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## Accelerating public financial management reform to reinforce the 2030 Agenda for Sustainable Development and eradicate poverty in times of multiple crises

### 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 and Katarina Ott, in collaboration with fellow Committee members Rolf Alter, Linda Bilmes, Ronald Mendoza, Lamia Moubayed Bissat, Carlos Santiso and Najat Zarrouk.

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# Accelerating public financial management reform to reinforce the 2030 Agenda for Sustainable Development and eradicate poverty in times of multiple crises

*Summary*

To reinforce the 2030 Agenda for Sustainable Development and eradicate poverty in times of multiple crises, public financial management reforms should be accelerated. Building on previous work of the Committee, in the present paper the authors elaborate on selected areas of public financial management that should be further improved to support these aspirations.

Public procurement, as a strategic tool to reinforce sustainable development in times of crises, is discussed in detail. Recalling that emergencies should not be used as a reason to bypass established procedures, the authors emphasize that efforts should be undertaken to enhance the integrity of public procurement, including through improved transparency and anti-corruption efforts. In this context, internal control, audit and oversight functions and access to high-quality data should be strengthened.

The authors reiterate that transparent, credible and participatory budgetary processes should be ensured in times of crisis. They elaborate on different ways to enhance the participation of citizens and other stakeholders, such as the use of accessible and inclusive public communication and education to increase fiscal literacy. They call for a stronger role for supreme audit institutions and fiscal councils and the establishment of competent budget offices.

The authors elaborate on the multiple benefits of the digitalization of public financial management, such as the greater operational efficiency of public administrations, more agile and responsive public services, and support for anti-corruption efforts. However, the right policies, underlying digital public infrastructure and integrated national digital strategies, are necessary, paired with support for developing countries and efforts to close the digital divide. Countries with more mature digital systems for managing public finances are more resilient and in a better position to respond to crises.

Lastly, the authors call for better targeting of official development assistance to support the accelerated achievement of the Sustainable Development Goals. Providers should aim to strike the right balance between demands for emergency response and commitments made to address long-standing crises, such as climate change, and achieve long-term development goals.

In closing, the authors describe good practice examples and recommend key strategies for improving public financial management in times of multiple crises.

# I. Background

1. The present paper builds on previous work of the Committee of Experts on Public Administration on issues related to public financial management and budgeting for the Sustainable Development Goals, which was focused on effectively mobilizing, allocating and managing budgetary resources for the implementation of the 2030 Agenda for Sustainable Development. Among other things, the Committee has recommended the mainstreaming of the Goals into national and subnational finance strategies to bridge the gap between policy priorities and actual government spending.[1] The embedment of the Goals into national and subnational budgets could accelerate their achievement, especially if executed effectively.[2]

2. The Committee has stressed that the potential of sustainable public procurement is underutilized and that, by leveraging public expenditure, Governments could lead by example, stimulating markets for sustainable products and services and helping steer society towards more sustainable consumption and production patterns, in line with the 2030 Agenda.[3]

3. Furthermore, the Committee has discussed public financial management in times of emergency and implications for the credibility of budgets. To better face multiple crises, it has suggested strengthening revenue forecasting and planning, and public financial management, while ensuring accountability, transparency and participation in budget processes. Efforts are needed to improve budget credibility and reduce excessive budget deviations to prevent a negative impact on the achievement of the Sustainable Development Goals and ensure that no one is left behind.[4]

4. At the eighth Economic and Social Council forum on financing for development follow-up, held in New York from 17 to 20 April 2023, Member States stressed the need to take immediate measures to scale up efforts to achieve the 2030 Agenda and the Addis Ababa Action Agenda, including through reform of the international financial architecture. They underlined the fact that domestic resources were first and foremost generated by economic growth, supported by an enabling environment at all levels, and reiterated that sound financial management was necessary to achieve the Sustainable Development Goals.[5]

5. Only 15 per cent of the targets of the Sustainable Development Goals are on track, nearly 50 per cent of targets are moderately or severely off track and progress has stalled or reversed on some 30 per cent more.[6] Limited financial resources available in times of crises represent a major obstacle to achieving the Goals. The United Nations Conference on Trade and Development has revealed that the annual investment gap across all Sustainable Development Goal areas increased from $2.5 trillion in 2015 to more than $4 trillion in 2023, with the largest gaps being in energy, water and transport infrastructure.[7]

6. Developing countries bear the brunt of the collective failure to invest in the Sustainable Development Goals. Many countries face a huge financing gap and possess huge debt; one in three countries is at high risk of being unable to service that debt. In addition, the size of the public sector in some countries generates enormous

[1] See, for example, E/C.16/2022/6.
[2] See also Simona Pojar, “How green budgeting is embedded in national budget processes”, European Economy Discussion Paper No. 196 (Luxembourg, Publications Office of the European Union, 2023).
[3] See E/2021/44-E/C.16/2021/7.
[4] See E/2023/44-E/C.16/2023/9.
[5] See E/FFDF/2023/3.
[6] *The Sustainable Development Goals Report: Special Edition* (United Nations publication, 2023), p. 8.
[7] *World Investment Report 2023* (United Nations publication, 2023), p. xv.

public expenditure (e.g. salaries, housing), which can deprive sectors crucial for sustainable development, such as health care and education, of funding. While developed countries tended to adopt expansionary fiscal and monetary policies during the pandemic and have largely returned to pre-pandemic growth paths, developing countries were largely unable to do so. In addition, official development assistance is far below the commitment of 0.7 per cent of gross national income and financial markets charge developing countries interest rates up to eight times higher than those charged to developed countries.

7. Member States, in the political declaration of the high-level political forum on sustainable development convened under the auspices of the General Assembly held in New York on 18 and 19 September 2023, expressed deep concern about the marked increase in the estimated Sustainable Development Goal financing gap and recognized the urgency of providing predictable, sustainable and sufficient development finance to developing countries from all sources.[8]

8. In current turbulent times, expanded efforts are required to strengthen central and local government finance and financial management in all countries. Budgetary challenges and financial risks faced at the subnational level are increasing and further endangering the achievement of the Sustainable Development Goals. Multiple, intersected crises have stretched public financial resources, with many countries facing critical debt distress, resulting in an imbalance between public revenues and public needs to finance economic, social and administrative functions. In 2022, about 60 per cent of low-income developing countries were at high risk of or in debt distress.[9]

9. While public revenues normally decrease during a crisis, the demands for public expenditure always increase, as the State needs to finance extra social and stabilization actions, resulting in a trade-off between resources and needs. Governments usually react with deficit budgeting, monetary easing, inflation, in particular the printing of money, or cross-sectional budget cuts. These actions might have some immediate advantages but, from a longer-term perspective, they shift the financing burden to future generations and limit economic growth. The core question remains how to ensure that fiscal constraints do not derail critical financing for the achievement of the Sustainable Development Goals and how to identify “healthy” and sustainable solutions.

10. At the organizational level, the evaluation of interlinkages, trade-offs and potential synergies among the Sustainable Development Goals should be embedded into the prioritization process for medium- to long-term policies and impact-assessment capacities should be integrated with budgeting functions into the high-level coordination or piloting structures for the achievement of the Goals.

11. Where competences are concerned, foresight and risk management capacities – beyond fiscal risks – can expand the evidence base for fiscal measures. They could, for example, help to better navigate uncertainties, increase opportunities for building systemic resilience and help steady fiscal demands for crisis preparedness.

12. Regarding specific actions, there are many options for promoting “healthy” public financial management. The International Monetary Fund (IMF) states that domestic revenue mobilization and improved public financial management and expenditure policy account for nearly 60 per cent of the estimated allocation of capacity development spending.[10]

[8] General Assembly resolution 78/1, annex.

[9] International Monetary Fund (IMF), “IMF capacity development: 2022 highlights” (2022), p. 27.

[10] Tobias Adrian and others, “Fragile States need customized support to strengthen institutions”, IMF Blog, 21 September 2023.

13. As more effective budgeting and fiscal management are critical for mobilizing domestic and international resources for achieving the Sustainable Development Goals, the present paper covers areas of public financial management to reinforce the 2030 Agenda and eradicate poverty in times of multiple crises, contains examples of good practice and ends with policy options for discussion by the Committee.

# II. Selected areas of public financial management to reinforce the 2030 Agenda and eradicate poverty in times of multiple crises

14. The selected areas of public financial management set out below can, once improved, help accelerate progress on achieving the 2030 Agenda and eradicating poverty in times of multiple crises.

## A. Strategic public procurement

15. Public procurement is an essential aspect of the institutional framework for effective governance and an integral part of a strong public financial management system. Although it has long been regarded as solely a process for executing transactions, it has recently been recognized as a strategic policy instrument through which spending entities can meet policy objectives and realize progress on implementing the 2030 Agenda.

16. Governments allocate financing to policies, projects and programmes through their budgets at both the national and the subnational levels. Public procurement systems and practices have direct implications for value for money in public service provision, the business environment, private sector-led growth and local industries, inclusiveness, integrity and checks and balances. Therefore, they represent a strategic tool for reinforcing sustainable development and eradicating poverty. However, as noted by the Committee at its twentieth session, strengthening the capacity of Governments to manage sustainable public procurement is an essential prerequisite for making advances in this area.[11]

17. Public procurement is thought to constitute 13 to 20 per cent of countries' gross domestic product (GDP).[12] However, its real size is most likely underestimated as those figures often exclude defence procurement and procurement at the subnational level (which amounts to about 64 per cent in Organisation for Economic Co-operation and Development (OECD) member countries).[13] The economic weight of public procurement is more pronounced in times of emergency and economic recession, when there is an increased need for welfare.

18. Sustainable public procurement has the potential to serve as a golden opportunity for countries with shortages in budgetary resources if they gear its power towards achieving economic, social and environmental goals. It can play a significant role in achieving the 2030 Agenda by promoting green growth and environmental protection, supporting small and medium-sized enterprises and minority- and women-owned businesses and fostering innovation, standards for responsible business conduct and broader industrial policy objectives.

19. Infrastructure procurement can be a key driver of inclusive economic growth and reduction of inequalities, and a tool of economic stimulus during recessions and

[11] E/2021/44-E/C.16/2021/7, para. 34.
[12] E/C.16/2021/4, para. 1.
[13] See OECD, OECD National Accounts Statistics.

in post-crisis settings. Poorly designed infrastructure procurement projects, however, and the weaknesses of complaint systems can lead to large cost overrun, scope change entailing additional costs, delays in completion, budget overcommitment, misappropriation of multi-year commitments, poor maintenance forecasting and funding, favouritism and influence and corruption, thereby yielding poor social dividends and increasing debt. Negative outcomes of poor procurement practices could be addressed or prevented through specific measures, including robust complaint review mechanisms, transparent and competitive tendering processes, publication of contract awards, including beneficial owners, and strong institutional oversight frameworks.

20. Emergencies usually call for urgent decisions, offering Governments a compelling rationale for bypassing established public procurement principles and procedures. In times of crisis, Governments are known to revert to direct awards because competitive procedures may take too much time and/or create a risk of shortages. The need to achieve required outcomes quickly may thus prevail over principles of transparency, fair competition and value for money. However, it is proved that contracts resulting from a competitive process will yield the best outcome for Governments, lowering the cost, on average, by 2.5 per cent per additional bidder.[14] A supplier is more likely to offer a cheaper price if taking part in a competitive process than if directly awarded the contract. With direct awards, Governments also rely on their own information to identify the best suppliers rather than allowing bidders to come forward.

21. Urgency should not be used as a reason to bypass established governance procedures indefinitely. If a crisis occurs, efforts must be made to record transactions and revert to normal procedures as soon as the situation subsides. To address integrity challenges in the long term, Governments may consider reviewing existing emergency procurement legislation to ensure that it remains relevant to a Government's risk profile, thereby avoiding the need to create new legislation or guidelines under tight timeframes and be better prepared to manage potential economic, social and environmental shocks in the future.

22. Observations from the coronavirus disease (COVID-19) pandemic showed that a "crisis mode" of operation persisted even after the emergency had faded, offering fertile grounds for using public funds for private gain, cronyism, bribes, fraud and counterfeit. Governments should use resources allocated for emergencies and recovery needs in a transparent and accountable manner and in the public interest, avoiding situations where businesses are able to exploit vulnerabilities in procurement processes.

23. To improve transparency and efforts to combat corruption and money-laundering, as well as public financial management, IMF recommends that recipients of emergency financing commit to publishing online procurement contracts, beneficial ownership information of companies receiving such contracts, expenditure reports and independent audits of crisis-mitigation spending. Such measures would not unduly delay urgently needed disbursements. IMF used emergency financing appeals by countries during the COVID-19 pandemic as a means to push them to deliver on their commitments to beneficial ownership transparency by publishing signed documentation on large procurement contracts. Beneficial ownership transparency systems are key to detecting cases of non-competitive procurement

[14] See also Robin G. Milne and Robert E. Wright, "Competition and costs: evidence from competitive tendering in the Scottish National Health Service", *Scottish Journal of Political Economy*, vol. 51, No. 1 (February 2004); and Luis Angeles and Robin G. Milne, "Competitive provision of public services: cost savings over successive rounds of tendering", *Applied Economic Letters*, vol. 23, No. 9 (2016).

when Governments prioritize speed over safeguards. About 60 countries using the IMF mechanism committed to collecting and publishing beneficial ownership transparency information in order to "keep the receipts" and audit government expenditure.

24. Crises can undermine the ability of national supervisory and enforcement authorities to carry out their jobs; however, internal control, audit and oversight functions play a critical role in ensuring that public integrity is not compromised during emergency public procurement. Supreme audit institutions can identify potential integrity risk areas and, where necessary, adapt their routine control measures and ex ante due diligence, or simplify requirements.

25. Emergency spending requires Governments to mitigate procurement risks related to hidden contracts, overpricing and collusion, while enforcing specific measures to ensure integrity. This includes developing detailed guidelines on procurement strategies in times of crisis, using framework agreements and subjecting all emergency procurement processes to audit and oversight. The functionalities of e-procurement platforms may be expanded to keep specific records on the procurement of emergency items and allow the public to track all emergency purchases. Additional measures may include building the capacities of public employees at all levels, as well as conducting spot checks, tracking and monitoring, light-touch financial and performance audits, citizen surveys or multi-stakeholder initiatives and observatories.

26. Data are of greater importance in emergency situations. Providing access to high-quality open data can help civil society organizations report suspicions and hold government officials accountable. E-procurement systems are key to generating the data needed for monitoring and ex-post assessments of emergency spending. They can significantly enhance visibility about how public money is spent, help fight corruption, increase efficiency and enable the integration of public procurement indicators into emergency spending.

27. Gradually, public contracting agencies have moved beyond the digitalization of bidding processes to the use of contracting data to gather intelligence on corruption risks through risk-mapping and red-flagging. These developments are often part of comprehensive open data platforms designed to track the implementation of public investments along their entire value chain. Colombia, for example, has developed an open data platform to track its public infrastructure projects.[15]

28. During the COVID-19 pandemic, the lack of e-procurement systems was reported as a critical constraint for 59 per cent of countries surveyed by the World Bank in 2020.[16] Countries with an existing e-procurement system introduced less drastic changes to adapt to the pandemic. Chile, for example, created a portal where health-care procurement information was published, enabling civil society to track pandemic spending and identify controversial procurement decisions, pressuring the Government to seek better and more affordable services.[17]

29. Civil society institutions also have a crucial role to play in holding Governments and other stakeholders accountable. The IMF COVID-19 Anti-Corruption Tracker, for example, flags the presence (or lack) of anti-corruption and transparency measures in IMF loan agreements, classifying them under nine categories, including public procurement, beneficial ownership, expenditure reporting and audits.[18] Summarized

[15] Available at https://www.datos.gov.co.

[16] World Bank, *Opportunities and Challenges for Public Procurement in the First Months of the COVID-19 Pandemic* (Washington, D.C., 2021).

[17] Available at https://www.chilecompra.cl.

[18] Available at https://www.transparency.org/en/imf-tracker.

information is available for every IMF emergency loan and debt relief fund, highlighting specific anti-corruption commitments. Since the start of the COVID-19 pandemic, inconsistencies have been noted regarding, among other things, speed, flexibility and limited conditionalities in anti-corruption measures in emergency financing provided by IMF.

## B. Transparent, credible and participatory budgetary processes

30. In times of crisis, budget credibility and transparency are not only possible, but should be increased. However, the International Budget Partnership's Open Budget Survey 2021 showed that the average global budget transparency score was only 45 out of 100, indicating that the public availability of budget information was limited in most countries. Only 35 countries out of the 120 surveyed had sufficient levels of budget transparency. Regional disparities in transparency persisted, ranging from an average of 27 in the Middle East and North Africa to 76 in Western Europe, Canada and the United States of America.[19]

31. As the Committee observed at its twenty-second session, budget credibility also remains unsatisfactory, with deviations from planned budgets remaining widespread.[20] Such deviations might sometimes be justified by sudden and unexpected circumstances, such as pandemics, financial crises and natural disasters, but often they cannot be justified and are too frequently the result of poor administrative capabilities (either in budget planning or in budget execution, or both) or, even worse, of political schemes, with policymakers spending budgetary funds in a discretionary manner, pursuing their own opportunistic interests.

32. In 2022, a multi-country investigation undertaken by the International Budget Partnership[21] demonstrated the importance of budget credibility, in particular in countries working on implementing the 2030 Agenda. As data published for indicator 16.6.1 of the Sustainable Development Goals[22] only cover aggregate budgetary expenditure, the International Budget Partnership looked at the sectoral levels, finding that, because of the COVID-19 pandemic, many countries had shifted funding away from key sectors, such as education. On average, spending on gender issues, agriculture and water and sanitation had the lowest rates of budget execution. Another finding was that data from publicly available sources often had gaps, were inconsistent and deviated from data published in countries' voluntary national reports and the database for indicator 16.6.1. Governments were invited to publish more comprehensive and reliable data and use their voluntary national reports to report data on indicator 16.6.1 to cover budget deviations by sector.

33. The Public Expenditure and Financial Accountability framework can be used to monitor indicator 16.6.1 of the Sustainable Development Goals. It can be used to assess a country's public financial management and report on its strengths and weaknesses. A Public Expenditure and Financial Accountability study of 152 countries (during the period 2010–2021) found that about half of the countries showed a deviation in budget execution of less than 5 per cent, a third showed a deviation of 5–10 per cent and the remaining one fifth showed a deviation of more than 10 per cent. Two fifths of the low-income countries assessed had deviations of more than 10 per cent; performance was markedly better in middle- and high-income countries.

[19] See International Budget Partnership, *Open Budget Survey 2021* (Washington, D.C., 2021).

[20] See E/C.16/2023/6.

[21] Sally Torbert, "Connecting budget credibility and the Sustainable Development Goals: results from 13 country investigations" (International Budget Partnership, 2022).

[22] Primary government expenditures as a proportion of original approved budget, by sector (or by budget codes or similar).

Budget implementation at the subnational level was even more challenging, with the budgets of over half of the subnational governments assessed deviating by more than 15 per cent. In only about one third of subnational governments were deviations less than 5 per cent. To cope with the COVID-19 pandemic, some Governments increased their social welfare budget by 100 per cent. However, in some cases, increasing expenditure in certain areas hindered the implementation of new projects in other areas, especially those related to renewable energy.[23]

34. To improve the situation, all the players involved must become aware of the importance of budget credibility and more engaged in achieving it: from budgetary and macroeconomic planners within treasuries or finance ministries who propose both short- and long-term budgets, to Members of Parliament (legislature) who vote on such proposals (in particular members of budgetary committees), to treasuries or finance ministries that execute budgets and, finally, to supreme audit institutions that are supposed to control the whole process. In 2023, a useful handbook for auditors was launched by the Department of Economic and Social Affairs of the Secretariat and the International Budget Partnership on strengthening budget credibility through external audits. Among other things, it explores different approaches to auditing budget credibility, while drawing on the experience of supreme audit institutions in different regions.[24]

35. Governments should also not classify already expected spending commitments as "emergencies" because it decreases oversight and distorts budget forecasts. From 2002 to 2011, for example, the United States categorized its military and reconstruction budgets in Afghanistan and Iraq as "emergency" spending. Consequently, that spending received significantly less oversight by the executive and legislative branches, and the national budget forecasts were underestimated every year during this period.[25]

36. A stronger role for fiscal councils and fiscal rules, where they exist, would be welcome. In a recent IMF paper, fiscal rules and councils were defined, with an explanation of the different types of rules, deviations from rules and ways to measure the strength of fiscal rules.[26] Although more and more countries, including emerging economies and developing countries, have been introducing fiscal rules, fiscal councils are not distributed equally. While they are widespread in North America and Europe, there are only some in Latin America and very few in Africa and Asia.

37. Parliaments that are in charge of scrutinizing, voting on and amending budgets and related documents are too often not up to the task, lacking in capacity or time, or simply being captured by the dominant political party. Many of them do not even have a competent parliamentary budget office capable of providing independent, impartial and relevant information to its members. Often, members of the Government will take over, which can create confusion regarding the roles and responsibilities of the legislative branch and the executive branch. Sometimes, the opposition, which can contribute to controlling the use of public funds, is not recognized or is blocked by the majority Government.

38. Some larger countries have good examples of budget offices. The Finance and Expenditure Committee in New Zealand, for example, is responsible for, among other things, matters relating to the audit of financial statements of the Government and its departments and to government finance, revenue and expenditure. Many much

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

[24] *Strengthening Budget Credibility through External Audits: A Handbook for Auditors* (2023).

[25] Linda Bilmes, "The 'ghost budget': how America pays for endless war", Just Security, 3 January 2024.

[26] Hamid R. Davoodi and others, "Fiscal rules and fiscal councils: recent trends and performance during the COVID-19 pandemic", IMF Working Paper, January 2022.

smaller countries also possess excellent budget offices with competent staff or specialized committees consisting of appointed Members of Parliament. However, even in well-functioning countries it can be difficult, and often not even possible, to adequately track spending and progress.

39. Another crucial aspect is the need to increase public participation in budgetary processes, which can be enabled through accessible and inclusive public communication, paired with other approaches. While the above-mentioned global average score for budget transparency provides no grounds for complacency, the global average score for public participation in budgetary processes is even less satisfactory (just 14 out of 100, ranging from 0 in numerous countries to 59 in the Republic of Korea).

40. The 2021 OCED Trust Survey showed that, on average across countries, only about 40 per cent of respondents trusted their national Government.[27] Starting from the premise that accessible and inclusive public communication can help increase public trust and ensure that all citizens, regardless of their circumstances, can be heard and participate in public life, OECD also provided the following lessons learned:

(a) High-level political and administrative commitment is crucial to support the systematic implementation of accessible communication, to encourage compliance with existing standards and accompany the digital transformation;

(b) Identifying and understanding the target audience is a first key step in making public communication accessible;

(c) Involving citizens directly in defining more accessible standards and content is essential, regardless of their age, gender, digital literacy, etc.;

(d) It is necessary to consider the increasing importance of digital communication, using already available specific guidelines;

(e) Governments should enhance professionalization, addressing challenges of certification, education and training of experts, and increase diversity in public employment;

(f) Governments should establish partnerships with the private sector, civil society, academia and the media;

(g) Governments should constantly evaluate the accessibility of public communication beyond websites and applications.[28]

41. While rarely mentioned, education to increase fiscal literacy is also extremely important. Many citizens encounter major problems when managing their own finances and do not have the capacity to understand numerous aspects of public finance. Under the “fiscal illusion”, insufficiently informed citizens demand unnecessary spending and protest about necessary expenditure cuts. Governments wanting to be re-elected normally have limited capacity to sustain such pressures and waste scarce resources just to remain popular.

[27] OECD, *Building Trust to Reinforce Democracy: Key Findings from the 2021 OECD Survey on Drivers of Trust in Public Institutions* (Paris, 2022).

[28] Emilie Cazenave and Alessandro Bellantoni, “Accessible and inclusive public communication: panorama of practices from OECD countries”, OECD Working Papers on Public Governance No. 54 (2022).

## C. Digitalization of public financial management

42. Technological advancements and the so-called data revolution [29] hold the potential to drive sustainable development, to help eradicate poverty and to create a better future for all. At the same time, digital initiatives undertaken by the public sector can transform the relationships between the State, the private sector and citizens, making Governments more efficient, transparent and agile. Government digitalization can change the services that citizens expect from the State and the Government's accountability to its citizens.

43. The digitalization of government services and the acceleration of digital innovation in public financial management is an opportunity to transform the public sector. Most, if not all, critical public financial management functions can benefit from automation and digitalization, increasingly being designed as "digital by default" and being reformed to be "digital by design". Accordingly, public financial management institutions have been early adopters of digital innovations through, for instance, the deployment of integrated financial management information systems in the 1990s.

44. The benefits of digitalization of public financial management (digital dividends) are multiple.[30] They include:

(a) Greater operational efficiency of public administrations, for example, through the digitalization of revenue administration and government procurement and the automation of administrative processes;

(b) Better design of public policies and targeted social spending, for example, through the digitalization of beneficiary registries and government payment systems and data-sharing between administrations;

(c) More agile, personalized and reactive public services, centred on the needs and experiences of users through their live journeys (e.g. online prefilled submission of tax declarations, integrated systems for identity management, property and land registries and centralized medical records).

45. The COVID-19 pandemic has accelerated the digitalization of Governments around the world, including the digitalization of public financial management. Countries with more mature digital systems for managing public finances, in particular for welfare payments, have shown greater resilience and agility in responding to the social impact of the pandemic and stepping up emergency social transfers, and have demonstrated a greater ability to prevent fraud in emergency spending.

46. During the pandemic, many countries used digitalization to scale up social assistance. In 2022, the World Bank noted that countries that were able to use digital databases and trusted data-sharing to identify beneficiaries reached on average 51 per cent of their population, while countries that had to depend on collecting new information from beneficiaries and could not count on existing databases to cross reference either only reached on average 16 per cent of their population. Countries with existing social registries, integrated government databases and stronger financial management information systems were able to expand their social safety nets faster and cover more people, leveraging mobile government-to-person transfers for social assistance.[31]

[29] See Independent Expert Advisory Group on the Data Revolution for Sustainable Development, "A world that counts: mobilising the data revolution for sustainable development" (2014).

[30] See also World Bank, *World Development Report 2016: Digital Dividends* (Washington, D.C., 2016).

[31] World Bank, "The role of digital in the COVID-19 social assistance response" (Washington,

47. Government digitalization is also a potent tool to improve spending efficiency and prevent the misuse of public resources.[32] Digital technologies and data analytics are increasingly used to detect, disrupt and deter corruption. However, the effective deployment of integrity analytics also presents various challenges related to the availability, quality and integrity of data. The Open Data Charter identifies 30 datasets that are critical for anti-corruption; however, they are, at best, uneven and incomplete. The Open Contracting Partnership has also set up a standard for open contracting data.

48. The digitalization of property and land registries, for example, can bring significant benefits as, in developing countries, conflict over land ownership can give rise to a range of corruption risks and is often a source of conflict. In Rwanda, for example, to address issues of corruption in land administration, the Government introduced digitally enabled reforms in 2008, focusing first on land mapping and titling and then on managing a digital land registry.

49. Tax authorities (e.g. in Mauritania and Senegal) are also using digital technologies to make the process of paying taxes easier and more transparent, increase voluntary tax compliance and prevent tax fraud. Evidence shows that e-filing can lower compliance costs and improve tax collection, as well as reduce fraud and opportunities for the solicitation of bribes by public officials, by limiting face-to-face interactions between taxpayers and tax officers. Making tax payments less complex and burdensome can generate significant fiscal and governance benefits, especially in informal economies. In Kenya, for example, the introduction of a digital platform and the implementation of an integrity programme have enabled the tax authority to increase efficiency and transparency. Custom agencies are also gradually going digital to facilitate trans-border trade. The digitalization of government contracting is another key area with potential significant benefits related to spending efficiency and corruption prevention (see also section A, on strategic public procurement, above).

50. Oversight agencies, audit institutions and anti-corruption offices are also increasingly implementing digital anti-corruption solutions, such as integrity analytics supported by artificial intelligence. Such solutions, however, require guardrails to mitigate related risks. In 2017, for example, the internal audit office in Brazil developed the machine learning system “Alice”, which automatically analyses bidding contracts to detect suspicious patterns and identify irregularities.[33] Another example is the artificial intelligence algorithm of the audit office in Mexico, which is capable of automatically detecting contracting irregularities at the sub-federal level. However, technology alone is not a substitute for clear legal frameworks and proactive independent auditors, who should act on insights gained and enforce accountability.[34]

51. To fully realize the above-mentioned benefits, the analog foundations of government digitalization must be strengthened, creating the right policies, the underlying digital public infrastructure (in terms of data governance, government payments and digital identity) and the integrated national digital strategies that can help achieve government-wide digital adoption while taking into account the current stage of digitalization maturity. Effective safeguards to ensure data security and

D.C., 2022).

[32] Carlos Santiso, “Trust with integrity: harnessing the integrity dividends of digital government for reducing corruption in developing countries”, DESA Working Paper No. 176 (New York, 2022).

[33] See Camilo Cetina “Tres preguntas sobre el uso de los datos para luchar contra la corrupción”, Policy Brief No. 9 (Bogotá, Development Bank of Latin America and the Caribbean, 2020); and Camilo Cetina and Carlos Santiso, *DIGIntegridad: La transformación digital de la lucha contra la corrupción* (Bogotá, Development Bank of Latin America and the Caribbean, 2022).

[34] See Carlos Santiso, “Govtech against corruption: what are the integrity dividends of government digitalization?”, *Data & Policy*, vol. 4 (2022).

privacy and combat increasing cyber risks must also be in place to maintain public trust and promote adoption. Recent cyberattacks in Costa Rica, for example, highlight the risks that digitalization entails, in particular in sensitive areas such as tax administration, treasury operations and public finances.[35]

52. It is important to get the digitalization of public financial management right to take advantage of its full potential. However, developing countries are considerably lagging behind. Many Governments are not yet able to fully use the potential of digital technologies to deliver public services and improve internal operations. Only half of developing countries allow taxpayers to register online and, despite progress in the rollout of treasury single account information technology systems, large gaps in coverage and the extent of adoption are common. Progress on the use of government technology is also uneven within developing countries, with the digital divide being most pronounced in relation to gender and age.

53. Expanding affordable access to the Internet is one way to close the digital divide between and within countries, including at the subnational level, and ensure that no one is left behind.[36] This will, however, require significant investment in digital infrastructure and last-mile connectivity. Universal Internet connectivity remains an elusive target as many Governments forgo opportunities to unleash the transformative force of digitalization. In 2022, an estimated 2.7 billion people globally remained not connected to the Internet.[37] According to IMF, $418 billion in (public and private) investments will be necessary to connect those households.[38] On the demand side, allaying concerns about Internet affordability (e.g. through discounts on service fees) and supporting digital literacy can facilitate digital adoption.

## D. Alignment of official development assistance with the Sustainable Development Goals

54. Beyond the national task of financing the achievement of the 2030 Agenda under fiscal stress, the needs of developing countries for foreign funding, from bilateral and multilateral development aid to support from multilateral and philanthropic organizations and private sector investments, are expected to continue to rise.

55. At the same time, demand for official development assistance far outstrips supply, resulting in the need to ensure that aid given results in maximum impact. The question remains how official development assistance, as one long-standing traditional financial support mechanism, can better support developing countries on their road towards achieving the Sustainable Development Goals and eradicating poverty. Its volume, structure and purpose need to be analysed to assess such potential.

56. The least developed countries are particularly penalized due to decreasing resources and growing debt service, while official development assistance is declining in terms of its share of gross national income. However, the nearly stagnant volume of official development assistance is not the only concern. Bilateral and multilateral budget support has basically remained at similar absolute levels, except for support offered during the COVID-19 pandemic.

[35] Pratim Milton Datta and Thomas Acton, “Ransomware and Costa Rica’s national emergency: a defense framework and teaching case”, *Journal of Information Technology Teaching Cases* (December 2022).

[36] See also *E-Government Survey 2022* (United Nations publication, 2022).

[37] ITU, “Measuring digital development: facts and figures 2022” (Geneva, 2022).

[38] Edward Oughton and others, “Estimating digital infrastructure investment needs to achieve universal broadband”, IMF Working Paper 23/27 (2023).

57. Unfortunately, official development assistance is often also not well aligned with the Sustainable Development Goals. Given the delays in many donor countries setting their own public policy priorities for coherent implementation of the Goals, bilateral aid is not yet driven by Sustainable Development Goal-related cooperation with partner countries. In the period 2020–2021, most of the growth in official development assistance spending was attributed to climate change, refugee costs, food security and combating infectious diseases, mirroring the response to the COVID-19 pandemic. Going forward, providers should aim to strike the right balance between demands for emergency response and commitments made to address long-standing crises, such as climate change, and achieve long-term development goals.[39]

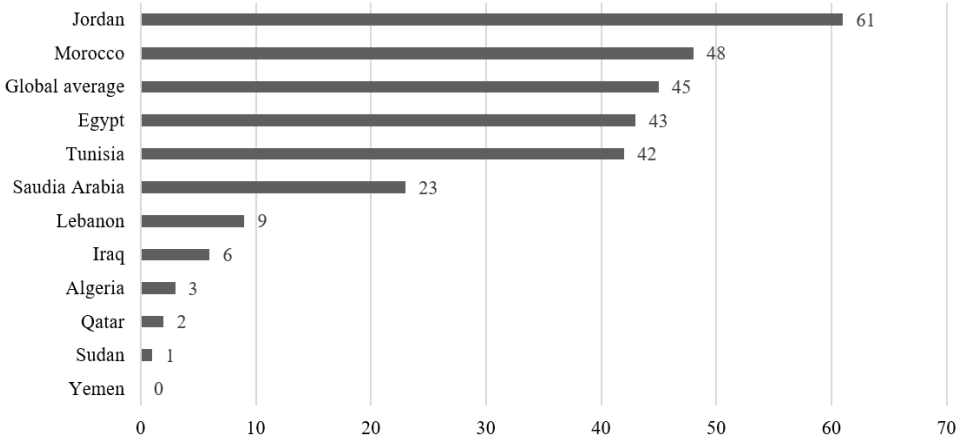
# III. Good practice examples of public financial management in times of emergency

## A. Lebanon citizen budget dashboard: data to enhance fiscal transparency

58. The present case study demonstrates that, in contexts of fragility where crises are frequent and recurrent, the way that public money is collected and disbursed is critical. Lebanon, a country at the intersection of major geopolitical struggles, has been experiencing economic and financial crises, further exacerbated by the wars in Iraq and the Syrian Arab Republic and the ensuing refugee crisis, as well as the dual economic impact of the COVID-19 pandemic and the massive explosion in the port of Beirut in 2020, putting public finances under severe distress. Public debt ratios, which were already notoriously unsustainable, were further aggravated.

59. Fiscal transparency is salient in times of crisis, as Governments are faced with increased financing requirements and a higher exposure to fiscal risks (particularly contingent liabilities). While more flexible fiscal plans may be needed, they may raise financing costs and undermine fiscal sustainability if they are unrestrained and unrealistic. According to the International Budget Partnership, Lebanon, with a budget focused on spending inputs with limited linkages to policy objectives, is among the 10 per cent least transparent countries in the world (see figure I).

Figure I
**Budget transparency scores of selected countries (selected countries)**

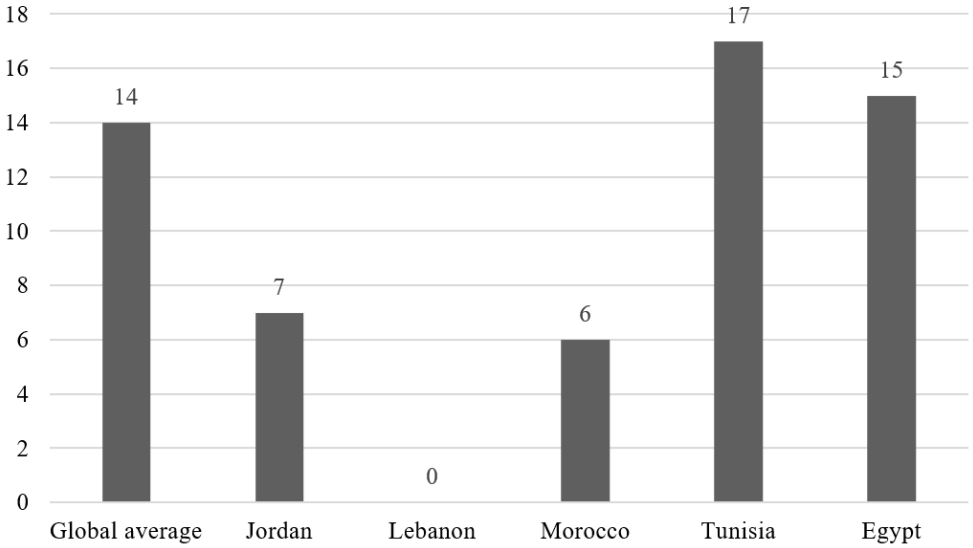



*Source*: International Budget Partnership, *Open Budget Survey 2021* (Washington, D.C., 2021).
*Note*: A budget transparency score of between 61 and 100 is sufficient.

[39] OECD, *Development Co-operation Report 2023: Debating the Aid System* (Paris, 2023), p. 116.

In addition, the outdated legal framework in Lebanon offers little room for effective planning and monitoring of actual achievement of policy goals, and limited means of public engagement (see figure II).

Figure II
**Public participation in budgetary processes (selected countries)**




*Source*: International Budget Partnership, *Open Budget Survey 2021* (Washington, D.C., 2021).
*Note*: A score of 61 and higher would indicate adequate opportunities for public participation in the budget process.

60. While the approved budget represents a large portion of central government spending in Lebanon, off-budget spending is estimated to reach 15.5 per cent of GDP, with part of the revenues and expenditure operated by several public corporations and funds being excluded from the budget.[40] Data on public spending are not available in a systematic or timely manner, or in user-friendly searchable formats. This does not allow the public to understand and assess the impact of decisions on fiscal sustainability, making it very difficult to reasonably predict the state of finances, while exposing the country to growing fiscal risks.

61. In an effort to support better fiscal management, a multidisciplinary team of experts from the Institute of Finance Basil Fuleihan in Beirut joined forces to collect and publish budget data through a user-friendly dashboard to promote budget transparency and raise awareness of and engagement in budget matters. The dashboard displays public revenue and spending data, taken from budget laws and various other documents, including unaudited spending reports published by the Ministry of Finance. Data are compiled in one data warehouse and transformed into understandable, easy-to-read figures and appealing graphs that users can manipulate and analyse.

62. The dashboard offers the ability to track actual government spending and can display a historical overview, “real-time” updates and comparative trends. Users can navigate data through a series of questions that shed light on the Government’s main goals and programmes. The dashboard also contains a general information section to help users understand specific figures, indicators and trends, including a feedback section for comments and requests for additional information. It is an extension of the

[40] Financially Wise, *Off-Budget Spending: A Risky Business for Lebanon* (2022).

work started by the Institute of Finance Basil Fuleihan in 2019 with the first "citizen budget", a simplified version of budget law and budget proposals that are aimed at facilitating citizens' access to and understanding of fiscal information as their constitutional right.

63. Lebanon has been grappling with a severe economic and financial crisis since 2019, triggered by decades of economic, financial and fiscal policy failures, as well as recurrent conflicts. The crisis was compounded by the repercussions of the war in the Syrian Arab Republic, the presence of more than 1.2 million refugees, the COVID-19 pandemic and the explosion in the port of Beirut on 4 August 2020. As the Lebanese crisis spiralled, demand for accessing and understanding fiscal information grew substantially. In less than a year, the dashboard became a unique point of access to budget data used by policymakers and other stakeholders.

64. The Institute of Finance Basil Fuleihan received numerous requests to undertake spending reviews and conduct hands-on training and awareness-raising sessions for parliamentarians, civil society organizations, youth groups, think tanks and development partners, among others, demonstrating its approach in workshops organized by the Middle East Technical Assistance Center and the International Budget Partnership, as well as bilaterally with the ministries of finance of Iraq and the Sudan.

65. Emergencies and crises add pressure to fiscal balances and fiscal sustainability and can increase debt, raising questions about intergenerational fairness as well as government solvency and capacity to keep to the current fiscal course, including tax rates and social protection obligations. Using data to heighten budget transparency is key to improving revenue and spending decisions and to constrain those decisions that are projected to have an adverse impact on long-term sustainability. This is a powerful means to ensure the full engagement of citizens in public debate, so that their voice is translated into more inclusive budgets and public policies, catering to the real needs of communities, with no one left behind.

66. Coalitions, partnerships and support by the international community are needed to amplify such work. This can be done by investing in technology infrastructure and by attracting, training and developing talent in data science while encouraging and empowering public administrations to open their data. To develop the demand side, fiscal literacy programmes are crucial to build an informed citizenship able to engage positively in the conversation.

## B. Philippines: government rightsizing in a post-pandemic poly-crisis world

67. The efforts undertaken by the Philippines to build back better after the COVID-19 pandemic and face the ongoing poly-crisis call for public sector reform with adequate rightsizing of the Government, including structural reorganization and change of mindsets. Such efforts should be led by asking the questions of "what, how and for whom" and establishing clear priorities.[41]

68. The Government's reform agenda reflects the goal of rightsizing by focusing on devolved functions after a Supreme Court ruling gave a much larger share of government revenues to local governments. In addition, it is emphasized in the Philippine Development Plan 2023–2028 that rightsizing should take place in an enabling environment for economic development and achieving upper middle-income country status.

[41] See also William Eggers, "Rightsizing Government: lessons from America's public sector innovators", How-to Guide No. 11 (Reason Foundation, 1993).

69. The following case study, on the Philippines, emphasizes the key enablers and possible game changers for more effective and sustained rightsizing that will allow the public sector to adapt and improve its provision of public services.

## 1. Enablers of contemporary public sector rightsizing

70. The key conditions in the Philippines suggest that Government rightsizing, with the goal of improved public service provision, might have a greater chance of success if policymakers were able to strengthen and leverage digitalization, the present impetus for enhanced decentralization, and establish a culture of learning, paired with strong monitoring and evaluation systems and data-enabled decision-making.

*Decentralization and devolution*

71. In 2021, following the Supreme Court ruling known as the Mandanas-Garcia ruling, the full devolution of basic services from national government agencies to local government units was mandated under executive order No. 138, empowering those units by providing them with additional funding for local development initiatives and programmes. In addition, the Government took several steps to build the capacities of less-developed local governments. Such a decision can also be seen as an impetus for the national Government to facilitate its own rightsizing, given the anticipated stronger role of local governments as the front-line providers of public services.

*Digitalization*

72. The Government of the Philippines has launched several digital initiatives and applications (e.g. e-Government Philippines). These are supplemented by key legislation institutionalizing the transition to e-government (e.g. house bill No. 7327). In June 2023, the Integrated Financial Management Information System was adopted to serve as the single repository and system for all fiscal-related transactions, promoting fiscal transparency, accountability and data-based management and the swift release of information necessary for government transactions.

73. Many large cities in the country have begun to use digital technologies, mobile applications and Quick Response Codes for various public services. Selected information and communications technology solutions were also adopted by some local governments. Civil society organizations have also learned to engage the government through transparency initiatives by reorganizing and analysing government data on budgets and public services provided during the COVID-19 pandemic.

74. The digital divide in the Philippines, with only 63 per cent of adults having access to the Internet, needs to be addressed urgently.[42] Increased competition and openness to investments through regulatory and legal reforms could help improve access, in particular for marginalized communities.

*Culture of evaluation, learning and improvement*

75. Reform efforts in the public sector should be embedded in an overarching culture of learning, paired with strong monitoring and evaluation systems and data- and evidence-informed policymaking. This is consistent with United Nations efforts in supporting countries in changing mindsets in public institutions to better implement the 2030 Agenda.[43]

[42] Tech for Good Institute, “National-level priorities to grow the digital economy: spotlight on the Philippines”, 2023.

[43] See United Nations Public Administration Network, “Changing mindsets in public institutions to implement the 2030 Agenda for Sustainable Development” toolkit. Available at https://unpan.un.org/capacity-development/curriculum-on-governance-for-the-SDGs/1.

76. Policymakers can make better decisions when provided with the right tools and information. A good example is the "Liveable Cities Philippines" dashboard, which has provided real-time data for mayors and city leaders since 2021.

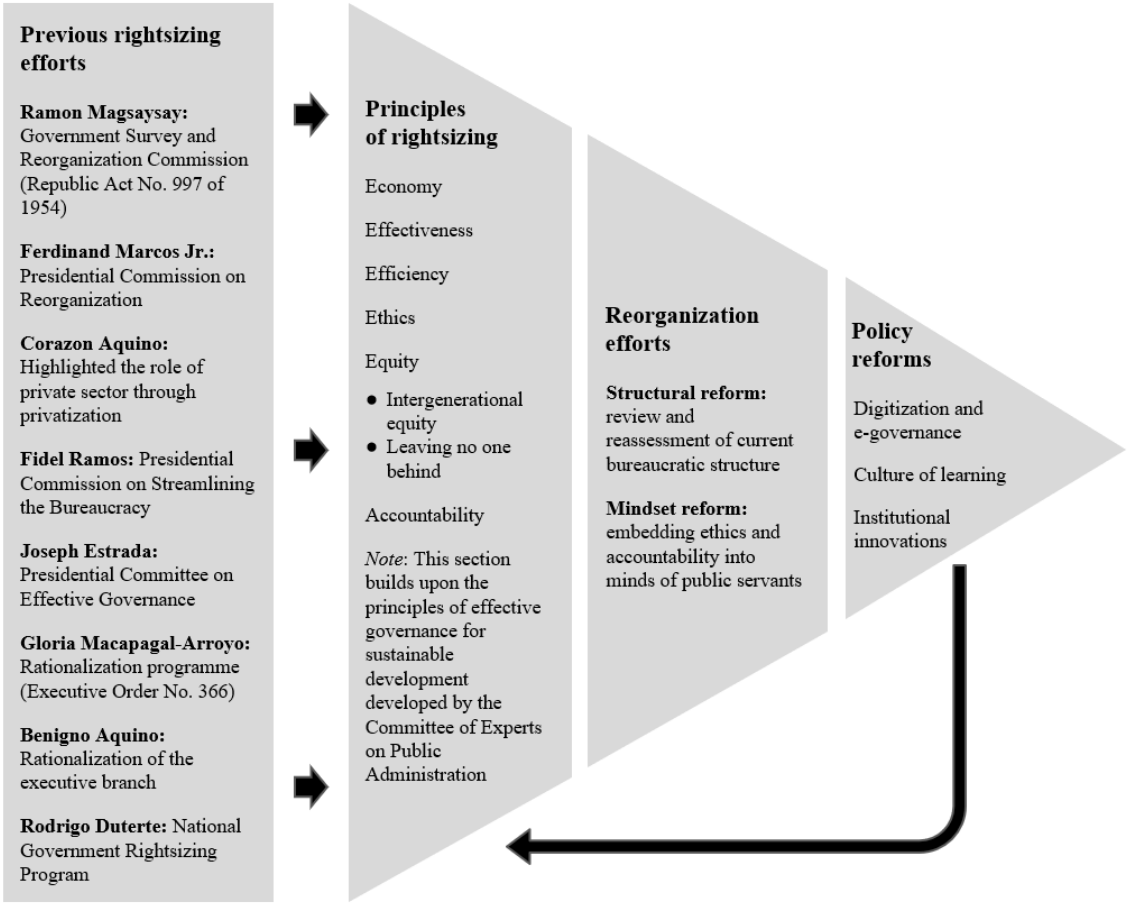
77. Despite embracing results-based management as a part of its public financial management in 2007, the Government should increase its investment in monitoring and evaluation and establish clear evaluation agendas and properly executed plans for government agencies. This could generate the evidence base necessary to guide policymaking and, in particular, rightsizing efforts.

78. In addition, by engaging all stakeholders, the resulting transparent and participatory processes can help overcome the discontinuity and non-linearity observed in the country's previous rightsizing efforts.

## 2. Policy framework for effective and sustained government rightsizing

79. The public sector rightsizing in the Philippines has, thus far, gone in spurts, following a non-linear and often discontinuous process, producing mixed results. While an overarching coordination body headed by the President has been established to undertake comprehensive reviews, coordinate actions, allocate the annual budget and follow up on reform measures to support implementation, the organizing framework contained in figure III below illustrates how government rightsizing could be enhanced and sustained.

Figure III
**Rightsizing policy framework**




*Source*: Prepared by Committee member Ronald Mendoza and colleagues.

80. Structural reorganization and changes in mindset should be guided by lessons learned and supported by academic, training and development institutions and partnerships. For example, capacity-building efforts undertaken by the Public-Private Partnership Center can boost the capabilities of local governments.

81. To conclude, government rightsizing in the Philippines needs an enabling institutional environment with mutually supportive reform components over an extended period of time for it to take root. The absence of such an environment and the vicissitudes of politics and internal and external economic conditions have, thus far, not provided fertile ground for sustained government rightsizing. The Government is, however, advancing reforms in all key areas, which could be seen as a more holistic contribution to potentially more sustained and effective government rightsizing over time.

# IV. Recommendations

82. **Borrowing in times of crises should be sustainable and build on reserves formed during better times, when accountable Governments are expected to save. However, most Governments are not capable of doing that. Strengthening the medium-term orientation of the budget and more systematically identifying and managing fiscal risks, including the accumulation of adequate fiscal buffers, are critical components of sustainable public financial management.**

83. **Programme-based budgeting should be used as a tool for connecting economic and social priorities with budgets and enabling evaluations of value for money of existing or planned expenditure programmes. Sustainable Development Goal-tagging can deliver critical benefits in all phases of the budgeting process, from identifying the resource requirements of the Goals to scrutinizing the achieved performance.**

84. **Countries should increasingly make use of integrated national financing frameworks for financing their national sustainable development priorities and the Sustainable Development Goals. Integrated national financing frameworks can ensure that taxation proposals in the context of the digitalization of the economy and a new generation of sustainable industrial policies, debt management and sustainable debt policies are fully aligned with the 2030 Agenda.**

85. **Searching for efficiency gains should be a priority in standard cross-sectional budgetary cuts aimed at balancing public finances. Accountability institutions, fiscal councils, watchdog organizations and think tanks should identify and promote possibilities for more effective and efficient government spending. Existing public expenditure programmes should be systematically evaluated in terms of costs and outcomes and newly proposed expenditure should not be approved without comprehensive evaluation.**

86. **While there have been numerous studies, suggestions, instructions and recommendations on improving treasuries and finance ministries, it is important to emphasize the role of and increase the engagement of State auditing institutions to strengthen public financial management and budget credibility. It is equally important to engage fiscal councils, as independent, non-partisan agencies assessing fiscal policy, plans and rule compliance, in providing fiscal oversight, monitoring fiscal rules and assessing the credibility of budgets and the quality of public policies.**

87. **To ensure integrity in public procurement, detailed guidelines on procurement strategies in times of crisis should be developed and framework**

**agreements used, with all emergency procurement processes being subjected to audit and oversight. The functionalities of e-procurement platforms should be expanded to keep specific records on the procurement of emergency items and allow the public to track all emergency purchases.**

88. **To fully realize the benefits of government digitalization, the right policies and underlying digital public infrastructure should be implemented, paired with integrated national digital strategies that can help achieve government-wide digital adoption, taking into account the current stage of digitalization maturity. Affordable access to the Internet should also be expanded to help close the digital divide and ensure that no one is left behind.**

89. **An integrated strategic approach to fiscal institution-building should be employed that might reverse the trend of the declining trust of citizens and the private sector in public institutions thanks to the increased efficiency and effectiveness of fiscal management, a rising perception that public money is being well spent, an improved provision of public goods and services, a diminishing risk of corruption, improved tax compliance and a declining informal sector.**

90. **Governments should continue improving their reliability and preparedness for future crises, designing policies and public services with and for people, and enhancing transparency and communication with citizens around promises and results. This will help connect and better engage with citizens in policy design, public service delivery and reform; safeguard and enhance people's ability to exercise an effective political voice; ensure the integrity of elected and high-level officials; continuously measure and improve public service delivery; and ensure the inclusion of vulnerable and marginalized groups. Governments should also enhance education to increase fiscal literacy so that citizens can understand all aspects of public finance and improve their own financial management.**