

BEST INTERNATIONAL PRACTICES TO DESIGN COVID-19 REFORMS

In this note, we examine the linkages between the need for adapted structural reforms and existing (or dedicated extra) budgetary funds to tackle the pandemic of COVID-19. This note discusses the general focus of policy responses, by reviewing recovery and stimulus policies from best international practices (OECD & Partner countries). It is important to mention, that while many reforms are driven toward boosting jobs, income, and growth, best international practices are warning about the potential risks, and barriers that may result or that may cause environmentally damaging activities.

Table 1: General Focus and Policy Recommendations derived by Best International Practices

DESCRIPTION	POLICY RESPONSE or/and EXPLANATION
	<p>General focus: <i>Systematic reviews of governance and financial management.</i> The key is to improve the financial governance of the COVID-19 funds by tightening their legal framework, establishing robust gatekeeping arrangements, and setting strong transparency and reporting standards.</p>
	<p><i>The prioritizing of reform measures is widely recommended to begin with an assessment of the structural policy gaps as this will indicate where reforms are likely to have the largest impact in terms of boosting growth.</i></p>
<p>In relation to administrative barriers, procedures, regulatory enforcement, and inspections, this note suggests several key regulatory aspects of the COVID-19 crisis responses that structural reforms creators may take under consideration.</p>	<p>Best international practices advise to include the following regulatory aspects:</p> <ul style="list-style-type: none"> • Facilitating the supply and availability of essential goods for crisis response. • Reconciling privacy concerns with effectiveness for tracing and/or “track-and-trace” approaches. • Fostering and maintaining compliance with mitigation measures through targeted, proportionate enforcement and transparent communication. • Introduce, activate or reorient existing multi-level coordination bodies in order to minimize the risk of a fragmented crisis response. • Clarify roles and responsibilities among different levels of government to optimize crisis response, exit and recovery strategies, as well as resource deployment. • Establish coherent guidelines for each level of government to follow, while also ensuring sufficient flexibility for adjustment to situations ‘on the ground.
<p>In relation to the need for dedicated structural reforms and making availability of extra budgetary funds are essential tools to fight the pandemic crisis.</p>	<p>Best international practices encourage the use of these tools to:</p> <ul style="list-style-type: none"> • Establish centralized and high-level control and management of COVID-19 measures (e.g. PMO). • Raise and pool together public and private resources, which standard budget practices may not allow. • Bring together different sectors and regional and local governments affected by the pandemic to facilitate implementation of emergency spending. • Streamline or bypass some steps in the budgeting, spending, or procurement processes which, however necessary in normal times, may slow down the response to the crisis. • Separate COVID-19 spending from other spending to enhance financial transparency and accountability, and create a clearly defined audit trail.

NEW REFORM MEASURES: WHERE and WHY?

In this section, the aim of this note is to provide the *best international practices* (from Advanced Economies/ OECD countries) that mirror the examples that these countries have pursued on policy responses to help mitigate the impact of the crisis.

The aspects of *where* and *why* structural reform creators are recommended to look for new measures (to recover from Covid-19) are listed as follows:

- 1) Seeking measures that allow funds to be programmed and disbursed more quickly than normal, with simplified execution and procurement procedures (*for example Product market reforms* – could boost short-term growth, especially if implemented in retail trade and professional services where the potential to quickly create jobs is rather high. By lifting productivity and potential growth, such reforms would also have beneficial effects on debt dynamics and fiscal sustainability).
- 2) Countries with limited policy space should prioritize reforms that yield large long-term payoffs but that also deliver short-term gains and/or can be implemented in a budget-neutral fashion. *For example, financial liberalization* - can support consumption and investment by relaxing credit constraints and reducing barriers to FDI. It can boost investment and productivity while improving land acquisition laws can stimulate private spending on infrastructure.
- 3) It's suggested to leverage digital solutions, such as financial management information systems and *fiscal transparency portals*, to meet the PFM objectives of smooth, efficient, and transparent implementation of COVID-19 responses.
- 4) The *budget execution controls* to mitigate corruption risk in pandemic spending is essential to ensure that ramped-up spending in response to Covid-19 is effective in addressing vulnerabilities to misuse and corruption. Expenditure policies can also help mitigate the economic impact of the pandemic through liquidity support for firms, preserving employment linkages, and supporting households. Clear designing is the key to its effectiveness and efficiency.
- 5) The pandemic is challenging *customs administrations'* operations. It's required that they take urgent measures to sustain international supply chains and implement governments' health and economic relief policies while continuing addressing compliance.
- 6) *Waste management* challenges have increased significantly as a result of increased use masks waste, increased demand for single-use plastics (for groceries, food delivery, health care, and e-commerce packaging), and reduced recycling capacity and a collapse of the market price for recycled plastics.
- 7) Targeting *labor market* mainly by cutting labor taxes, delaying effective retirement ages, reforming disability schemes. Best international practices suggest improving the safety net for job losers by boosting unemployment benefit generosity and expanding coverage to new groups of workers to facilitate re-employment and re-deployment.

Example: HOW THE PANDEMIC IS HITTING PENSION SCHEME: Economic crises may lead to an acceleration of early retirement applications and disability benefit claims. Best practice experience suggests that early retirement is linked to lower benefits in order to balance the present value of expected pension benefits with total contributions paid. Disability pension awards differ from early retirement in that difficulty in establishing clear and easily verifiable eligibility rules means that there is a greater role for subjectivity both in terms of self-assessment of health status and the decision to apply for benefits and also in terms of the administrative process of determining eligibility. This suggests that disability status—and subsequent benefits—is possibly used as an early retirement option and as an alternative to unemployment.

POTENTIAL RISKS

Below are listed the *best international practices* examples of how the pandemic situation may lead to unexpected downturns for the on-going reform measure.

- **Extra Budgetary Funds'** (EBF¹) in the absence of full and timely information - where administrative capacity and reporting is limited – can be a potential source of financial malpractice and corruption.
- **The rush to set up Covid-19 funds** has led in some cases to a legal vacuum, in which: (i) the purpose, (ii) management structures, and (iii) oversight mechanisms of the funds are not sufficiently defined. The rush to speed reforms under public pressure has often led to the relaxation of ex-ante financial controls and standard procurement processes. While such policies can accelerate spending, they can also create significant governance vulnerabilities, particularly when the funds operate outside government systems, and are not subject to robust transparency and reporting standards.
- Most measures targeted health, social services, internal security and border security, and local governments... which require strong **coordination**. If the reform measure doesn't have the leadership it won't produce the desired outcome besides costs. Strengthening vertical coordination between the national and subnational governments is the "first step of an effective response" in order to address the asymmetric impact of the crisis. Non-coordinated action among levels of government can generate collective risks, such as "passing the buck", and conflicting responses. In places where subnational governments operate with high degrees of autonomy, policy responses are more likely to be fragmented.
- **Political risks**. Unfortunately, it's common to see that reform measures developed under one government aren't continued when the new government comes into power. This is a usual problem of political inconsistency that attracted by the own supremacy of "my methods are better" tend to revise or remove the measure, where on the majority of times it results in a worsened scenario.

"...do whatever you can, but make sure you keep the receipts".

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¹ **EBF** - a set of accounts or a government entity engaged in "financial transactions, often with separate banking and institutional arrangements that are not included in the annual state budget law" (Excluding social security and health funds, EBFs account for about 15 percent of central government expenditure across a range of advanced, middle-income, and low-income economies, or close to 50 percent if social security and health funds are included).

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