event of disasters?
- Do loans and external financing agreements allow for deferment of servicing, accelerated drawdown, and/or adjustments in the application of funds following a disaster?

The following figure provides a brief overview of five steps to assess the use of budget reallocation in response to COVID-19 in Albania. This is one example of how such an approach can be evaluated.

Figure 1: Five pillars for analyzing public finance response to COVID-19 in Albania

1. Financial landscape analysis	2. Procedural analysis	3. Counterfactual	4. Expenditure analysis	5. Impact analysis
<ul style="list-style-type: none"> • This aims to document the portfolio of risk financing instruments available to the GOA for financing the response to disasters, the formal procedures associated with them, and the institutions involved. 	<ul style="list-style-type: none"> • This aims to detail if and how risk financing instruments functioned in practice for the COVID-19 response in 2020. It was compiled through a desk study and through interviews and data on debt, arrears, the reserve fund, and official development assistance. 	<ul style="list-style-type: none"> • This aims to estimate 2020 expenditure outturn in Albania had the COVID-19 pandemic not occurred. It draws on historical deviations of expenditure against plan over the preceding six years. 	<ul style="list-style-type: none"> • This draws upon the counterfactual, which is compared against final year spending data for 2020; any deviations are deemed to be related to the pandemic and are scrutinized through the interviews. 	<ul style="list-style-type: none"> • This aims to quantify the returns forgone from canceled/postponed spending. It utilizes marginal benefit of public expenditures, marginal cost of funds, and cost-benefit analysis techniques, drawing on data analysis and interviews with persons within and outside of the GOA.

Source: World Bank, "The Impact of COVID-19-Related Budget Reallocations in Albania," World Bank, Washington, DC, 2021, <https://www.financialprotectionforum.org/publication/the-impact-of-covid-19-related-budget-reallocations>.

Note: GOA = Government of Albania.

Example

Use of agency-specific budgets for disaster response in the Philippines: In exceptional circumstances, National Government Agencies are allowed to either modify the issued allotment

or use savings to augment deficient appropriations.¹ These actions require additional levels of approval; modifications between different budget lines and the use of savings must be approved by the Department of Budget and Management (DBM) and/or the Office of the President. Savings can be used to augment other sources of funds. For instance, Php 16.4 billion in augmentation to the National Disaster Risk Reduction and Management Fund in FY2016–FY2018 came from savings by the Department of Public Works and Highways and was used by other agencies. The use of savings can be permitted in the period after a disaster with a special issuance by the president, which allows agencies to immediately tap into their savings. The head of an agency also has the discretion to reallocate budgets within an allotment class. Any other changes require DBM approval.

More information

Qian, Rong, Benedikt Lukas Signer, Tatiana Skalon, and Zidni Marohombsar. 2020. “Public Expenditure Review: Disaster Response and Rehabilitation in the Philippines.” World Bank, Washington, DC. <https://openknowledge.worldbank.org/handle/10986/35064>.

World Bank. 2021. “The Impact of COVID-19-Related Budget Reallocations in Albania.” World Bank, Washington, DC. <https://www.financialprotectionforum.org/publication/the-impact-of-covid-19-related-budget-reallocations>.

World Bank. 2022. *Disaster Resilient and Responsive Public Financial Management: An Assessment Tool*. Washington, DC: World Bank. <https://openknowledge.worldbank.org/handle/10986/37033>.

¹ The General Appropriations Act and the National Budget Circular on the Guidelines on the Release of Funds include rules on modifying allotments issued and the use of savings.