OPPORTUNITY COST OF COVID-19 BUDGET REALLOCATIONS

BRIEF: ETHIOPIA

CENTRE FOR DISASTER PROTECTION

Oxford Policy Management

BRIEF

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Date: March 2023

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Citation

Poole, L. (2023) 'Opportunity Cost of Covid-19 Budget Reallocations. Brief: Ethiopia. Centre for Disaster Protection Report', London.

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This publication reflects the views of the authors and not necessarily the views of the Centre for Disaster Protection. This material has been funded by UK aid from the UK government; however the views expressed do notnecessarily reflect the UK government's official policies.

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Local fisherman on a small boat and Great white pelicans at Tana lake, Ethiopia
Image: Matyas Rehak, Shutterstock

KEY FINDINGS

- The Government of Ethiopia (GoE) developed a package of fiscal support in response to the covid-19 pandemic that was equivalent to 3% of the country's gross domestic product (GDP). However, this was more than countered by cuts in expenditure elsewhere.
- The GoE typically overspends on its recurrent budget and underspends on its capital budget. In 2019/20, overspending on recurrent was curtailed, and the shortfall in capital expenditure was even greater than usual. This was because high debt levels going into the pandemic (standing at 56.5% of GDP in 2019/20) meant the GoE had very limited borrowing opportunities. As such, when faced with shortfalls in revenues as a result of the pandemic, the GoE had to rein in spending.
- This paper estimates that the GoE reallocated Ethiopian Birr (ETB) 20 billion (USD 638 million) in planned expenditure to cover the covid-19 response.
- It is estimated that the opportunity cost of, or value forgone due to, the covid-19-necessitated reallocation of resources in the Ethiopian budget is ETB 30.8 billion (USD 983 million), or 55% (or 0.5% of GDP) more than the budget reallocated. The opportunity cost multiple for budget reallocations is estimated to be in the region of 1.55, meaning each dollar mobilised for covid-19 response incurred an opportunity cost of USD 1.55.
- Reallocating funding away from capital investment is particularly costly, as this spending has higher likely returns, which are compromised. For example, the value lost from cuts to the education, roads, and irrigation sectors was estimated at 25% above the value of the cuts themselves.

INTRODUCTION

This study, undertaken by the Building Resilience in Ethiopia programme,[1] in partnership with the Centre for Disaster Protection, forms part of a cross-country study (including Pakistan and South Africa) on the opportunity cost of reallocating budgets in response to disasters. It summarises findings from original research conducted by Zewdu Hailegebrial with inputs from Gabi Elte, Natalie Cooke, Jo Kemp and Stephanie Allan. The methodology was designed by Stephanie Allan and Dayna Connolly at Oxford Policy Management.

The reallocation of public funds has consequences, whereby sectors with reduced funding suffer forgone or delayed social and economic returns. This study seeks to identify and quantify the opportunity costs associated with diverting funding from planned budgeted activities, using the covid-19 pandemic as a case study to analyse public expenditure decisions, with a focus on what was not spent as a result of the pandemic.

A four-pillar methodology was developed, as set out in Figure 1, to analyse the decision-making context and process, and to quantify opportunity costs. This core methodology was adapted to each country case study context, with the details described in the synthesis report.[2]

Figure 1: Methodological pillars

1. Procedural analysis	2. Counterfactual	3. Expenditure Analysis	4. Impact analysis
• Review of the legal and institutional framework, alongside any guidelines on budgeting and expenditure procedures. • Key informant interviews with the government on the processes by which budget allocation decisions are made, across the emergency cycle.	• Best-guess estimation of public expenditure outturns for a scenario in which the epidemic does not occur. • The outturns counterfactual can be established through utilising the original budget (pre-pandemic) and assessing deviations expected in 'normal' years.	• Comparison of actual expenditure against the counterfactual. • Focusing on the incidence of spending cuts, identifying the 'winners' and 'losers', capturing changes on a sectoral basis, and in administrative, economic and functional/ programmatic classifications.	• Economic analysis of the estimated impact of cut or delayed expenditure in terms of social and economic returns forgone. • Analysis at the aggregate/sectoral level, and for a few key budget projects, for illustrative purposes.

Source: Authors.

1 Building Resilience in Ethiopia is a three-year (2019-2022) technical assistance project co-funded by the UK Foreign, Commonwealth and Development Office and the United States Agency for International Development. It is being implemented by Oxford Policy Management and is operating under a memorandum of understanding signed by the Ethiopian Ministry of Finance and the UK Department of International Development in June 2019. The main aim of Building Resilience in Ethiopia is to support the country's drive towards becoming a middle-income country, by strengthening nationally owned and led systems that better anticipate and respond to recurrent shocks and the resulting acute needs.

2 Allan, S. & Bayley, E. (2023) 'Opportunity Cost of Covid-19 Budget Reallocations. Cross-Country Synthesis'. Centre for Disaster Protection Report, London.

HOW WAS ETHIOPIA POSITIONED GOING INTO THE CRISIS?

How was Ethiopia positioned going into the crisis? The GoE has committed to building a green and shock-resilient economy, as set out in its Ten-Year National Development Plan, deepening its commitment to shock preparedness and decreasing fiscal risks. Public financial management in Ethiopia has undergone significant reform and improvements in the last decade, driven by strong government leadership. Nevertheless, the country remains vulnerable to disasters, which continue to represent a significant source of fiscal risk to the GoE, and, in practice, the GoE has very little ex-ante financial provision for crisis-related shocks.

Due to limited fiscal space, the GoE routinely does not allocate sufficient funds for anticipated disasters. Rather, it relies on ex-post financing, frequently exceeding budgeted recurrent expenditure for prevention and rehabilitation (see Box 1).

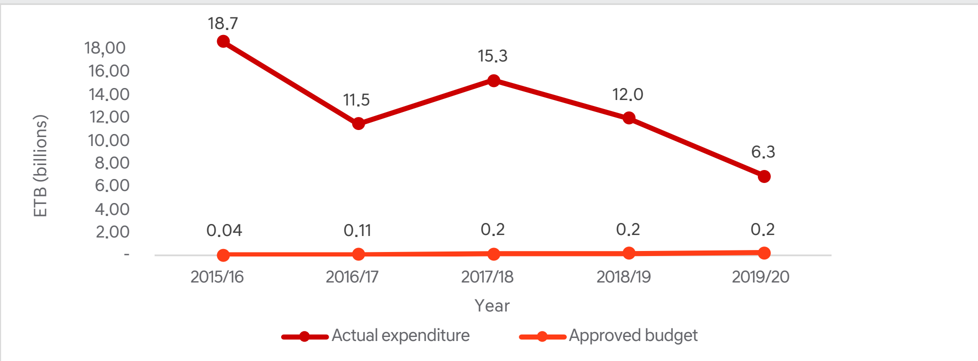
Box 1: Financing prevention and rehabilitation

Due to limited fiscal space, the GoE does not allocate sufficient funds for anticipated disasters; rather, it relies on ex-post financing. As a result, the actual recurrent expenditure for prevention and rehabilitation is significantly different from the approved budget due to the ex-post funding of disasters from the budget line. For instance, the four-year average (2015/16–2018/19) approved recurrent budget for prevention and rehabilitation was ETB 119 million, but the average actual recurrent expenditure was ETB 14 billion, indicating that, on average, only 0.8% of the funding required to respond to disasters was planned *ex-ante*.

In 2019/20, the actual expenditure on prevention and rehabilitation, at ETB 7 billon, was again high relative to the approved budget of ETB 215 million. However, when compared to the counterfactual – or the estimated spend had covid-19 not occurred – the actual expenditure was low, likely reflecting the different nature of the disaster of the covid-19 pandemic, which saw increases in health expenditure in response to the disaster, as opposed to more traditional disaster responses.

This situation makes it clear that it is difficult to compare a 'disaster year' with a 'non-disaster year' since Ethiopia is highly vulnerable to humanitarian and natural disasters. Thus, if the GoE had wider fiscal space, there would be an argument for allocating around ETB 14 billion in 2019/20 for prevention and rehabilitation, based on past trends (evidence-based budgeting rule). As this is not done, a significant overspend is registered against the original budget, of approximately ETB 6.7 billion, and a significant underspend is registered against the counterfactual, of ETB 14 billion.

Trends in prevention and rehabilitation recurrent expenditure, Ethiopia



Source: Ministry of Finance data, reported in Building Resilience in Ethiopia (2022).

The GoE typically uses external borrowing, external donor assistance, contingency funds, budget reallocations, supplementary budgets, and public contributions to respond to disasters. The 2019/20 contingency budget for unforeseen events was ETB 14 billion, 3% of the total federal government budget, and was already fully utilised prior to covid-19. Regardless, the size of the contingency budget would have been insufficient as the main source of funds for the covid-19 response.

The GoE entered the pandemic in an already constrained fiscal environment. Prior to covid-19, the country faced consistently low and underperforming revenues, with the tax-to-GDP ratio declining for the third consecutive year in fiscal year (FY) 2018/19, to only 11.5% of GDP – six percentage points below the target.
By the end of 2019, the country was reaching the limits of open market borrowing, forcing the GoE to turn to the International Monetary Fund (IMF) for support. The IMF approved a request for almost USD 3 billion of loans under its Extended Credit Facility and Extended Fund Facility to support the GoE's economic reform agenda. As well as addressing the foreign exchange shortage, the agenda aims to reduce debt vulnerabilities, tackle inflation, protect social spending and reduce poverty, reform the financial sector, and boost revenue mobilisation.

How did Ethiopia respond to the COVID-19 pandemic?

The first case of covid-19 was detected in Ethiopia in March 2020. The GoE declared a state of emergency on 8 April 2020 to curb the spread of the coronavirus, and implemented public health measures, education campaigns, school closures, mandatory quarantine for international arrivals, as well as measures for home isolation and care, and restrictions on gatherings for meetings, religious ceremonies, public holidays, and sporting events. The GoE did not enforce strict lockdowns; rather, it encouraged production and other economic activities to continue during the crisis, which eased pressure on the substantial informal sector.

The GoE also announced and executed a fiscal response package. Fiscal and monetary measures included emergency budget allocations, the removal of import taxes on covid-19-related imports, faster remits on tax debts and select tax waivers, as well as loans and credit for small and micro enterprises.

HOW WAS THE RESPONSE FINANCED?

The GoE's covid-19 response package was largely financed through budget reallocations from underspending programmes (mostly domestically financed capital projects), debt repayment rescheduling, external assistance from development partners in the form of grants and concessionary loans, and public contributions (both in-kind and cash). The total covid-19-related general government spending (including health and non-health sectors) was ETB 52.4 billion (USD 1.67 billion) in FY 2019/20.

Supplementary budgets have been used in Ethiopia as a mechanism to finance emergency responses and economic challenges. In a typical year, the GoE prepares a supplementary budget to finance emergency responses. Unlike budget reallocations, supplementary budgets provide additional funds on top of the approved budget, and are typically financed through development partners, domestic borrowing, and/or improved domestic revenue collection performance.

Two supplementary budgets were approved in the second half of FY 2019/20 (see Box 2), with the second dedicated to financing covid-19 response measures and activities. The main sources of funds for the supplementary budget were development partners, including the World Bank, the IMF, the African Development Bank, the European Union, and other bilateral donors. The second supplementary budget of 2019/20 included a forecast increase in grants of ETB 15.8 billion when compared to the original budget.

Box 2: Ethiopia's supplementary budgets in 2019/20

The GoE implemented two supplementary budgets in 2019/20, which included both increases to expenditure and adjustments to revenue.

The first supplementary budget was implemented in February, following the introduction of the home-grown economic reform agenda, and aimed to decrease the existing budget deficit (and its attendant domestic borrowing requirements). It did this by increasing tax revenue projections and decreasing the reliance on domestic borrowing. It also contained an increase in expenditure of ETB 9.9 billion, predominantly made up of additional donor funding for the Productive Safety Net Programme. As a result, the first supplementary budget decreased the original deficit from ETB 86.7 billion to ETB 68.7 billion, and subsequently decreased the GoE's domestic borrowing requirement from ETB 56.4 billion to ETB 38.4 billion.

The second supplementary budget contained an increase in expenditure of ETB 48.6 billion, returning the domestic financing requirement to just above the original budgeted amount, while also financing the covid-19 response measures. The second supplementary budget contained ETB 40.4 billion of recurrent expenditure, allocated to 'Other'. It is understood that this funded the covid-19 response measures. In addition, a further ETB 8.2 billion was allocated to recurrent regional transfers.

Following the two supplementary budgets, the federal government deficit increased from ETB 86.7 billion to ETB 109.4 billion, an increase of ETB 22.7 billion, despite an increase in appropriated expenditure of ETB 58.5 billion.

The actual results of the 2019/20 budget year show that revenue was ETB 5 billion higher than the original forecast and expenditure was ETB 7 billion higher than originally forecast, resulting in a revised deficit of ETB 88.5 billion – well below the ETB 109.4 billion forecast in the supplementary budget. Given the significant covid-19 expenditure, these figures indicate that budget reallocations were a key tool used by the GoE to fund the covid-19 response, as opposed to new funding. Despite this, actual external loans were significantly larger than the original forecasts of ETB 30.3 billion, at ETB 59.5 billion. This indicates that increasing pressure has been placed on Ethiopia's debt profile as a result of the covid-19 pandemic.

Given the absence of proactive measures, and the fiscal pressures, the GoE relied on budget reallocations to fund much of its covid-19 response. This paper estimates that the GoE reallocated ETB 20 billion (USD 638 million) in planned expenditure to cover the covid-19 response, equivalent to 5% of total government expenditure.

The MoF used capital and recurrent budget reallocations[3] to finance the covid-19 response. The GoE reallocated funds for the covid-19 response from the Irrigation Development Commission, the Ministry of Education (with a particular focus on the higher education sector, whose buildings were used as quarantine and isolation centres), the Ministry of Culture and Sport, and the National Election Board of Ethiopia. For example, it is estimated that ETB 10 billion was reallocated from irrigation projects for the covid-19 response, equivalent to 70.1% of the original budget for irrigation projects.

MoF officials noted that budget reallocations from irrigation and some other capital projects were prioritised, due to their lower performance in regard to executing their budgets. The transfer from universities happened as they were closed and served as covid-19 response centres. The budget from the Ethiopian Electoral Board was transferred as the national election (initially planned for August 2020) was postponed to 2021. The money that was collected from budget reallocations was deposited in the contingency budget and then allocated for the covid-19 response.

3 The reallocation from capital to recurrent cannot be done directly: it must be transferred to the contingency budget, from which it can be used for either recurrent or other capital-related spending.

The GoE also increased borrowing from external sources to a total of ETB 59.5 billion in 2019/20, ETB 29 million more than had originally been intended. Despite strong domestic revenue collections in quarters 1 and 2 of 2019/20, by March 2020 the country had limited fiscal space to respond to the crisis. The pandemic's effect on GDP growth was significant, with growth in 2019/20 of 6.1% – well below the target rate of 10%.[4] This impacted revenue mobilisation. Therefore, in order to make up some of the shortfall in revenue, and despite increased donor commitments,[5] the GoE took on more external loans than had been projected in the original budget. By the end of 2019/20 Ethiopia had subscribed to public debt of USD 55.3 billion, almost evenly split between external and domestic debt, amounting to 50% of GDP (Table 1).

Table 1: External financing (in billions of USD)

Particulars	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Grant to central government (flow)	1.5	1.4	1.5	1.3	2.1	1.6	1.5
Loan to central government (flow)	2.2	1.7	1.5	2.1	1.8	2.8	1.0
Non-government organisation transfers (flow)	1.1	2.0	1.1	1.0	0.7	0.9	1.2
Public debt (stock)	34.1	39.3	46.0	49.3	53.9	55.3	55.6
of which external debt	18.6	21.3	23.3	25.8	27.1	28.9	29.5
domestic debt	15.4	18.0	22.6	23.5	26.8	26.4	26.1

Sources: flow data: National Bank of Ethiopia; public debt data: MoF, 2020/21 annual debt bulletin.

HOW DID THE BUDGET REALLOCATION PROCESS PERFORM?

The budget reallocation process is not a rapid response mechanism, as it takes six weeks to complete. The MoF undertakes assessments prior to making budget reallocations. While the MoF considers the performance of projects (preparation and contractual agreements), budget execution, programme objectives, the perspective of line ministries, and foreign exchange availability, these assessments are guided by internally developed criteria, as opposed to a formal policy, and are undertaken at the discretion of the MoF. After finalising the assessment, the GoE moves money from poorly performing projects towards new priorities. It takes more than one month to collect the money and one week for the MoF to disburse it, resulting in a process that takes six weeks at a minimum.

The slow pace of the budget reallocation process can result in the use of indirect budget reallocations, such as cash restrictions, which bypass performance assessments.

4 Economic growth is also likely to have been exacerbated by Ethiopia's internal conflict, which has caused large-scale internal displacement, affecting investor confidence, putting a halt to economic investment, and draining scarce public resources.

5 It is also worth noting that not all donor commitments were in fact received.

In interviews, key informants indicated that the processes established by the national steering and technical committees were effective in responding to the pandemic. There is scope, however, for improvements to be made to the budget reallocation process, such as by developing formal internal guidelines, to increase the timeliness of the reallocations and to ensure that the opportunity cost of them does not outweigh the benefit. Key informants indicated that there are limitations in the process used to determine the reallocations, and that the performance assessments undertaken by the MoF are weak.

The key informants also indicated that, as a result of reallocations, several capital projects had either been delayed or postponed, incurring political costs (reduced trust in government), social costs (loss of the social benefits from the projects), and economic (inflation) costs.

The second supplementary budget, released in April, appears to have been a timely response to the pandemic, but placed additional pressure on fiscal sustainability.

The use and size of the supplementary budgets makes clear that the GoE needs **to make available alternative budgetary mechanisms with which to respond to disasters, to reduce its reliance on debt** as a source of funding.

The GoE prepared new procurement procedure guidelines and an additional funding request response manual that was used for the covid-19 crisis response. **The new process of disbursing the additional funding to the line ministries and procuring equipment was very responsive.**

Overall, budget reallocations in 2019/20 favoured pro-poor sectors. Preliminary analysis using the GoE's own classification of pro-poor/non-pro-poor sectors (see Table 2) indicates that the net amount of transfer added on to the budget of the pro-poor sectors was ETB 13.1 billion, while for the non-pro-poor sectors it was ETB 7.3 billion, suggesting that the reallocations served to make public expenditure more equitable.

Table 2: Budget reallocation by sector for FY 2019/20 (in ETB billions)

Sectors	Budget added	Budget deducted	Net budget added
Pro-poor sectors	30.4	17.32	13.1
Non-pro-poor sectors	16.2	8.8	7.5

Source: MoF and authors' calculations. Note: The budget reallocation covers only the allocated budget that was financed by the Treasury. Under the GoE classification system, pro-poor sectors include agriculture and rural development, water resource and energy, roads, education, and health. Non-pro-poor sectors include organs of state, justice and security, defence, and general service, trade and industry, mines, transport and communication, urban development and construction, culture and sport, labour and social affairs, and prevention and rehabilitation.

WHAT WERE THE OPPORTUNITY COSTS OF BUDGET REALLOCATIONS?

It is estimated that the opportunity cost of, or value forgone from, the covid-19-necessitated reallocation of resources in the Ethiopian budget is ETB 30.8 billion (USD 983 million), or 55% more than the budget reallocated. Had Ethiopia set up ex-ante disaster response financing mechanisms, and not carried out budget reallocations to meet the unplanned needs, it is estimated that the country would have generated approximately ETB 11 billion (or 0.5% of GDP) in additional value from the planned expenditure. Reallocating funding away from capital investment is particularly costly, as this spending has higher likely returns.

Various methodologies were used to estimate impact at the economy, sector, and programme levels. At the economy level, fiscal multipliers were utilised to develop an estimate of the macro impact of budget reallocations. Two fiscal multiplier estimates were used: one applied to the aggregate under-expenditure ('the bucket approach') and the other applied to the under-expenditure based on economic classification (the IMF approach). When applied to the total underspend of ETB 19.8 billion, the 'bucket approach' estimates an impact in the range of ETB 24 billion to ETB 32.2 billion. That is, in addition to the direct impact of the unexpended ETB 19.8 billion, ETB 4.2 to 12.4 billion of value has been lost. If loans from donors had not been received, it can be assumed that additional budget reallocations would have occurred; in this case, it can be estimated that the total underspend would have increased to ETB 25.8 billion (USD 832 million) and the impact would have been in the range of ETB 31.2 billion to ETB 41.9 billion (USD 1 –1.34 billion).

The IMF approach involves using two distinct multipliers: one for capital expenditure (0.82) and one for recurrent expenditure (0.42). This elicits a result of ETB 30.8 billion in impact: ETB 12 billion from the capital budget reallocations and 18.7 billion from the recurrent budget reallocations. That is, in addition to the direct impact of the unexpended ETB 19.8 billion, ETB 11 billion of value has been lost.

At the sector level, the marginal cost of funds approach was used to assess the impact of underspends on the capital expenditure of three institutions, totalling ETB 29.7 billion. The value lost from cuts to the education, roads, and irrigation sectors was estimated at 25% above the value of the cuts themselves (using the marginal benefit of funds estimates of between 1.18 and 1.38).

The results presented, summarised in Table 3, tell a similar story, despite the use of different methodologies and their application to different data.

Table 3: Results of the impact analysis (ETB, billions)

Method	Applied to	Result	Value lost
Bucket approach	Aggregate budget reallocation	24-32.2	4.2-12.4
IMF approach	Government consumption	18.7	5.5
	Capital investment	12	5.4
	Total	**30.8**	**11**
Marginal cost of funds	Capital expenditure, three ministries	29.7	6.9

These results and the multipliers utilised indicate that while capital expenditure is often the easiest to reallocate budget from, this can have significant economic impacts, due to the large multipliers estimated.

Finally, cost–benefit analysis illustrates the impact of reallocations at the project level, whereby delays result in the inability to capitalise on the economic benefits in the short term and increase the cost of projects over the long term. For example, the Welmel Irrigation Project, on which construction started in 2019/20, has a total financial cost of ETB 3 billion (see Box 3). According to the cost–benefit analysis, the financial benefit of the project is ETB 4.5 billion: a financial cost-to-benefit ratio of 1.5. The economic cost-benefit ratio (which includes the benefit and cost to the whole economy) is even higher. A delay in implementing the project would have an economic cost of ETB 32 million for the first year.

Box 3: Welmel Irrigation Project

The Welmel Irrigation Project is a three-year project designed to develop an area of 11,040 hectares (ha) of irrigated land in the Oromia regions on the Welmel River. The project includes a 30 km feeder canal, and irrigation and drainage system construction works.

Upon completion, it will directly benefit 22,000 households. It is expected that farmers could earn net additional income of ETB 41,630/ha due to the project. The cost of the eight-year project was estimated in 2021 to be ETB 3.61 billion.

Indicators	Economic feasibility	Financial feasibility
Net present value	ETB 1.6 billion	ETB 1.5 billion
Present value of benefit	ETB 3.4 billion	ETB 4.5 billion
Present value of cost	ETB 1.8 billion	ETB 3.0 billion
Investment rate of return	21.2%	16.5%
Benefit-to-cost ratio	1.92	1.5

Source: Ministry of Water, Irrigation and Energy (MoWIE) 2019.

WHAT HAVE WE LEARNED?

The findings presented in this brief show that by doing more to promote financial resilience in Ethiopia, the effects of shocks on the economy can be significantly reduced. Even before the covid-19 pandemic occurred, the financial capacity and fiscal space in Ethiopia were severely limited, forcing the GoE to utilise several budgetary instruments, such as budget reallocations and supplementary budgets, to meet urgent unplanned needs, instead of responding with adequate pre-planned budget allocations and other financing tools. This brief estimates that due to the budget reallocation processes used to curb covid-19, the forgone value to the economy was 55% above the spending cuts on aggregate, at ETB 30.8 billion (USD 931 million) (using the IMF fiscal multipliers of 0.42 and 0.82 for recurrent and capital spending). Reallocating funding away from capital investment is particularly costly, as this spending has higher likely returns, which are compromised.

Stronger budgeting and budget processes are important tools to reduce the effects of shocks on the economy. Options that could be undertaken by the MoF in this regard include the following:

- **Formalise a disaster response plan for the MoF, to guide decision-making on budget reallocations.**
  While budget reallocations should not be the only tool relied on by the GoE to fund disaster responses (given the limits on the funding that is available, and the associated costs – that grow with the volume of funding being reallocated), having a plan and process in place for when budget reallocations must take place can reduce the time required for such reallocations, and can decrease these opportunity costs. This work can be undertaken prior to a disaster and would involve steps such as undertaking a budget tagging process to identify spending lines that are unviable, are underspending, or are of low priority, developing a framework for decisions on underspending for use ex-post disaster, and clearly setting out the policies and processes to be followed in undertaking budget reallocations.
- **Improve existing budgetary mechanisms.**
  Enhancement activities could include reviewing budget allocations to ensure that the optimal allocation of funds is achieved to increase budget execution and reduce wastage, and reviewing the budget process to ensure that adequate information is received from line ministries to inform budget reallocation processes.
- **Develop rules to guide the appropriation to, and use of, the contingency fund.** Calculating the appropriate contingency requirements and developing rules to

guide their usage, such as by specifying a percentage that can be used following a disaster, could ensure that funds are available at the onset of a disaster, and allow time for other funding sources, such as insurance, budget reallocations, or donor support, to be triggered.

- **Deepen understanding of the GoE's liabilities (explicit and implicit).** Understanding what the GoE may spend (and on what) will help in designing financing mechanisms that are appropriate to future needs. Moreover, a strengthened public financial management system, where disaster-related liabilities are known, would allow the GoE to make better-informed decisions about how to mitigate impacts financially.
- **Consider increasing the appropriation to prevention and rehabilitation.** Funding for prevention and rehabilitation following disasters is significantly below the amount required. By increasing the appropriation towards the previous year's spending levels, either through additional domestic funds or donor support, the GoE would have the ability to respond to disasters in a timelier manner, and pressure on budget reallocations would decrease, decreasing the ex-post costs of disasters.

On a national level, **the GoE could consider building broader financial capacity to respond to disasters**. Options for doing so include the following:

- **Explore additional risk financing instruments that could be available to the GoE in times of need.** Additional instruments could include the following: utilising disaster reserve funds; exploring contingent credit that can supplement the funds available through reserve funds; and exploring risk transfers for governments, such as public asset insurance and sovereign insurance, to enable the GoE to draw upon a range of financing instruments (not just budgetary instruments) that are proportionate to the needs and costs of disasters.
- **Continue to protect the most vulnerable people.** The poorest members of society are also those who suffer the most when disasters and crises occur, and their needs require special attention. To ensure their needs are met, continue to strengthen scalable social protection mechanisms, such as the Productive Safety Net Programme, to meet unplanned needs.

Finally, **greater certainty should be provided by donor partners on funding**, as the delayed receipt of funds appears to have affected the reliability of budgets.

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Cover image: Night skyline, Addis Ababa, Ethiopia.

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