Knowledge for Development and Diplomacy

Rapid Evidence Review

Managing Risks Through Government Balance Sheets

Tom Harrison and Dr Laurence Ferry
December 2024

CONTENTS

Part 1: Long-term approaches to planning and budgeting: challenges and opportunities in moving beyond the annual budget cycle

Tom Harrison
Institute of Development Studies

What does the literature say about governments moving beyond the annual budget cycle, as the main framework they use for designing and implementing policy and service delivery, and what are the benefits of adopting holistic and long-term perspectives for fiscal management and sustainability?

1. Summary

- A lot of effort has been put into improving budgetary practices in developing countries. Much of this has focused on the annual budget cycle.
- Implementation challenges raise concern about both the credibility of the annual budget cycle and the perverse incentives it can create.
- This has led to significant attention being given to more long-term approaches to budgeting and planning.
- For budgeting, there has been a particular focus in developing countries on producing Medium Term Expenditure Frameworks (MTEFs) that are intended to guide budgetary decisions over a period of three to five years.
- There has also been a resurgence in long term national development planning designed to either guide or counter-balance budgets and MTEFs.
- The expectations of these more long-term approaches are very high. They are expected to draw on accurate data, provide clear direction and reliable predictions. Longer term planning risks being discredited when it falls short of these high standards, but these expectations are difficult to meet and may be unrealistic.
- Longer term plans can also play an important role in building consensus or improving the quality of decision making even when they do not provide a clear policy direction, their data is flawed or their predictions inaccurate. The process of planning and engaging with medium and long-term plans may be more important than the contents of the documents.
- Looking at the role plans play in signalling priorities and the way government budgets and other plans respond to those signals provides an alternative way of understanding how high-level plans are used, and allows for a more evolutionary view of the relationship between planning and budgeting.

2. Introduction

This rapid evidence review is the first in a series of papers intended to contribute to the policy clinics on opportunities to develop a broader and more long-term view of governments' fiscal position. This rapid evidence review focuses on the move towards more long term budgetary and policy processes through the increased use of medium-term expenditure frameworks and national development plans. It highlights the opportunities and challenges. It is accompanied by another rapid evidence review that looks at how governments' fiscal positions are affected by different types of risk and how these are managed. A third rapid evidence review, planned for after the first policy clinic, is intended to draw on evidence and ideas from the policy clinic and other sources to look more broadly at how governments take account of their assets and liabilities.

Longer term/budgetary focus Medium term expenditure frameworks	**Longer term/broader focus** Sustainable Development Goals National development plans Medium term strategic frameworks Infrastructure plans Asset management plans
Short term/budgetary focus Annual budgets	**Short term/broader focus** Service delivery plans Performance targets

3. The annual budget cycle and its limitations

Donors and developing country governments have put a great deal of emphasis on strengthening budgetary systems in developing countries. However, the results have been mixed.

Budgeting is easily discredited if budgets are inaccurate, not followed or are changed too frequently (Allen et al. 2017: 24). There is often a problem with underspending either due to a lack of capability to budget appropriately or due to sectoral ministries being unable to spend the resources they are allocated (CABRI 2021: 19). Many authors therefore argue that the starting point should be to get the basics right: 'governments should ensure that the annual budget is a realistic tool for planning and resource allocation, and that it provides sufficient certainty to line ministries to plan for services delivery' (Allen et al. 2017: 30). This approach suggests that it is possible to identify the most appropriate reforms based on 'which stage a country has reached and then pursue the most appropriate steps consistent with the institutional capacity of that country' (Allen et al. 2017: 34).

However, the history of PFM reforms in developing countries has led to scepticism of reforms that seek to transplant supposed best practice. Matt Andrews et al. (2013) have conducted empirical and theoretical work on the limitations of reforms that privilege 'form' over 'function'. They suggest that such reforms focus on developing PFM systems that look superficially effective rather than on how they operate in practice. They argue for an alternative approach that focuses on addressing problems incrementally through locally tailored solutions to particular problems (Andrews et al. 2013).

Andrews et al. argue that we should assess a PFM system on the outcomes it achieves rather than the processes it follows, identifying a functional PFM system as one that achieves the following outcomes: '(i) Prudent fiscal decisions, (ii) credible budgets, (iii) reliable and efficient resource flows and transactions, and (iv) institutionalized accountability' (Andrews et al. 2014: 6).

Concerns have been raised that even a well functioning budgetary process might fail to achieve these outcomes because of the perverse incentives created by focusing on an annual budget cycle. While the theory argues for an evidence-based process where planning informs budgeting which informs implementation which is then evaluated and informs future planning, decision making is often more incremental in practice (Schick 1983). A host of factors such as the complexity of the budget, the process of annual repetition and the difficulty of removing resources once they have been allocated all make the budget an inherently contested process.

Two examples help to illustrate the perverse incentives that can arise due to the level of emphasis placed on the annual budget cycle.

3.1 Service delivery – staffing shortages and suboptimal resource allocations

In South Africa, the Ministry of Finance has become 'a site of contestation' due to 'the pivotal role it occupies in controlling the flow of public finances' (Pearson et al. 2016: 2). Despite the institutional strength and relatively high capabilities of the Ministry of Finance (Krause et al. 2016), its decisions come into question for neglecting developmental priorities in the process of prioritising fiscal discipline.

In a study of the South African health sector, von Holdt referred to the budgetary process as a 'ritual' where an extensive consultative process does little to ensure that developmental and service delivery priorities are addressed appropriately. Von Holdt and Murphy describe how 'pressure to reduce staff numbers and staff costs' resulted in there being 'shortages of support workers like cleaners, porters, clerks and messengers' (von Holdt and Murphy 2010: 331). They suggest this was a 'false saving' as 'more skilled personnel are forced to do routine and unskilled tasks due to these shortages', while 'the absence of porters leads to the cancellation of operations' (von Holdt and Murphy 2010: 331). In the South African context, where skills are scarce and there are high levels of unemployment, it is suboptimal to leave support roles vacant and therefore increase the burden on doctors and nurses.[1]

This example suggests the annual budget cycle does not always provide an effective means to work through such issues because it is focused primarily on balancing, and usually constraining, the spending demands of different departments, rather than thinking through how resources can be used most effectively.

[1] A counterargument could be that an increased number of support staff would not automatically lead to a more efficient system with fewer bottle necks as it would depend on the organisational capability to deploy and manage staff effectively, which involves scarce managerial skills.

3.2 Infrastructure – prioritising the distribution of expenditure over the value of assets created

A second example comes from Ghana. A study by Williams found that one third of local government infrastructure projects that are started are never finished, accounting for 20 percent of all local government capital expenditure. Williams attributes this to the need for resources to be shared between different areas: if a project has been funded in a particular area in one year, a different area will be prioritised in the next year, even if extra resources are still needed to complete the previous project. Many of these infrastructure projects are either unusable or less durable if they are not completed, and the outcome thus represents a significant waste of resources.

This example highlights how the dominance of the annual budget cycle concentrates attention on the resources that are spent rather than the value of the assets that are created.

4. Attempts to move beyond the annual budget cycle

A significant number of planning and budgetary processes have been introduced at both the national and global level with a view to guiding the production of annual budgets. From a budgetary perspective, these include medium term expenditure frameworks (MTEFs) and fiscal rules.[2] From a planning perspective, these include poverty-reduction strategy papers (PRSPs), medium term strategic plans/frameworks and longer term national development plans and, at the global level, the Millenium Development Goals (MDGs) and Sustainable Development Goals (SDGs).[3] This rapid evidence review focuses on medium term expenditure frameworks and national development plans as the most significant efforts to move beyond the annual budget cycle from a fiscal and planning perspective respectively. Many of the issues and challenges raised are also relevant for other fiscal and planning processes.

4.1 Medium Term Expenditure Frameworks

One of the most widespread measures to provide a more long-term framework for annual budgeting has been the use of medium-term expenditure frameworks (MTEFs). These frameworks are typically indicative and designed to guide, and perhaps set a 'ceiling', for annual budgets in the period covered by the framework (Raudla et al. 2020: 72). They can either be prepared over set periods with a new MTEF starting when the previous one ends, or they can be done on a rolling basis and updated annually (Raudla et al. 2020: 76).

Many countries have moved towards formulating some form of MTEF in both developed and developing countries. According to Brumby and Hemming, only 11 countries did medium-term budgeting before 1990 and those were mostly developed countries (Brumby and Hemming 2013: 220). Then, 'in the early 1990s, MTEFs began to spring up in developing countries, especially in Africa, mainly because the World Bank and bilateral aid agencies began to see

[2] For a discussion of fiscal rules and public financial management, see Corbacho and Ter-Minassian (2013). Fiscal rules are not covered in this rapid evidence review due to a lack of space.
[3] For a discussion of how poverty reduction strategy papers laid the basis for the resurgence of national development planning, as well as the relationship between the SDGs and national development planning, see Chimhowu et al. (2019).

them as a means to ensuring that governments committed sufficient resources to poverty alleviation and other development objectives' (Brumby and Hemming 2013: 220).

There is significant variation in both the purpose of MTEFs and in the way they are used. Allen et al. highlight that MTEFs are intended 'to enhance fiscal discipline, achieve a better alignment of resource allocation with national priorities, and improve the certainty of funding, both internal and external, over the medium term' (Allen et al. 2017: 4). Different approaches have been used in different countries and the approach countries take can change over time (Allen et al. 2017: 6).

The complexity of the exercise and the multiple, sometimes conflicting, objectives mean there are few clear examples of success (Brumby and Hemming 2013: 233). A modest amount of research has been done on the effectiveness of these frameworks with more research on the experience in developing countries than in developed countries (Raudla et al. 2020). However, the research tends to adopt a narrow approach to assessing the effectiveness of MTEFs based on how far they are adhered to, rather than more broadly based on how they influence government thinking. The narrow assessments tend to conclude that MTEFs have delivered less than expected and that MTEFs make sense in theory but do not deliver in practice (Hourerou and Taliercio 2002 cited in Allen et al. 2017: 11).

Raudla et al. focus on 'whether MTEFs amount to credible spending constraints'. However, not all MTEFs are about setting budgetary ceilings. Raudla et al. highlight how the EU has a longer history of 'softer versions of MTEFs' that are designed to 'support planning, and programming, rather than focusing on strict expenditure ceilings' (Raudla et al. 2020: 73). They acknowledge the need 'for future studies … to look at the effects of MTEFs more broadly and to examine how MTEFs influence strategic prioritization between spending programmes, allocative efficiency, and programme effectiveness' (Raudla et al. 2020: 90).

Despite recognition that the way MTEFs are done needs to take account of the context in a particular country (Brumby and Hemming 2013: 235), it has been argued that MTEFs have not adequately taken account of different contexts (Haruna and Vyas-Doorgapersad, 2016 cited in Allen et al. 2017: 11). Mkasiwa notes that 'the MTEF is complex, contextual and challenging even in developed countries' (Mkasiwa 2023: 360), raising questions about how likely it is that it will work effectively in developing countries with weaker capabilities. This echoes critiques in many other areas of PFM reform.

4.1.1 Challenges with data and forecasting

Critiques of the effectiveness of MTEFs highlight problems of data accuracy, in terms of both capturing existing conditions and forecasting future trends. Allen et al. show that MTEFs in Africa have significantly underestimated inflation in their forecasts, focusing on 'the policy objectives of the central bank, rather than being estimated objectively' (Allen et al. 2017: 12). This highlights the problems with accuracy in long-term forecasting due both to unanticipated events and because long-term documents have to balance competing roles in signalling what the government would like to happen and forecasting what the government thinks will happen.

Allen et al. also show that the countries they looked at in Africa all 'underspent against their annual budget estimates, while consistently overspending against their medium-term plans' (Allen et al. 2017: 14). This again indicates the tension between the message that is being sent about controlling public spending and the role in forecasting actual expenditure. Focusing on the shortcomings of MTEFs in developed countries, Raudla et al. document that in the European Union ‘MTEFs have not acted as binding constraints on fiscal policy’ (Raudla et al. 2020: 71). In other words, countries have not stuck to the ceilings set out in their MTEFs. However, they also acknowledge that some flexibility is needed to ensure MTEFs remain realistic and politically acceptable (Raudla et al. 2020: 77). Overshooting targets does not necessarily mean the MTEF does not play a role in shaping expectations about public spending. For example, it may play a role in influencing budgetary negotiations between the ministry of finance and sectoral departments.

4.1.2 Challenges of institutional reform

The other main explanation for the shortcoming of MTEFs focuses on the challenges of institutional reform. Where the routine of annual budgeting is well established, it may be difficult for this to be replaced by a medium-term perspective. Raudla et al. highlight that ‘the annual focus in budgeting may persist even after the formal adoption of MTEF reforms, since the informal norm of annuality can continue to dominate the logic of the decision-makers’ (Raudla et al. 2020: 74) and that ‘governments with an annual budgeting focus will be less likely to adhere to MTEF ceilings’ (Raudla et al. 2020: 88) as politicians ‘preferred being able to remain flexible so that they could react to changing needs’ (Raudla et al. 2020: 88). This highlights that adherence to an MTEF should not always be considered a good thing and that a balance is needed between predictability and flexibility.

The challenge of institutional reform is illustrated by a sectoral study of how the MTEF impacted on the university sector in Tanzania. Mkasiwa found that ‘while the state required the university to implement the MTEF, budget preparers and managers were concentrating on basic budgeting problems in annual budgeting’ (Mkasiwa 2023: 362) and therefore that ‘the MTEF was not perceived to be meaningful’ and ‘was not a catalyst for shaping annual budgeting’ (Mkasiwa 2023: 363).

Allen et al. take the opposite view. They suggest that the problem lies in weaknesses in annual budgeting: ‘in the absence of a credible annual budget, the foundations for building an MTBF that is both realistic and useful as a tool for policy analysis are extremely weak’ (Allen et al. 2017: 18). They also suggest that finance ministries in developing countries often lack the capacity to engage sufficiently over policy objectives and the best approach to delivering those objectives in a cost-effective way (Allen et al. 2017: 20-21, see also Krause et al. 2016). Allen et al. therefore suggest that the focus should be on getting the basics of budgeting right before introducing medium term approaches (Allen et al. 2017: 18-19). However, a realistic process has to be able to manage with limited and incomplete data. It may also create incentives over time to improve the quality of data and the capacity of the ministry of finance. It is an open question, that is contested within the PFM literature, whether ambitious reforms undermine capacity or contribute to building capacity. Much probably depends on whether they are implemented all at once or gradually and incrementally.

There are also more positive assessments of what MTEFs can achieve. A World Bank study suggested that ‘MTEFs have increased the strategic orientation of budgeting, fostered acceptance of resource constraints, and encouraged cooperation between agencies’ (World Bank 2013, paraphrased in Brumby and Hemming 2013: 233). Brumby and Hemming conclude that MTEFs have had a positive effect ‘in promoting fiscal discipline and spending efficiency’ (Brumby and Hemming 2013: 234) but the causality is difficult to determine as the introduction of MTEFs has occurred at the same time as other measures designed to strengthen the budgetary process.

4.2 National Development Planning

In recent years, an increasing number of developing countries have developed overarching long term plans that are intended to inform both medium term and sectoral plans and budgetary allocations. This has led to a doubling of the number of countries producing national development plans (Chimhowu et al. 2019: 76). However, the production of national development plans has led to concerns about how plans are aligned with budgets. Chimhowu et al. found that most of the plans were uncosted, leading them to conclude that ‘financing is the weakest link’ (Chimhowu et al. 2019: 83). Allen et al. similarly highlight the uncosted nature of national plans as a key limitation (Allen et al. 2017: 23), as do Brumby and Hemming, who argue that a plan that is ‘an unconstrained wish list’ does not provide the high-level guidance about priorities that is required to guide budgetary decisions (Brumby and Hemming 2013: 225).

Part of the explanation for this is that most national plans are produced outside the ministry of finance. Allen et al. identify this as a key reason for the lack of alignment between national plans and budgets. They suggest this can also be an issue ‘where former planning ministries have been absorbed into the finance ministry but where, in practice, the processes of development planning and budgeting remain largely separate’ (Allen et al. 2017: 23).

As with medium term economic frameworks, critiques of national development planning tend to focus on the gap between what happens and what is set out in the plan. Wildawsky (1973) argued that planning had failed because the targets set out in national development plans had not been met. This critique has been echoed by more recent authors. Iheanacho (2014) made the same argument for Nigeria, while South Africa’s semi-independent National Planning Commission (2020) criticised the South African government for making inadequate progress in aligning the work of government with the national plan.

However, a more fundamental challenge is in the different objectives of long-term planning and budgeting. Whereas budgeting ideally focuses on the precise allocation of finite resources, a long-term national plan is intended to be more visionary. It may seek to set out key priorities or it may be more aspirational. While budgetary allocations are necessary to facilitate the implementation of the plan, it does not necessarily mean a plan should be costed. This is particularly true of the ‘new national development planning’ (Chimhowu et al. 2019), which is more focused on building consensus than on directing the work of government.

Harrison takes this argument further to suggest that it may not be appropriate to expect national development plans to provide clarity on budgetary priorities. He argues that ‘a national plan is rarely the culmination of a disciplined process of prioritisation and the benefits a national plan delivers may not be due to its precision or its clarity’ (Harrison 2023: 7). He argues that we should see national plans as part of the policy process rather than as the apex point of decision making: ‘a plan may seek to frame the problem or influence the policy narrative; if it does not provide absolute clarity, it could still contribute to building consensus’ (Harrison 2023: 7).

Munro similarly highlights that national development plans ‘provide signals to other actors … about the government’s tone, policy priorities and intended policy tools’ (Munro, 2014: 63). Harrison (2023) draws on literature on spatial planning (Balz and Zonneveld, 2018; Hopkins and Knaap, 2018) to develop this idea of signalling. He suggests that, rather than looking for a hierarchical system of plans and budgets that are neatly aligned with each other, it may be more appropriate to look at how a national plan contributes to the evolution of policy by ‘signalling’ priorities, and how other government plans, policies and budgets respond to these signals. Rather than providing a static view of planning in predetermining priorities, this focus on signalling ‘means that a national development plan evolves over time through the way it is echoed and reframed in other policy documents [and budgetary allocations]’ (Harrison 2023: 28).

5. Challenges of alignment

Several tensions define the efforts to combine long, medium and short-term planning and budgeting processes. These relate to the difficulties of achieving alignment between planning and budgeting, across different time periods. These challenges are often portrayed as undermining the effectiveness of planning and budgeting. However, given the inherently contested nature of government policy and budgetary processes, we could equally think about how these documents help to inform and contain the contestation that occurs.

Where the annual budget cycle is strong, other approaches tend to be subordinated to the focus on the budget. Where the annual budget cycle is weak, data tends to be too unreliable to support more long-term planning that is sufficiently substantiated by budgetary data to inform realistic forecasting. However, medium and long-term planning and budgeting processes can play an important role in informing and guiding government policies and budgets even if they rely on imperfect data, inaccurate projections or insufficient prioritisation. They do not need to be perfect to play a useful role.

There is a tension between the role of long-term documents in setting out policy objectives and fiscal priorities and their role in forecasting what will happen. Given the level of contestation within governments over budgetary allocations, long term projections may reasonably be based on what a ministry of finance hopes to achieve rather than what it realistically expects. Ostensibly technical documents can play an important role in negotiating budgetary allocations and are therefore political as well as technical. Similarly, the visionary role of long-term plans may require them to be overly optimistic. These documents and processes may still play an important role despite their imperfections. The way long term plans and budgets influence the work of government is likely to be of greater significance than the accuracy of what is written in those documents.

Through the policy clinics we aim to reflect further on how different budgetary and planning processes are used, and how they relate to and move beyond the annual budget cycle both in terms of the length of their time horizon and in terms of the breadth of what is covered.

References

Allen, M. R. I., Chaponda, T., Fisher, M. L., & Ray, R. (2017). *Medium-term budget frameworks in sub-Saharan African countries*. International Monetary Fund.

Andrews, M., Cangiano, M., Cole, N., De Renzio, P., Krause, P., & Seligmann, R. (2014). This is PFM. *CID Working Paper Series*.

Andrews, M., Pritchett, L., & Woolcock, M. (2013). Escaping capability traps through problem driven iterative adaptation (PDIA). *World Development*, *51*, 234-244.

Balz, V. and Zonneveld, W. (2018) 'Transformations of planning rationales: changing spaces for governance in recent Dutch national planning' Planning Theory & Practice 19(3): 363–384

Brumby, J., & Hemming, R. (2013). Medium-Term Expenditure Frameworks. In *The International Handbook of Public Financial Management* (pp. 219-236). London: Palgrave Macmillan UK.

CABRI (2021). Covid-19 African Public Finance Response Monitor Working Paper. Centurion, South Africa: Exposing systemic weaknesses in PFM: COVID-19, opportunities for reflection and impetus for functional reform

Chimhowu, A. O., Hulme, D., and Munro, L. T. (2019). The 'New'national development planning and global development goals: Processes and partnerships. *World development*, *120*, 76-89.

Corbacho, A., & Ter-Minassian, T. (2013). Public financial management requirements for effective implementation of fiscal rules. In *The international handbook of public financial management* (pp. 38-62). London: Palgrave Macmillan UK.

Hopkins, L.D. and Knaap, G.J. (2018) 'Autonomous planning: using plans as signals' Planning Theory 17(2): 274–295

Iheanacho, E. N. (2014). National development planning in Nigeria: an endless search for appropriate development strategy. *International Journal of Economic Development Research and Investment*, *5*(2), 49-60.

Krause, P., Welham, B., Mustapha, S. and Hadley, S. (2016) 'The capabilities of finance ministries', ODI Research reports and studies

Mkasiwa, T. A. (2023). Does the MTEF shape annual budgets in a developing country?, *Journal of Accounting in Emerging Economies*, *13*(2), 355-376.

Munro, L.T (2014) 'A tale of two plans: comparing Zimbabwe's Medium-Term plan with the Zimbabwe Agenda for Sustainable Socio-Economic Transformation', *Journal of Public Policy in Africa* 2(1): 62–78.

NPC – National Planning Commission (2020) A review of the National Development Plan 2030: advancing implementation toward a more capable nation. Pretoria, South Africa.

Pearson, J., Pillay, S., & Chipkin, I. (2016). State building in South Africa after apartheid. The history of the National Treasury. *Public Affairs Research Institute Working Paper*, 1-40.

Raudla, R., Douglas, J. W., & MacCarthaigh, M. (2022). Medium-term expenditure frameworks: Credible instrument or mirage?. *Public Budgeting & Finance*, *42*(3), 71-92.

Schick, A. (2010). Crisis budgeting. *OECD Journal on budgeting*, *9*(3), 1-14.

Von Holdt, K., & Murphy, M. (2007). Public hospitals in South Africa: stressed institutions, disempowered management. *State of the Nation*, 312-341.

Wildavsky, A. (1973) 'If planning is everything, maybe it's nothing', *Policy Sciences* 4(2): 127–153

Williams, M. J. (2017). The political economy of unfinished development projects: Corruption, clientelism, or collective choice? *American Political Science Review*, *111*(4), 705-723

Part 2: Rapid Evidence Review - Managing Risks Through Government Balance Sheets

Professor Laurence Ferry
Durham University

Provide a review of risks impacting on government balance sheets, and lessons learnt from shocks.

6. Summary

Given the breadth of issues in relation to risks, this rapid evidence review focuses on managing risks through government balance sheets.

This rapid evidence review draws on literature from academic, policy and non-governmental organisation sources. There is a huge literature from earthquakes to foot and mouth disease, to the pandemic Covid-19. This review focusses on the financial response, and especially related to the balance sheet. The review is not intended to be comprehensive, and no recommendations are made. Instead, the review is primarily to provide some preliminary evidence to inform debate.

Section 2 of this chapter briefly discusses to what extent are increasing risks impacting on government balance sheets. Section 3 considers what were the types of fiscal risks that materialized, which caught governments off guard. Section 4 explores lessons from fiscal shocks for how governments can better manage fiscal risks and in particular the move towards a balance sheet approach. Section 5 then reviews some specific implications for government balance sheets such as domestic revenue mobilisation, taking a broader view of the balance sheet, and forecasting and stress testing. It will also briefly consider public wealth and social equity. In addition, it raises the issues of accountability, transparency, and trust in government. Section 6 affords some examples of country financial responses to Covid-19.

Key findings:

- We live in an increasingly shock prone world, but it is difficult for individual countries to manage such risks. Good quality data on risks is important for their management, as is the capacity to absorb and adapt to risks. A balance sheet approach to public financial management could help in risk management (Section 2).

- Shocks can come from many areas, but often significant fiscal risks can arise from war and conflict, pandemic, climate change, cost of public debt, and other fiscal risks (Section 3).
- Lessons can be drawn from various academic and policy / practice bodies about how governments can better manage fiscal risks, assets, and liabilities. Internationally, the Association of Chartered Certified Accountants (ACCA) (2020) Sustainable Public Finances through Covid-19' gives 24 recommendations for following a balance sheet approach, before going on to highlight how a balance sheet approach can better help manage recovery (Section 4).
- Some specific issues that can have balance sheet management implications are domestic revenue mobilization, taking a broader perspective on public sector balance sheets, and disaster risk management uncertainty forecasting and stress testing (Section 5).
- Domestic revenue mobilisation is recognised as having implications on the government balance sheet during normal times but is arguably even more pressing given crises. Steps to strengthen this area and its impact on the balance sheet is important to understand (Section 5.1).
- It is argued that fiscal sustainability needs broader public sector balance sheets such as accounting for natural capital. Work has been done on public sector sustainability reporting that attempts to address this broader view (Section 5.2).
- Disaster risk management uncertainty forecasting, and stress testing are undertaken through various means that can be useful, but there is no one approach, and interpretation of probabilities can be influenced by their framing in numerical or verbal terms, as well as the background of experts and the context – So it is an aid but is certainly not fool proof (Section 5.3).
- Social justice calls for public wealth to be better used to meet society's economic and social goals in a more equitable manner, which can be enabled through social equity budgeting. The public sector balance sheet could be engendered into such an approach (Section 5.4).
- Managing the relationship between transparency and accountability is important for good public financial management, but importantly also to foster citizen participation and public trust in government. However, it must be understood that different countries will need different approaches depending on context and this could change between areas of activities and over time (Section 5.5).
- There are a vast number of academic articles that have looked at crises from earthquakes to Covid-19, which can contextualise understanding of responses to fiscal shocks to aid shared understanding – some examples of country financial responses to Covid-19 are provided in this review (Section 6).

7. Extent increasing risks impact on government balance sheets

Fiscal risks are factors causing deviation between fiscal outcomes and forecasts over short to medium term, which also can threaten fiscal sustainability over long term or in case of catastrophic shocks be more immediate.

In some circumstances individuals and private firms cannot solely bare risks and so risks may be pooled and managed through insurance or the government. For example, under normal conditions, governments may provide welfare benefits to manage the risks of unemployment, disability and ageing that can be better planned. However, during crises unexpected risks can occur that as insurer of last resort the government may take on, such as collapsed banks during the financial crisis 2007/8.

Major crises and resulting shocks, such as financial crisis 2007/8 and subsequent austerity and Covid-19, may not recur as quickly as in the first two decades of the 21st century, but the fact is we do not know and there is a reasonable expectation that there is increasing exposure to catastrophic risks. Indeed, insurer estimates suggest such risks in terms of global Gross Domestic Product (GDP) have been rising, in frequency and severity due to growing population density to risk areas and global interconnectedness physically and virtually.

The increase in a country exposure to catastrophic risks means there is a higher-level threat to public finances. This is because such risks can disrupt economies regarding both income and expenditure flows, including the government having to step in with risks ending up on the government balance sheet. As a result, this can cause a threat to fiscal sustainability to the government itself and erode confidence in the state and ultimately democracy.

Organisations such as the Office for Budget Responsibility (OBR) in the United Kingdom (UK) therefore look to identify fiscal risks and means of sustainability (OBR, 2023).

However, '[a]ccording to international finance expert Allen Schick, [...] 'no country has ever set aside sufficient fiscal reserves to finance major wars, economic depressions or biological pandemics [...] In fact, few countries have sufficient reserves to cover shortfalls owing to cyclical recessions'' (Marrs, 2020). This includes even better-prepared countries, those that are likely to maintain fiscal balance during growth cycles, cover costs of pensions and healthcare, and monitor sustainability of government budgets and policies.

Indeed, Kristalina Georgieva, International Monetary Fund (IMF) Managing Director, highlighted that, "We live in a more shock-prone world, and we need the strength of the collective to deal with shocks to come" (IMF, 2022).

Professor Laurence Ferry has highlighted, "The use of good-quality data is vitally important for public bodies looking to mitigate their risks – not least the danger of running out of money to provide services (…) Your planning is likely to go awry in the fact of events, (…) "Something will happen that you can't predict." (Marrs, 2020).

The capability, capacity, and confidence to absorb and adapt to fiscal shocks is therefore paramount and needs collective effort, whether at the local, national and / or international levels. A balance sheet approach to public financial management could help in risk management.

8. Types of fiscal risks that materialized, which caught governments off guard

The materialization of types of fiscal risks have caught governments off guard. These are numerous, but this note will cover war and conflict, pandemic, climate change, cost of public debt, and other fiscal risks.

8.1 War and conflict (physical and virtual)

War and conflict are human-made disasters, which are among the most dangerous risks and disastrous shocks. Catastrophic risk in terms of armed conflict between states has diminished in the 21st century compared to the 20th century. Nevertheless, in the first quarter of the 21st century, deaths from civil conflicts within states (including with foreign state intervention) are still significant pressuring advanced economies through increased refugees (with asylum seekers allegedly taking up half of the UKAID budget) and affording terrorist havens that have significant political ramifications. Also more recently there have been an escalation of tensions through the war in Ukraine, over Taiwan with the United States of America (USA) and China, and pressure concerning Palestine that has brought back a more immediate image of cold war.

In addition, apart from physical war and conflict, there is now an increased threat of cyber war that requires cyber security where suggestions of foreign government involvement have been made. This has included virtual espionage and battles with threats made and exercised to country banking systems, international fraud and undermining international trade supply chains. The scale of cyber war could easily be catastrophic given the increased reliance on technology for all forms of life.

The accounting implications concerning risks of war has been considered in research. For example, Funnell and Chwastiak (2015) argue that accounting is often regarded as a value free mechanism for resource allocation and ensuring efficiency, but that contrary to this popular opinion accounting for military forces is primarily a political practice. They emphasise the significant power that financial and accounting controls gave to political elites and the impact of these controls on military performance. Recently, Grossi and Vakulenko (2022) compared initial government accounting responses to the war in Ukraine, highlighting tensions in multiple international responses where humanitarian aid and donations were launched almost instantly while military support varied by country. They also argue the pattern of immediate reactions enables visualization of global economic and financial architecture and suggest how governments and international institutions might better address future crises.

8.2 Pandemics including Covid-19

Throughout history pandemics have caused political, economic, and social shocks. Since the great depression of 1930s, the coronavirus pandemic resulted in the largest peacetime shock to the world economy. Surprisingly, during the global financial crisis in 2009 global output only fell by 0.1% whereas Covid-19 led to a 3.3% fall in 2020. Indeed almost 90% of economies suffered a decline in output. Nevertheless, despite the pressures from the pandemic, a global financial crisis has not recurred reflecting stronger capital requirements and other bank regulations, plus extensive and pre-emptive action taken by governments and central banks to protect household incomes, keep firms liquid, and maintain credit supply. However, this has meant governments and central banks becoming exposed to more risks themselves in their balance sheets.

The catastrophic impact on economies of Covid-19 caused an extraordinary immediate shock to public finances, with increased borrowing by governments necessary either due to lower revenue and / or increased spending that varied between countries. There is also a medium-term fiscal legacy. This includes direct funding pressures for public services as spending plans had no provision for virus-related spending beyond the annual budget. Obvious examples include impacts on education as children missed schooling and increased health costs as preventative procedures were difficult to carry out. Of great concern is the longer-term fiscal risks and lasting impact on potential GDP through the 'scarring' effect, lower labour supply, and lower total factor productivity.

The accounting implications of epidemics and pandemics has been the subject of much research, unsurprisingly this has especially been the case regarding Covid-19 across diverse countries. For example, Ahrens and Ferry (2020) considered the financial resilience of English local government in the aftermath of Covid-19. This was followed by their paper involving a Foucauldian perspective to look at the security, territory, and population implications of managing disease in terms of accounting and accountability practices in times of crisis from the pandemic, through the UK government's response to Covid-19 for England (Ahrens and Ferry, 2021). A summary of over a dozen papers looking at responses to Covid-19 across developed and developing countries is provided later in this briefing.

8.3 Climate change

The nature of risks from climate change maybe slower than say a pandemic or war but could be potentially much more destructive. Accordingly, in recognition of the catastrophic risk, governments signed the United Nations (UN) Climate Change Paris Agreement in 2015. This aimed to limit global warming, with a target above pre-industrial levels of well below 2 (preferably 1.5) degrees Celsius.

The fiscal risks could arise through physical risks from global warming and transition risks to a low-carbon economy, with the balance depending on mitigation levels. No single government could control the risks. To accomplish net zero emissions, the world's largest emitters such as the USA, China, and European Union (EU) are all setting objectives. As a result, a government can focus on risks posed by their country's own net zero options.

Policy levers include carbon taxes, emissions trading systems, bans and other regulations, and public subsidies and investment. The fiscal impact of achieving net zero can therefore incur net zero public spending, net zero receipts losses, carbon tax revenues, indirect fiscal consequences, and debt interest costs. However, the economic and fiscal consequences of the transition to net zero are subject to many uncertainties, with implications of unmitigated climate change, delayed action, consequences for productivity, high versus low public sector share of net zero investment, and potential for offsetting fiscal policy adjustments.

The accounting implications of risks to do with climate change has been the subject of a significant amount of research. Recently, Adams (2023) produced a report on public sector sustainability reporting that *highlighted the* patchwork of frameworks, baselined international practice, and recommended an approach with four key areas being governance, the management approach, performance and targets, and strategy.

8.4 Cost of public debt

Due to the global financial crisis 2007/8 and Covid-19, governments increased their borrowing and therefore fiscal risk from debt reflecting those crystalised and that may. The fiscal outlook risk is further blurred by what may happen to interest rates that are returning to higher more normal levels from historic lows and how quickly that affects debt servicing costs. Higher post-pandemic government debt is further complicated as combines a shorter effective debt maturity as a by-product of quantitative easing, which leads to greater exposure. In addition, high inflation causes more issues as although this arguably reduces debt it is less helpful in situations where debt needs repaid more quickly and you may need further borrowing that will now have higher associated costs. Ultimately, there could be a loss of investor confidence in creditworthiness, with flight from government bonds and vicious circle where rising debt raises borrowing costs that increases rate that debt rises.

The accounting implications of risks from public debt has also been given coverage. For example, a recent IMF Working Paper by Vasquez et al. (2024) considers public debt transparency. The paper surveyed the legal frameworks of sixty jurisdictions, revealing the critical weaknesses that hinder debt transparency. This includes weak reporting obligations, limited coverage of public debt, inadequate monitoring, unclear borrowing and delegation processes, unfettered confidentiality arrangements and weak accountability mechanisms. They argue as laws entrench practices and bind discretion of policy makers and debt managers, subjecting them to public scrutiny, legal reform is necessary in any solution to the problem of hidden debt. Although they acknowledge it may entail a difficult and time intensive process in many jurisdictions.

8.5 Other fiscal risks

Other fiscal risks can be many and varied. These can range from ageing and health spending that have high probability and low to medium impact, to productivity challenges in middle, to costs of war, cyber-attack and climate change that are harder to quantify but whilst less likely to occur at scale could have huge impact. If you do not raise taxes nor follow austerity then to balance the books a country may look to economic growth, but this may not transpire. Often technological change is employed to foster economic growth through productivity, which currently could be through AI. Of course, this can be good and lead to new opportunities, but also may have challenges such as what to do with excess human capital or industries that are adversely affected. In addition, if inequities increase protests may escalate with the risk of undermining governments and even stable governments in advanced liberal democracy. Furthermore, if the old-adage of health, wealth, and happiness is to be engendered, then happiness seems to be forgotten – at least in terms of equities for some groups and so issues of gender, race, class, ageing, disability, and economic inequities would need accounted for.

For all these risks, there is a potential increase in the severity and speed of transmission, as the interconnectedness of the world, being smaller virtually and physically, increases systemic risk.

The accounting implications of other fiscal risks has also been subject to consideration. The OBR (2023) in the United Kingdom (UK) have done a report that informs the budget processes, which covers a range of fiscal risks and means of sustainability including accounting responses. This is a continuation of their reports over years, which are worth looking at together as illustrate how risks can change and the challenges in forecasting and managing them.

9. Towards Balance Sheet Management - Lessons from fiscal shocks about how governments can better manage fiscal risks, assets, and liabilities

Lessons have been drawn from various academics and policy / practice bodies about how governments can better manage fiscal risks, assets, and liabilities.

9.1 Theory

Theoretically, Bergmann (2014) investigated the accounting and reporting of government interventions during the global financial crisis, showing governments do not report all their interventions as required by accounting standards. The incompleteness of information may systematically lead to erroneous decisions and therefore jeopardize financial sustainability. Particularly relevant are shortcomings in the field of consolidation and the presentation of financial guarantees.

Much research has also been undertaken on financial resilience, especially around austerity and within the setting of local government. For example, it is recognised that governments are at the heart of the recovery as they are often the last ones standing as corporate entities fail to survive the shocks, with resilience being the capacity to deal with shocks and uncertainty (Ahrens & Ferry, 2020, 2021). This leads to questions concerning are governments prepared to cope with the shocks and if so, are they capable of guiding collective actions. The financial resilience framework by Barbera et al. (2017) looks at the capacities that an organization such as a local authority has in terms of anticipating shocks, where they are vulnerable to shocks, and how the organization can cope with the shocks. The combination of perceived vulnerability, anticipatory capacities, and coping capacities enables identification of patterns of resilience. The findings of their research have discovered that shocks can produce both bouncing back and bouncing forward responses.

Ultimately, though, there is no one way to create resilience in an organisation, so experts can give advice but cannot say exactly how it should be done.

9.2 CIPFA’s Financial Resilience Index

Regarding practice, in the UK, the Chartered Institute of Public Finance and Accountancy (CIPFA) (2023) Financial Resilience Index is a comparative analytical tool intended for use by chief financial officers to support good financial management. The index shows a council's position on a range of measures associated with financial risk highlighting where additional scrutiny may be required. The data for the resilience index is obtained from the Revenue Expenditure and Financing England Outturn Report 2022-23 ('RO Forms') and reflects figures submitted by Local Authorities to the Department for Levelling Up, Housing and Communities as at 31 March 2023. While recognising some limitations in the returns (e.g., reflecting the previous financial year) they provide a consistent and transparent starting place for a discussion on financial resilience. Findings have highlighted challenges to reserves, implications of public debt and service pressures among other risks to financial resilience.

9.3 OBR 10 Lessons

Also in the UK, the OBR (2021, p. 21-22) provide 10 lessons for responding to catastrophic risks:

1. Catastrophic risks are real and may have become more frequent.
2. Economic shocks affect both supply and demand.
3. Global interconnectedness can be both an asset and a liability.
4. While it is difficult to predict when catastrophic risks will materialise, it is possible to anticipate their effects.
5. When investing in risk prevention, governments have a tendency to 'fight the last war'.
6. There are advantages in preventing or halting a process that involves rapidly escalating costs early.
7. People appear willing to make sacrifices for a clearly defined public good.
8. Economies can sometimes adapt remarkably quickly to structural changes.
9. Fiscal policy can and needs to be more nimble than in the past.
10. In the absence of perfect foresight, fiscal space may be the single most valuable risk management tool.

9.4 NAO 6 Themes

In addition, in the UK, the National Audit Office (NAO) (2021, P. 7) identified learning for government from the Covid-19 pandemic across six themes:

1. Risk management
   - Identifying the wide-ranging consequences of major emergencies and developing playbooks for the most significant impacts.
   - Being clear about risk appetite and risk tolerance as the basis for choosing which trade-offs should be made in emergencies.
2. Transparency and public trust
   - Being clear and transparent about what government is trying to achieve, so that it can assess whether it is making a difference.
   - Meeting transparency requirements and providing clear documentation to support decision-making, with transparency being used as a control when other measures, such as competition, are not in place.
   - Producing clear and timely communications.
3. Data and evidence
   - Improving the accuracy, completeness and interoperability of key datasets and sharing them promptly across delivery chains.
   - Monitoring how programmes are operating, forecasting changes in demand as far as possible, and tackling issues arising from rapid implementation or changes in demand.

- Gathering information from end-users and front-line staff more systematically to test the effectiveness of programmes and undertake corrective action when required.

4. Coordination and delivery models
    - Ensuring that there is effective coordination and communication between government departments, central and local government, and private and public sector bodies.
    - Clarifying responsibilities for decision-making, implementation and governance, especially where delivery chains are complex and involve multiple actors.
    - Integrating health and social care and placing social care on an equal footing with the NHS.
    - Balancing the relative merits of central, universal offers of support against targeted local support.
5. Supporting and protecting people
    - Understanding to what extent the pandemic and government's response have widened inequalities, and taking action where they have.
    - Providing appropriate support to front-line and other key workers to cope with the physical, mental and emotional demands of responding to the pandemic.
6. Financial and workforce pressures
    - Placing the NHS and local government on a sustainable footing, to improve their ability to respond to future emergencies.
    - Ensuring that existing systems can respond effectively and flexibly to emergencies, including provision for spare or additional capacity and redeploying staff where needed.
    - Considering which Covid-19-related spending commitments are likely to be retained for the long term, and what these additional spending commitments mean for long-term financial sustainability.

9.5 ACCA Sustainable Public Finances – 24 Recommendations for a Balance Sheet Approach

Internationally, the ACCA (2020) 'Sustainable Public Finances through Covid-19' gives 24 recommendations for following a balance sheet approach, before going on to highlight how a balance sheet approach can better help manage recovery.

In this analysis, the ACCA cover 10 countries - US, Japan, UK, Italy, Brazil, South Africa, Indonesia, Canada, New Zealand, and Turkey - and importantly contextualizes how their financial positions affected their policy responses to the shock, and potential recovery.

A summary of the 24 recommendations from the ACCA (2020, p.8-9) report are:

Key recommendations

- Governments must turn their attention to public sector balance sheets to manage their finances properly through this crisis. Balance sheet information can improve decision making, should act as the benchmark for new fiscal targets, and will support governments in using sufficient fiscal firepower to rebuild their economies for a more inclusive and greener future.

In response to the Covid-19 crisis, governments should take the following steps

- Reference or implement full-accrual International Public Sector Accounting Standards (IPSAS), the only globally accepted accounting standards for the public sector, in the production of their general-purpose financial reports.
- Consider producing a consistent, multipurpose Chart of Accounts that supports the preparation of full accrual financial statements, as well as providing information for other reporting purposes.
- Minimise reliance on either tax increases or austerity by taking a balance-sheet approach to fostering sustainable public finances. This can be achieved through maximising the return on public assets, focusing on value for money in the use of public resources, and by expanding the scope of the PSBS (Public Sector Balance Sheet) to include a broader range of capitals.
- Consider creating an Asset and Liability Committee to provide expert advice on how best to weigh risk and return objectives to unlock the value of the PSBS.
- Consider the privatisation of certain public assets and services, where this will provide value for money and improve the government's financial sustainability.

    a) Equally, governments should avoid poor-value privatisations, which provide immediate cash but reduce public sector net worth.
    b) Governments not operating on a full accrual basis should be particularly careful in pursuing a policy of privatisation to fund the recovery or support the public finances, as the lack of good data increases the risk of poor value for money for citizens.
- Consider expanding their balance sheet analysis to take a multi-capital approach, which could include natural, human, social, and physical / financial capitals.
- Consider publishing a vision or overall objective that will help guide the finance function during the crisis.
- Reset current economic frameworks, in light of the Covid-19 crisis, and consider what fiscal rules will guide their decision making during the recovery phase.
    a) New frameworks should include fiscal rules that move beyond debt to GDP ratios and instead rely on public sector net worth, providing a comprehensive view of public finances that includes public assets and non-debt liabilities.
    b) As part of resetting fiscal limits, governments should develop medium-term plans for capital spending that support a green recovery and inclusive growth – while also considering the possible economic multipliers arising from any public investment decision.
    c) Revised fiscal frameworks should also provide a planned path to recovery, setting out how sustainable public finances will be achieved over the medium- to long-term.
- Consider adopting the non-authoritative guidance issued by the IPSAS Board on reporting long-term financial sustainability (RPG 1), as well as the Board's guidance on financial statement discussion and analysis (RPG 2).

- Direct independent fiscal policy institutions either to begin fiscal sustainability reporting or to increase its frequency. Central finance departments should be required to respond publicly to these reports in a timely manner.
- Require that public sector balance sheets be properly audited and disclosed. Independent audit increases the reliability and credibility of financial statements and, for qualified opinions, sets out areas of improvement.
- Provide Supreme Audit Institutions with the independence and necessary resources to conduct performance audits, or value for money audits, which may identify cases where public money was not used effectively, efficiently or economically in combating the Covid-19 crisis.
- Finally, jurisdictions operating on a cash basis should also apply the mindset of balance-sheet management to their decision making. All public sector organisations maintain some form of accounting data, for example the purchase price of an asset from a previous financial year, and should consider this information when deciding whether a policy option represents value for money.

Public finance professionals should take the following steps

- Take a commercial approach to the management of public assets – creating new revenue and reducing the need to rely on tax increases or austerity to balance the books.
- Produce clear narrative and appropriate notes to accompany public sector balance sheets in order to support users and non-expert decision makers.
- Consider the classification and recognition of transactions during the crisis, e.g., recognising that monies transferred to a struggling business, where the expectation of repayment is likely to be suspended, are grants rather than loans.
- Apply their judgement in reporting assets or liabilities that are hard to measure reliably. For example, heritage assets may be given a nominal value to record them on a PSBS without affecting the net-worth position.
- Consider how any redirection of resource to combat Covid-19 affects broader metrics of societal well-being and sustainability.
- Conduct frequent fiscal stress testing, which forecasts the impact of negative scenarios on public sector balance sheets. This could include the impacts of a second wave of a Covid-19 or an extended economic downturn.
- Produce accessible summary material, and appropriate narrative and notes within the financial statements. The accompanying narrative in financial statements helps users make sense of the figures; it should try to avoid bias and address critical issues.
- Include a breakdown of outturn by policy area and present trend data in the financial reports. This will give non-expert decision makers a clear view of the sector’s unfolding financial position.
- Participate in discussions with colleagues in the global public finance community on good practices in financial reporting in the public sector, as many issues are common across countries.

- Finally, public finance professionals in countries not on an accrual basis should prioritise analysis that provides the most immediate analytical support in navigating the crisis, such as identifying and monitoring the top 10 risks to the public sector balance sheet (e.g., by applying the '80/20' rule).

Though not comprehensive, the ACCA (2020) sample of countries included at least one case study from every inhabited continent, at a variety of levels of economic development, and represents about 42% of world GDP (World Bank Data 2019). The detailed presentation of each country case study can be found in the report.

The ACCA (2020) report demonstrated the unprecedented economic downturn resulting from the Covid-19 pandemic (Chapter 1), the unaccounted-for 'below the line' policy interventions in response to this crisis (Chapters 2 and 3), and the broad deterioration in public finances (Chapter 4) that together as three challenges provide a difficult backdrop to the global call for countries to 'build back better' (Chapter 5).

In terms of 'building back better', the ACCA (2020) report suggests that *'governments will be better placed to rebuild their economies, by taking a balance-sheet approach'*. There are several potential policy responses.

Firstly, governments will want to stabilise their spending and then rebuild their balance sheets post-crisis. Two traditional responses for stabilisation are public spending reduction or tax increases. Governments could try and avoid this through economic growth, but that is not guaranteed. Another option is to promote inflation, reducing certain government liabilities over time (e.g., nominal public debt), but this has risks such as stoking a cost-of-living crisis.

Secondly, there are additional options for achieving sustainable public finances such as maximising return on public assets, focusing on value for money in use of public resources, and expanding scope of the public sector balance sheet to include a broader range of capitals. Regarding maximising return on public assets, as many are not marketable the New Zealand government classified its assets and liabilities as social, financial, and commercial, where commercial assets have more scope for financial returns. The government of New South Wales in Australia created an Asset and Liability Committee in 2016 for expert advice on weighing the risk and return objectives to unlock value of state's balance sheet. In terms of value for money, taking a balance-sheet approach means governments are more likely to avoid poor-value privatisations, while recording effects of any maintenance backlog, thereby avoiding dangers of fiscal illusions that have been problematical in the past. Also, by taking account of net worth, governments may be less tempted to sell public assets at a loss in order improve their cash holdings, as the balance-sheet approach will show the net profit or loss arising from the sale. In addition, the proper recognition of liabilities, and appropriate classifications, will be important for achieving value for money. This includes recognising that monies transferred to a struggling business, where repayment is likely to be suspended, are grants rather than loans thereby providing a clearer view on long-term sustainability of public finances. Furthermore, the scope of public sector balance sheet can be expanded. For example, an inclusive and green recovery will require policymakers to go beyond their financial capital considering expansion to include four capitals of natural, human, social, physical / financial that different forms of integrated reporting have called for. New Zealand already pursue such an approach with the Public Finance Act requiring government to maintain levels of net worth that provide a buffer against future shocks, improving state resilience. At the same time, the ultimate objective of monitoring and strengthening net worth is improved well-being and living standards.

Thirdly, deteriorating public finances are closely linked to broader economic downturn and so governments can work to rebuild their economies through applying a balance-sheet approach that supports a more inclusive and sustainable economy in the future. During Covid-19, the initial policy measures sought to protect the productive capacity of each country's economy and provide a lifeline to restart these economies after the pandemic. Governments have increased employment protection, subsidised firm payrolls, and deferred tax payments to provide additional short-term liquidity. The attention of many policymakers is now turning to the best way of rebuilding economies. This new framework could include fiscal rules that move beyond debt-to-GDP ratios and instead rely on public sector net worth, providing a comprehensive view of public finances that includes public assets and non-debt liabilities. Policymakers will also need to consider using their revised fiscal frameworks to establish a planned path to recovery, setting out how sustainable public finances will be achieved over the medium-term to long-term. In addition, there should be consideration for improvement in allocation of public investment. This could be through public infrastructure investment that considers areas such as government spending multipliers and the size of government investment as a share of GDP.

Fourthly, consideration will need given to accounting for policy interventions and fiscal risks. The 2018 International Public Sector Financial Accountability Index found only 25% of countries, in sample of 150 central governments, had implemented accrual accounting in 2018 (International Federation of Accountants (IFAC) and CIPFA, 2018). This was forecast to increase to 65% by 2023, but this still suggests many countries are not yet able to rely on accrual information. Often the argument is put forth that jurisdictions need an accrual basis to benefit from the balance-sheet approach, but whilst this may arguably help a balance sheet approach can still be taken from those that countries that do not have a fully operational accruals approach. For instance, even jurisdictions operating on a cash basis can apply the mindset of balance-sheet management to their decision making, including prioritising analysis that identifies and monitors the top 10 risks to the public sector balance sheet. Governments should also consider adopting the non-authoritative guidance issued by the IPSAS Board on reporting long-term financial sustainability (Recommended Practice Guideline 1 (RPG 1)), as well as the Board's guidance on financial statement discussion and analysis (RPG 2).

Fifthly, managing fiscal risks through crisis can involve public sector balance sheets acting as a way for socialising risk. For instance, the dominance of 'below the line' policy responses to Covid-19 demonstrates the substantial new risks that governments took on to support private sector during the crisis. Unfortunately, many new loan guarantees could ultimately be called upon and the government must consider what fiscal buffers are required. Accordingly, public finance professionals need to conduct frequent fiscal stress testing, forecasting impact of different scenarios on public sector balance sheets. Stress test results can help inform government on what expenditure and investment can be safely made while maintaining a sustainable and resilient financial position. The New Zealand Treasury publishes results of stress testing across different scenarios ranging from earthquakes to foot-and mouth outbreak and a major international economic downturn. In addition, public sector balance sheets can also include information on contingent liabilities, which could affect the balance sheet and budget were the liabilities to crystallise. Furthermore, the public sector balance sheet can provide a fuller picture of the risk taken on by government during crisis, as well as the effect of possible negative scenarios in the future.

Sixthly, achieving credibility and clarity for public sector balance sheets is important if they are to be useful, and so they must be properly audited and disclosed. In addition, Supreme Audit Institutions can conduct performance audits, or value for money audits, which identify where public money was not used effectively, efficiently, or economically in combating crisis. Furthermore, to achieve credible and clear public sector balance sheets, public finance professionals need to produce accessible summary material, and appropriate narrative and notes within the financial statements.

10. Some specific implications for management of government balance sheets

There are many implications for management of government balance sheets, but in this section the review covers domestic revenue mobilization, taking a broader view of public sector balance sheets going beyond financial capital to include physical / natural resources, and consideration of disaster risk management uncertainty forecasting and stress testing. It also considers equity. In addition, consideration will be given to accountability, transparency, and trust.

10.1 Domestic revenue mobilization

Domestic revenue mobilisation has implications on the government balance sheet whether during normal times or crises. For example, Modica et al. (2018) in an OECD working paper considered domestic revenue mobilisation as critical to fund government services and support development, which also impact other social or economic outcomes. To understand the tax revenues level and structure they considered 80 countries through the Global Revenue Statistics Database comparing tax-to-GDP ratios and tax structures across countries, regions and over time. A correlation analysis assessed links between tax-to-GDP ratios, GDP per capita and tax structures.

Cunha and Putaturo (2020) in an analysis for Oxfam and ActionAid also examined domestic revenue mobilization, suggesting it was key for governments to fund their own development goals, finance gender-responsive public services such as health and education, and to reduce economic, social and gender inequalities. They also suggest that donor countries and institutions can contribute to strengthening domestic revenue mobilization in developing countries though development cooperation aid, with at that time the EU being the largest provider of aid to domestic revenue mobilization amongst the donors. This examination was based on how the EU's aid to domestic revenue mobilization was disbursed in terms of looking at allocations for 2016 and 2017 as reported in the Addis Tax Initiative (ATI) Domestic Revenue Mobilisation database.

In addition, the World Bank (2023) undertook an independent evaluation that assessed their strategies and interventions to help client countries enhance domestic revenue mobilization. Leading up to the Covid-19 pandemic, high fiscal deficits and already high and rising debt levels made enhancing domestic revenue mobilisation a significant priority for developing economies, particularly lower-income countries. Since the pandemic, tax revenues dropped by 12 percent in real terms, and in many countries, ratios of tax to GDP have fallen below 15 percent, considered minimum to finance a state's basic functions. The World Bank (2023) evaluation assessed the relevance and effectiveness of World Bank–supported strategies and interventions between fiscal years 2016 and 2019 to help client countries enhance domestic revenue mobilization. The evaluation country case studies included Chad, Colombia, Guatemala, Kenya, Madagascar, Pakistan, and Rwanda. They offered four recommendations for the World Bank to support domestic revenue mobilization that in summary were to firstly take stock of findings of broad range of tax diagnostics tools and instruments, secondly to assess effectiveness and efficiency of tax exemptions in achieving country-specific policy objectives, thirdly to strengthen incentives to sustain reforms and make reversal more challenging, and fourthly to provide clearer guidance to staff on choice of results indicators to measure impact of domestic revenue mobilization support, facilitate learning from experience, improve monitoring of progress toward domestic revenue mobilization-related objectives, and promote an outcome orientation.

More specifically relating to addressing the economic effects of Covid-19, the IMF did a special series of notes that included considering revenue mobilisation in Sub-Saharan Africa during the pandemic (IMF, 2022). The IMF (2022) suggested that through repeated waves of Covid-19 and multiple lockdowns, governments in sub-Saharan Africa were cut off from much-needed revenue sources, from freeze in economic activity and tax forbearance measures implemented to help businesses survive. High frequency data available up until December 2020 reveals how the pandemic caused a median 15 percent drop in monthly tax revenues in mid-2020 relative to the year before. In their note they explore decline across revenue categories, drivers behind this drop, and whether revenue potential is more permanently damaged. They also document types of relief measures implemented across the region. They found many revenue mobilization challenges facing countries before the pandemic remain unresolved and have been exacerbated by lockdowns and the stop-start aftermath. Going forward, as the pandemic comes under control, they suggest governments face urgent need to renew domestic revenue mobilization efforts, including diversifying and broadening tax bases and strengthening revenue collection infrastructures. In addition, they suggest digital solutions present important opportunities to open new or underutilized sources of taxation.

Furthermore, as shown in an Organisation for Economic Co-operation and Development (OECD) Contribution paper by Fordelone et al., (2022), the OECD also had policy responses to Covid-19 including that considered how to enhance domestic revenue mobilisation in small island developing states (SIDS). They suggested that a broader perspective was needed to explore how revenue effects of this crisis in SIDS are connected to their unique financing challenges. It also suggests how SIDS governments and development co-operation providers can better partner to strengthen mobilisation of domestic revenues and especially tax revenues in post-Covid-19 recovery.

10.2 Broader view of public sector balance sheets – Beyond financial capital

It is argued that fiscal sustainability needs broader public sector balance sheets such as accounting for natural capital, rather than merely conventional commercial accounting measures of assets and liabilities and coverage in economic statistics that focus on economic / financial value associated with ownership rights and / or substance over legal form. This is because current practices provide a somewhat narrow view such as net debt, rather than a broad picture like public sector net worth that would help understand social, economic, and environmental wellbeing. Nevertheless, even broad national accounts fail to recognise natural assets (green e.g., rainforests, and blue e.g., ocean), which are often highly valuable and subject to climate change risks and associated depletion costs. They are therefore excluded from visibility in the traditional financial based balance sheet and measures of economic flows such as GDP.

Nevertheless, despite continuing initiatives from different bodies, broader accounting standards are not yet available nor is there universal agreement and many calls continue those over the past few decades for improved financial reporting to capture climate change. Work is underway to produce relevant standards for public and private sector entities through international accounting bodies covering International Financial Reporting Standards (IFRS) and IPSAS, also work on standards for national statistics is ongoing through the United Nations (UN) and OECD.

In the meantime, some countries have advanced practices. For example, New Zealand publish a 'Wellbeing Budget' and a Living Standards Framework based on integrated reporting and four capitals: natural, human, social, and financial / physical, which also forms the basis for their Budget presentation (New Zealand Government, 2021).

To try and bottom out the state of play, Adams (2023) in a publication for the Chartered Institute of Public Finance and Accountancy (CIPFA) has comprehensively covered the current position on public sector sustainability reporting. *This report highlighted the* current patchwork of public sector sustainability reporting frameworks, which are inconsistent and confusing. It used these as a base to recommend an approach that aligns sustainability reporting with the wider practice of financial reporting. The four key areas in this approach are governance, the management approach, performance and targets, and strategy. A full copy of that report can be located at: https://www.cipfa.org/protecting-place-and-planet/sustainability-reporting

Adams has previously undertaken much research in this area over several decades. In a recent paper, Abhayawansa & Adams (2022) evaluated non-financial reporting frameworks insofar as risk reporting is concerned. This was facilitated through analysis of the adequacy of climate-related and pandemic-related risk reporting in three industries that were significantly impacted by the Covid-19 pandemic and at risk from climate change. It was found that risk reporting on two significant issues, pandemics, and climate change, is woefully inadequate. While very little consideration has been given to pandemic risks, disclosures on climate-related risks focus predominantly on 'risks' of increased regulation rather than physical risks, indicating a short-term focus. The disclosures are dispersed across different corporate reporting media and fail to appreciate the long-term consequences or offer solutions. Mindful that a conceptual framework for non-financial reporting must address this, they proposed a new definition of materiality and recommended that sustainable development risks and opportunities be placed at the core of the future framework for connected / integrated reporting. In addition, papers have considered accountability and governance in pursuit of Sustainable Development Goals through conceptualising how governments create value (Abhayawansa et al., 2021) and conceptualising the contemporary corporate value creation process (Adams, 2017).

10.3 Disaster risk management uncertainty forecasting and stress testing

Disaster risk management uncertainty can be forecasted through various means, which can include catastrophe modelling and how they can be used for building resilience. Within such models, probabilities and statistics will need considered and Monte Carlo simulation is a technique that could be employed. Many hazards, or a combination, could be modelled. As can exposure, fragility, and vulnerability. Financial and non-financial losses could be incorporated, along with pre-event and / or post-event loss modelling and real-time scenarios. Developing countries may have specific challenges and issues that would need contextualised.

The UN Office for Disaster Risk Reduction (2022) published a global assessment report, which suggested to accelerate essential risk reduction and resilience building that it was important to: Measure what we value; Design systems to factor in how human minds make decisions about risk; and Reconfigure governance and financial systems to work across silos and design in consultation with affected people. In addition, the Cambridge Centre for Risk Studies, in collaboration with Lighthill Risk Network, (2020) provided best practice for developing Scenarios for Disaster Risk Reduction.

However, Doyle et al. (2014) have previously highlighted there needs to be some caution as interpretation of probabilities can be influenced by their framing (verbal or numerical) and the career sector (scientist or non-scientist) making the decisions. These findings demonstrate the importance of identifying communication strategies that mitigate different perceptions of forecasts, to both enhance end-user decision making and to prevent premature, delayed, or unnecessary actions.

Stress testing can also be useful for disaster preparedness This is because it allows simulation and anticipation of possible scenarios and outcomes of a disaster, plus testing effectiveness and robustness of preparedness measures.

However, there is no single approach to stress testing. Instead, it is important to define the purpose and scope, identify and select scenarios and variables, design and implement methodology, and review and report results.

10.4 Considering public wealth to meet society's economic and social goals – Social equity

In recent years, a big issue has been an increasing amplification of societal concerns with social justice regarding how public wealth can be better used to meet society's economic and social goals in a more equitable manner (Guy and McCandless, 2020), such as through social equity budgeting (McDonald and McCandless, 2022, 2024).

Research into social equity has progressively answered five broad questions, namely how social equity is linked to constitutional provisions of fairness, how definitions of *we* have expanded, the extent of inequities, why inequities persist, and how accountability for social equity is achieved (Gooden, 2015).

Social equity budgeting research has been widely undertaken around four major dimensions to ensure fairness concerning access, processes, quality, and outcomes both together and separately (Johnson and Svara, 2015a, 2015b).

Within social equity budgeting, there has been research on race and ethnicity, (Martinez Guzman et al., 2023), gender (Rubin and Bartle, 2021), and more including disability, socio-economic / class differences, and inter-generational fairness issues.

Other frameworks also add to this debate such as public value accounting, which considers revenue and expenditure but also assets and liabilities in meeting citizen needs (Moore, 2014; Ferry et al., 2019).

10.5 Transparency, accountability, and trust in government

Ferry et al. (2015) illustrated how accountability and transparency can support one another, have little effect on one another, or even pull against one another. In English local government they showed how increased transparency through freedom of information and data transparency is useful but did not make up for the loss of professional public audit that underpinned accountability arrangements, as an informed proactive citizenry acting as armchair auditors did not emerge. Likewise, Ferry and Eckersley (2015) illustrated that this was the same for the USA, but that in other more developing economies such as China and India then transparency potentially was more effective than more formal means of accountability such as public audit. In other words, accountability and transparency effectiveness depends on context, which can also change over time so needs managed. Ferry and Midgley (2024) went on to show the relationship between accountability and transparency for public trust through public sector accounts that are in part to serve citizen interests.

11. Examples of country financial responses to Covid-19

There are a vast number of academic articles that have looked at crises from earthquakes to Covid-19. In terms of Covid-19, several journals ran special issues on financial responses.

The Journal of Public Budgeting, Accounting and Financial Management (JPBAFM) published many papers across different countries and regions looking at the government financial response to Covid-19.

Appendix 'A' below provides a sample of thirteen paper abstracts from JPBAFM covering: UK, England, Italy, Russian regions, USA, New Zealand, Nigeria, West Africa (Liberia, Sierra Leone, and Ghana), South Korea, Taiwan, India, Pakistan, and South Asia (India, Nepal, and Sri Lanka). These are purely illustrative to show the broad range of work being undertaken.

References

Abhayawansa, S., & Adams, C. (2022). Towards a conceptual framework for non-financial reporting inclusive of pandemic and climate risk reporting. Meditari Accountancy Research, 30(3), 710-738. https://www.emerald.com/insight/content/doi/10.1108/medar-11-2020-1097/full/html

Abhayawansa, S., Adams, C., & Neesham, C. (2021). Accountability and governance in pursuit of Sustainable Development Goals: conceptualising how governments create value, Accounting Auditing and Accountability Journal, 34(4) 923–945. https://doi.org/10.1108/AAAJ-07-2020-4667

Adams C. (2017). Conceptualising the contemporary corporate value creation process. Accounting Auditing and Accountability Journal, 30(4) 906–931. https://www.emerald.com/insight/content/doi/10.1108/AAAJ-04-2016-2529

Adams, C. (2023). Public sector sustainability reporting: time to step it up. CIPFA. Available at https://www.cipfa.org/protecting-place-and-planet/sustainability-reporting

Ahrens, T., & Ferry, L. (2020). Financial resilience of English local government in the aftermath of COVID-19. Journal of Public Budgeting, Accounting & Financial Management, 32(5), 813-823. https://doi.org/10.1108/jpbafm-07-2020-0098

Ahrens, T., & Ferry, L. (2021). Accounting and accountability practices in times of crisis: a Foucauldian perspective on the UK government's response to COVID-19 for England. Accounting, Auditing & Accountability Journal, 34(6), 1332-1344. https://doi.org/10.1108/AAAJ-07-2020-4659

Association of Chartered Certified Accountants (ACCA). (2020). Sustainable Public Finances through COVID-19. ACCA. https://www.accaglobal.com/content/dam/ACCA_Global/professional-insights/SPF_Covid19/AlexMetcalfe.MichaelTaylor.SustainableFinances.Covid19.pdf

Barbera, C., Jones, M., Korac, S., Saliterer, I., & Steccolini, I. (2017). Governmental financial resilience under austerity in Austria, England and Italy: how do local governments cope with financial shocks? Public Administration, 95(3), 670–697 https://onlinelibrary.wiley.com/doi/abs/10.1111/padm.12350

Bergmann, A. (2014). The global financial crisis reveals consolidation and guarantees to be key issues for financial sustainability. Journal of Public Budgeting, Accounting & Financial Management, 26(1), 165-180. https://doi.org/10.1108/JPBAFM-26-01-2014-B007

Cambridge Centre for Risk Studies, in collaboration with Lighthill Risk Network. (2020). Scenario Best Practices: Developing Scenarios for Disaster Risk Reduction. Cambridge Centre for Risk Studies at the University of Cambridge Judge Business School. https://www.jbs.cam.ac.uk/wp-content/uploads/2021/11/crs-developing-scenarios-for-disaster-risk-reduction.pdf

Chartered Institute of Public Finance and Accountancy (CIPFA). (2023). Financial Resilience Index. CIPFA: London. https://www.cipfa.org/services/financial-resilience-index/resilience-index

Cunha, L. and Putaturo, C. (2020). Supporting fair tax systems – An analysis of EU aid to domestic revenue mobilisation. ActionAid and Oxfam. Available at: https://oi-files-d8-prod.s3.eu-west-2.amazonaws.com/s3fs-public/2020-06/Supporting%20fair%20tax%20systems%20-%20an%20analysis%20of%20EU%20aid%20April%202020_ActionAid%20and%20Oxfam%20report%20DEF.pdf

Doyle, E., McClure, J., Paton, D., & Johnston, D. (2014). Uncertainty and decision making: Volcanic crisis scenarios. International Journal of Disaster Risk Reduction, 10(A), 75-101. https://doi.org/10.1016/j.ijdrr.2014.07.006.

Ferry, L., Ahrens, T., & Khalifa, R. (2019). Public value, institutional logics and practice variation during austerity localism at Newcastle City Council. Public Management Review, 21(1), 96-115. https://doi.org/10.1080/14719037.2018.1462398

Ferry, L., & Eckersley, P. (2015). Accountability and transparency: A nuanced response to Etzioni. Public Administration Review, 75(1), 11-12. https://doi.org/10.1111/puar.12303

Ferry, L., Eckersley, P., & Zakaria, Z. (2015). Accountability and transparency in English local government: Moving from 'matching parts' to 'awkward couple'?. Financial Accountability and Management, 31(3), 345-361. https://onlinelibrary.wiley.com/doi/full/10.1111/faam.12060

Ferry, L., & Midgley, H. (2024). Are public sector accounts trusted? Exploring the verdict of the Public Administration and Constitutional Affairs Committee in the United Kingdom. Public Administration. https://doi.org/10.1111/padm.12983

Fordelone, T.Y., Tortora, P. & Xia, J. (2022). Recovering from Covid-19: How to enhance domestic revenue mobilisation in small island developing states. OECD. https://www.oecd.org/coronavirus/policy-responses/recovering-from-covid-19-how-to-enhance-domestic-revenue-mobilisation-in-small-island-developing-states-45f29680/

Funnell, W., & Chwastiak, M. (2015). Accounting at War: The Politics of Military Finance (1st ed.). Routledge. https://doi.org/10.4324/9781315716930

Gooden, S. (2015). From equality to social equity. In: Guy ME, Rubin MM (eds) Public administration evolving: from foundations to the future. Routledge, New York, pp 210–230.

Grossi G., & Vakulenko, V. (2022). New development: Accounting for human-made disasters—comparative analysis of the support to Ukraine in times of war. Public Money & Management, 42(6), 467-471. 10.1080/09540962.2022.2061694

Guy, M. E., & McCandless, S. A. (2020). Achieving social equity: From problems to solutions. Irvine, CA: Melvin & Leigh, Publishers.

Guy, M., & McCandless, S. (2020). Achieving Social Equity: From Problems to Solutions, Melvin & Lehigh Publishers.

International Federation of Accountants (IFAC) and Chartered Institute of Public Finance and Accountancy (CIPFA). (2018). International Public Sector Financial Accountability Index, IFAC & CIPFA. https://www.ifac.org/knowledge-gateway/supporting-international-standards/publications/international-public-sector-financial-accountability-index-2018-status-report

IMF Annual Report. (2022). Crisis upon crisis. IMF. https://www.imf.org/external/pubs/ft/ar/2022/downloads/imf-annual-report-2022-english.pdf

Johnson N., & Svara, J. (2015a). Social equity in American society and public administration. In: Johnson N., Svara J. (eds) Justice for all: promoting social equity in public administration. Routledge, New York, pp 3–25.

Johnson N., & Svara J. (2015b). Toward a more perfect union: moving forward with social equity. In: Johnson NJ, Svara JH (eds) Justice for all: promoting social equity in public administration. Routledge, New York, pp 265–290.

McDonald, B., & McCandless, S. (2022). Incorporating social equity, in McDonald, B. & Jordan, M. (Eds), Teaching Public Budgeting and Finance: A Practical Guide, Routledge, New York, NY, pp. 236-256.

McDonald, B., & McCandless, S. (2024). Budgeting for Social Equity: Exploring the (Nearly) Unknown. Journal of Social Equity and Public Administration. http://dx.doi.org/10.2139/ssrn.4040299

Marrs, C. (2020). An eye to the future: preparing public finances for life after Covid-19. Public Finance, 23 June. https://www.publicfinance.co.uk/feature/2020/06/eye-future-preparing-public-finances-life-after-covid-19

Martínez Guzmán, J., Jordan, M., & Joyce, P. (2023). Towards inclusive public administration systems: Public budgeting from the perspective of critical race theory. Public Administration, 1–18. https://doi.org/10.1111/padm.12956

Modica, E., Laudage, S., & Harding, M. (2018). Domestic Revenue Mobilisation: A new database on tax levels and structures in 80 countries. OECD Taxation Working Papers, No. 36, OECD Publishing, Paris. https://doi.org/10.1787/a87feae8-en.

Moore, M. (2014). Public Value Accounting: Establishing the Philosophical Basis. Public Administration Review, 74(4), 465–477. https://onlinelibrary.wiley.com/doi/abs/10.1111/puar.12198

National Audit Office (NAO) (2021). Initial learning from the government's response to the COVID-19 pandemic. NAO. https://www.nao.org.uk/wp-content/uploads/2021/05/Initial-learning-from-the-governments-response-to-the-COVID-19-pandemic.pdf

New Zealand Government. (2021). Wellbeing Budget 2021, May https://www.treasury.govt.nz/publications/wellbeing-budget/wellbeing-budget-2021-securing-our-recovery

Office for Budget Responsibility (2021). Fiscal risks report 2021. https://obr.uk/docs/dlm_uploads/Fiscal_risks_report_July_2021.pdf

Office for Budget Responsibility. (2023). Fiscal risks and sustainability 2023, July, CP870. https://obr.uk/docs/dlm_uploads/Fiscal_risks_and_sustainability_report_July_2023.pdf

Rubin, M., & Bartle, J. (2021). Gender-responsive budgeting: a budget reform to address gender inequity. Public Administration, 1–15. Available from: https://doi.org/10.1111/padm.12802

United Nations Office for Disaster Risk Reduction (UNDRR). (2022). Global Assessment Report on Disaster Risk Reduction 2022, United Nations, https://www.undrr.org/media/79595/download?startDownload=20240425

Vasquez, K., Alex-Okoh, K., Ashcroft, A., Gullo, A., Kroytor, O., Liu, Y., Pineda, M., & Snipeliski, R. (2024). The Legal Foundations of Public Debt Transparency: Aligning the Law with Good Practices. IMF Working Paper No. 24/29, International Monetary Fund,

Washington, DC. https://www.imf.org/en/Publications/WP/Issues/2024/02/09/The-Legal-Foundations-of-Public-Debt-Transparency-Aligning-the-Law-with-Good-Practices-544450

World Bank Data. (2019). World Bank National Accounts Data, and OECD National Accounts Data Files.

Guy, M. E., & McCandless, S. A. (2020). Achieving social equity: From problems to solutions. Irvine, CA: Melvin & Leigh, Publishers.

World Bank. (2023). World Bank Support for Domestic Revenue Mobilization. Independent Evaluation Group. Washington, DC: World Bank. https://ieg.worldbankgroup.org/sites/default/files/Data/Evaluation/files/domestic-revenue-mobilization.pdf

About this review

Suggested citation

Harrison, T., and Ferry, L. (2024). *Managing Risks Through Government Balance Sheets.* K4DD Rapid Evidence Review. Brighton, UK: Institute of Development Studies. DOI: 10.19088/K4DD.2024.084

This review is based on 16 days of desk-based research. The K4DD research helpdesk provides rapid syntheses of a selection of recent relevant literature and international expert thinking in response to specific questions relating to international development.

K4DD services are provided by a consortium of leading organisations working in international development, led by the Institute of Development Studies (IDS), with the University of Birmingham, Liverpool School of Tropical Medicine (LSTM), the University of Manchester Humanitarian and Conflict Response Institute (HCRI), Association of Commonwealth Universities, and Royal United Service Institute (RUSI).

UK International Development
Partnership | Progress | Prosperity

Follow K4DD on X: @K4D_info or visit k4d.ids.ac.uk to explore all of our outputs.

APPENDIX 'A'

Appendix 'A' provides a sample of thirteen paper abstracts from the Journal of Public Budgeting Accounting and Financial Management (JPBAFM) covering: UK, England, Italy, Russian regions, USA, New Zealand, Nigeria, West Africa (Liberia, Sierra Leone, and Ghana), South Korea, Taiwan, India, Pakistan, and South Asia (India, Nepal, and Sri Lanka).

Abstract 1 - UK

Purpose: This paper analyses the nature and impact of budgetary responses to the pandemic in the context of the strengths and weaknesses of UK public sector financial management.
Design/methodology/approach: The analysis is developed through consideration of four modes of government accounting. Data are drawn from multiple official sources, which report actual and forecast government receipts and expenditures as the crisis unfolds.
Findings: There have been dramatic effects on UK government finances. Government receipts have fallen by 12% and expenditures have increased by 36% in the first three months of the crisis (April–June 2020), compared to the previous year. Government debt increased to £1,984bn (99.6% of GDP), the highest percentage since March 1961 (ONS, 2020c). The pandemic will have the greatest impact on UK public finances in 2020–21, with a record budget deficit which, under the OBR (2020c) central scenario, may approach £322bn and increase public sector net debt to £2,205bn (104.1% of GDP).
Research limitations/implications: The research is necessarily limited by the impact of the pandemic and the government's responses in a rapidly changing social, economic and fiscal environment.
Practical implications: Statistical accounting and budgeting dominate attention because of reporting speed and issues of international comparability. The pandemic has emphasised the importance of timeliness. Government financial reporting is marginalised, though this should not be permanent if the pandemic retreats. Fiscal sustainability analysis will warn that UK public finances are even more unsustainable than before the pandemic.
Social implications: The interaction of higher levels of debt and future increases in interest rates might result in a new era of austerity and further centralisation of public power and economic decision-making in one of the world's most centralised democracies.
Originality/value: The paper provides an early, structured analysis of the impact of the COVID-19 emergency on UK government finances.
Citation: Heald, D., & Hodges, R. (2020). The accounting, budgeting and fiscal impact of COVID-19 on the United Kingdom. *Journal of Public Budgeting, Accounting & Financial Management*, 32(5), 785-795. https://doi.org/10.1108/JPBAFM-07-2020-0121

Abstract 2 - England

Purpose: The financial resilience of local authorities has been a serious concern over the past decade due to austerity and its effects on local government budgets despite rising service demands. More recently, the scale and suddenness of the shock from COVID-19 has exacerbated problems of financial resilience. This paper explores the financial management responses required by a sudden, nationwide pandemic of such severity.
Design/methodology/approach: This paper applies the concept of financial resilience to English local government to analyse their situation in the aftermath of COVID-19. It is based on a close reading of official reports and the news media. Findings: Local authority's financial resilience could deal with normal levels of risk arising from austerity. However, the seriousness of COVID-19 alongside pressures still emanating from Brexit requires a significant level of central government support. This is critical as local government is expected to underpin future economic growth of the UK as well as deliver an important social response. Presently, the financial framework for funding individual local authorities through central government in terms of COVID-19 support is not on a reliable footing to answer specific demands. This can lead to gaming and perverse incentives.
Originality/value: This is the first paper to connect the financial resilience in the local government framework with the required central government funding procedures for sudden nationwide crises, such as the COVID-19 pandemic. It identifies the need to define what effect key variables, such as local government financial reserves, local deprivation indices and anticipatory financial management practices in local government should have on the determination of central government aid for individual local authorities.

Citation: Ahrens, T., & Ferry, L. (2020). Financial resilience of English local government in the aftermath of COVID-19. *Journal of Public Budgeting Accounting and Financial Management,* 32(5), 813-823. https://doi.org/10.1108/jpbafm-07-2020-0098

Abstract 3 - Italy

Purpose: The paper aims to offer a viewpoint on how governmental budgeting needs to be reconsidered after the COVID-19 outbreak.
Design/methodology/approach: Building on extant research, and drawing on the Italian context, the paper provides reflections on four interrelated aspects: (1) how budgeting and reporting processes and formats are being modified; (2) how budgeting may enhance governments' financial resilience; (3) how citizens are involved in the budgeting cycles and (4) how emergency responses may produce opportunities for corruption.
Findings: To tackle COVID-19 related challenges, budgeting, rebudgeting, reporting processes and formats need to be reconsidered and supported by the development of new competencies. Governments will need to put stronger emphasis on the anticipatory and coping roles of budgeting to reduce public organizations' exposure to shocks and support governmental resilience. The involvement of citizens has proven critical to face the pandemic and will become increasingly relevant due to the financial impacts of COVID-19 on future public service provision. Greater attention to the risks of increased corruption is also needed.
Originality/value: Drawing lessons from one of the countries most hit by COVID-19, the paper offers a viewpoint on a timely topic of international relevance by looking in an integrated way at interrelated topics such as budgeting, rebudgeting, reporting, financial resilience, coproduction and corruption.
Citation: Anessi-Pessina, E., Barbera, C., Langella, C., Manes-Rossi, F., Sancino, A., Sicilia, M., & Steccolini, I. (2020). Reconsidering public budgeting after the COVID-19 outbreak key lessons and future challenges. *Journal of Public Budgeting, Accounting & Financial Management*, 32(5), 957-965. https://doi.org/10.1108/JPBAFM-07-2020-0115

Abstract 4 – Russian Regions

Purpose: The purpose of the study was to analyse how COVID-19 pandemic affects regional budgets and regional fiscal resilience in Russia.
Design/methodology/approach: The research article is structured as follows. Based on the official data from the Ministry of Finance, the Federal Treasure and the Accounts Chamber of the Russian Federation, first, the state of Russian regional budgets before and under COVID-19 is analysed. Second, due to the increase of regional spending commitments under pandemic the regional debt dependence is reviewed. Third, anti-crisis fiscal measures which have been taken to combat the negative impact of COVID-19 are discussed.
Findings: In general, 2020 may be the most difficult for regional budgets, although the results of the first quarter do not show such tension. However, the impact of COVID-19 on budget indicators is ambiguous because the economic crisis of 2020 is dual, including the crisis in the oil markets. The pandemic has become a unique global phenomenon, the effect of which is difficult to identify and interpret outside of the economic aspects of life.
Originality/value: The value of the article is based on the overview of the state of regional budgets before and under COVID-19, on the analysis of how pandemic affects fiscal resilience of the regional budgets and on the forecast of how serious the volume of lost revenues are going to be.
Citation: Klimanov, V., Kazakova, S., Mikhaylova, A., & Safina, A. (2021). Fiscal resilience of Russia's regions in the face of COVID-19. *Journal of Public Budgeting, Accounting & Financial Management*, 33(1), 87-94. https://doi.org/10.1108/JPBAFM-07-2020-0123

Abstract 5 - USA

Purpose: This paper reviews the response of both the national and state governments in the United States to the coronavirus pandemic and discusses budgetary challenges that are likely to be faced by the country over the next several years.
Design/methodology/approach: The paper uses government sources, analysis by internal and external think tanks and contemporaneous media accounts to describe both the problem and the governmental responses.
Findings: Since the first cases appeared in the US in early 2020, and particularly as the numbers started to expand substantially by March of that year, governments at all levels have worked to both respond to the immediate public health crisis and mitigate the economic effects of the pandemic. This included some immediate actions by the Federal Reserve to introduce more liquidity and four separate pieces of legislation passed in

March and April 2020. The effect of this legislation has been to add $2.5 tr to 2020 and 2021 deficits. State and local governments, meanwhile, face years of budget shortfalls, which will require them ultimately to raise taxes and cut spending and may also require additional fiscal stimulus from the federal government. The magnitude of the fiscal effects will be driven by whether there is a second wave, how long the recession lasts, and what additional responses will be necessary in order to get the pandemic under control and deal with its aftermath.
Originality/value: The paper is likely the first to summarize the information about the federal and state responses, and the likely future impacts, in a single place.
Citation: Joyce, P.G., & Suryo Prabowo, A. (2020). Government responses to the coronavirus in the United States: immediate remedial actions, rising debt levels and budgetary hangovers. *Journal of Public Budgeting, Accounting & Financial Management*, 32(5), 745-758. https://doi.org/10.1108/JPBAFM-07-2020-0111

Abstract 6 – New Zealand

Purpose: The New Zealand Government has progressively strengthened its balance sheet position since the mid-1990s, other than for the four years immediately following the global financial crisis and the Canterbury earthquakes. This paper describes the nature and the forecast and actual fiscal impacts of the COVID-19 response and identifies the transparency mechanisms which reveal these impacts. It also expresses a viewpoint on the implications of the COVID-19 response for the future resilience of the Government's fiscal position.
Design/methodology/approach: The paper draws on the suite of official budgetary documents to demonstrate both the transparency of the disclosures on the COVID-19 impact and the substance of the forecast and actual fiscal impacts.
Findings: The paper reveals the change in the long-term fiscal aspirations of the New Zealand Government from one of achieving and maintaining a significant net worth buffer, to one which accommodates in the long-term a markedly smaller buffer and lower level of net worth.
Originality/value: The public financial management system in New Zealand is notable for its transparency. The Government's response to the pandemic is used to illustrate the nature and extent of that transparency.
Citation: Ball, I. (2021). Burning the buffer: New Zealand's budgetary response to COVID-19. *Journal of Public Budgeting, Accounting & Financial Management,* 33(1), 95-105. https://doi.org/10.1108/JPBAFM-09-2020-0162

Abstract 7 - Nigeria

Purpose: This article aims to explore the Nigerian government's budgetary response to the COVID-19 pandemic as well as the economic and social implications of the pandemic response.
Design/methodology/approach: Our analysis is based on a review of secondary evidence such as Nigerian Federal Government budget documents, policy documents, Central Bank of Nigeria circulars, news media articles, World Bank and International Monetary Fund reports, reports from Big Four accounting firms and policy think-tanks.
Findings: The authors highlight how increased borrowing to fund COVID-19 related economic and social interventions have significantly squeezed Nigeria's fiscal space. The authors also highlight that while some interventions provide short-term economic relief to the poor and small businesses, other interventions and gaps in the policy response have the potential for significant negative impact on businesses, households and unemployment. In addition, the authors highlight the potential for long-term benefits to the health sector and for private sector engagement in corporate responsibility and philanthropy.
Originality/value: The authors present a comprehensive account of the Nigerian government's budgetary response to the COVID 19 pandemic and the economic and social implications of this response.
Citation: Ejiogu, A., Okechukwu, O., & Ejiogu, C. (2020). Nigerian budgetary response to the COVID-19 pandemic and its shrinking fiscal space: financial sustainability, employment, social inequality and business implications. *Journal of Public Budgeting, Accounting & Financial Management*, 32(5), 919-928. https://doi.org/10.1108/JPBAFM-07-2020-0101

Abstract 8 – West Africa

Purpose: The paper examines financial resilience responses/capacities of governments from Liberia, Sierra Leone and Ghana in relation to COVID-19. It highlights the governments' fiscal, budgetary and actions as either anticipatory or coping mechanisms towards the pandemic.
Design/methodology/approach: Multiple case studies and secondary data were used, including official government documentation/records, expert views, policy publications by supranational organisations and international financial institutions and media reports. Textual analysis was conducted to evaluate the case countries' resilience.
Findings: The paper highlights how governmental budgetary initiatives, including repurposing the manufacturing sector, can sustain businesses, aid social interventions and reduce vulnerability during health crises. In addition, the paper highlights that external borrowing continues to be indispensable in the financial and budgetary initiatives of the case countries. The paper finds that lessons learnt from the Ebola Virus Disease (EVD) in West Africa within the last decade have shaped the anticipatory resilience capacities of the case countries against COVID-19.
Originality/value: The paper uses the notion of resilience, the dimensions of the resilience framework and the resource-based view (RBV) theory to unearth resilience patterns. This sort of combined approach is new to financial resilience studies.
Citation: Agyemang, J., Azure, J., Kimani, D., & Arun, T. (2023). Governmental financial resilience during pandemics: the case of West Africa. *Journal of Public Budgeting, Accounting & Financial Management*, 35(3), 385-414. https://doi.org/10.1108/JPBAFM-03-2021-0063

Abstract 9 – South Korea

Purpose: This paper presents the details, circumstances and issues relating to Korea's budgetary responses to COVID-19.
Design/methodology/approach: The author analyses the details and consequences of budget responses to COVID-19 of Korea.
Findings: Korea has implemented two supplementary budgets, worth 50 tn KRW, which were approved by the National Parliament within an average of 13 days. This was an exceptionally quick approval by the Parliament. While these prompt actions help the government provide necessary measures to combat the pandemic, hasty decisions may have long-term consequences on fiscal soundness. Effective handling of COVID-19 in Korea increased the approval rating for the current administration.
Originality/value: This is consistent with the argument by Bartels (2013) who states that ordinary citizens assess politicians and policies primarily on the basis of visible evidence of success or failure. Because evaluations on government projects other than handling crisis is out of people's interests during pandemic, inefficient projects tend to be maintained. For future, it is desirable to have a fiscal rule beforehand to address a crisis.
Citation: Kim, B.H. (2020). Budgetary responses to COVID-19: the case of South Korea. *Journal of Public Budgeting, Accounting & Financial Management*, 32(5), 939-947. https://doi.org/10.1108/JPBAFM-06-2020-0079

Abstract 10 - Taiwan

Purpose: The authors examine the Taiwanese government's budgetary responses to COVID-19, with a focus on the special budgets created for containing the virus, undertaking bailouts and providing economic stimulus. The authors assess the short-term and long-term fiscal implications of the budgetary measures and discuss how Taiwan's experiences could provide lessons for other countries for future emergencies.
Design/methodology/approach: The authors collect data from Taiwan's official documents and news reports and compare the special budgets proposed by the Taiwanese government during the Great Recession and the COVID-19 pandemic. The authors discuss lessons learned from the 2008–09 special budget and possible concerns of the 2020 special budgets. In the conclusions, the authors discuss potential long-term implications for Taiwan's budgetary system as well as possible lessons for other countries based on Taiwan's experiences
Findings: The authors found that the 2008–09 special budgets focused only on economic stimulus, whereas the 2020 special budgets covered COVID-19 treatments, bailouts and economic stimulus. In 2020, the Taiwanese government devised targeted bailout plans for industries and individuals most affected by the pandemic and created the Triple Stimulus Vouchers to boost the economy. Since the special budgets were largely funded through borrowing, the authors pointed out concerns for fiscal sustainability and intergenerational equity.
Originality/value: COVID-19 has changed how the world functions massively. This work adds to the literature on COVID-19 by providing Taiwan's budgetary responses to the pandemic. This work also identifies ways for Taiwan to improve the existing budgetary system and discusses lessons for other countries.

Citation: Liao, W.J., Kuo, N.L. and Chuang, S.H. (2021). Taiwan's budgetary responses to COVID-19: the use of special budgets. *Journal of Public Budgeting, Accounting & Financial Management*, 33(1), 24-32. https://doi.org/10.1108/JPBAFM-07-2020-0128

Abstract 11 - India

Purpose: This article examines the preliminary impact of the Sars-CoV-2 pandemic on India's economic and budgetary landscape – the most affected developing country from the first wave of the pandemic. It also includes a discussion of the monetary and fiscal responses adopted and the challenges faced in formulating the response to the pandemic.
Design/methodology/approach: Using high-frequency economic and fiscal indicators, this article evaluates the economic impact of the pandemic on the Indian economy. Further, it uses data from government sources and news to highlight the measures adopted at the national and subnational level in response to the pandemic.
Findings: The difficult economic conditions prior to the pandemic limited the fiscal space available to the government. As a result, the national and subnational governments have been cautious of accumulating excessive debt and have primarily responded with liquidity-enhancing measures, in addition to some fiscal measures for the most vulnerable. Overdependence on consumption taxes has led to unprecedented revenue shortfalls prompting the exploration of new avenues for revenue generation and implementation of austerity measures – some of which may be counterproductive in the long run.
Originality/value: The paper highlights the policy response of the largest democracy that has been hit hard by the pandemic. It also highlights various institutional and resource constraints that influenced the policies adopted. India's experience in responding to the virus could provide lessons for other developing countries.
Citation: Jose, J., Mishra, P., & Pathak, R. (2021). Fiscal and monetary response to the COVID-19 pandemic in India. *Journal of Public Budgeting, Accounting & Financial Management*, 33(1), 56-68. https://doi.org/10.1108/JPBAFM-07-2020-0119

Abstract 12 - Pakistan

Purpose: The purpose of this study is to examine the fiscal measures undertaken by the Pakistani government to counter the recessionary pressures of the coronavirus pandemic. The authors analyse the economic, social and political factors that have shaped the government's fiscal policy response to this economic shock.
Design/methodology/approach: The authors analyse the federal and provincial budget documents for the fiscal year 2020–21 to study the fiscal response of the government. The authors review recent research articles and news pieces to examine the determinants of these budgetary measures.
Findings: The government adopted expansionary fiscal policy measures such as reduced taxation and increased government expenditure to counter the recessionary pressures of the pandemic. These measures, however, were largely constrained by macroeconomic issues of high fiscal debt, slow economic growth and low fiscal space and political influences from the military and religious groups.
Research limitations/implications: The coronavirus pandemic is an ongoing issue which may pose more threats and elicit more policy responses as it evolves. This research may be extended as the pandemic progresses, to include further policy responses.
Originality/value: This research provides insight into the unique problems faced by the Pakistani government during the pandemic, and how it steers the economy despite these limitations.
Citation: Ashfaq, M., & Bashir, M. (2021). Pakistan: making a "COVID budget" in a struggling economy. *Journal of Public Budgeting, Accounting & Financial Management*, 33(1), 69-77. https://doi.org/10.1108/JPBAFM-07-2020-0118

Abstract 13 – South Asia (India, Nepal and Sri Lanka)

Purpose: First, the paper examines the short-term fiscal and budgetary responses of the South Asian governments to the COVID-19 pandemic. Next, it brings out the implications of such responses, focusing on India, Nepal and Sri Lanka.

Design/methodology/approach: The paper is based on multiple secondary data sources, including the viewpoints of experts and government officials. Data are analysed using the ideas of financial resilience.
Findings: South Asian governments' response to the pandemic shows a gap in understanding the magnitude of the problem and in developing financial resilience. This paper points out the importance of avoiding austerity, becoming more cautious in accepting lending conditions, rethinking public sector accountability and revitalising mutual collaboration through SAARC for developing financial resilience, both at individual country and regional levels.
Originality/value: The study offers some insights on policy implications for South Asian governments in terms of building financial resilience to deal with future crises.
Citation: Upadhaya, B., Wijethilake, C., Adhikari, P., Jayasinghe, K., &a Arun, T. (2020). COVID-19 policy responses: reflections on governmental financial resilience in South Asia. *Journal of Public Budgeting, Accounting & Financial Management*, 32(5), 825-836. https://doi.org/10.1108/JPBAFM-07-2020-0130