

Disaster Response

A Public Financial Management Review Toolkit

Approach Note

Inclusive Economic Management In The Caribbean Externally Funded Output
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Agile, disaster-responsive PFM systems facilitate rapid rebuilding of infrastructure and more timely restoration of services.

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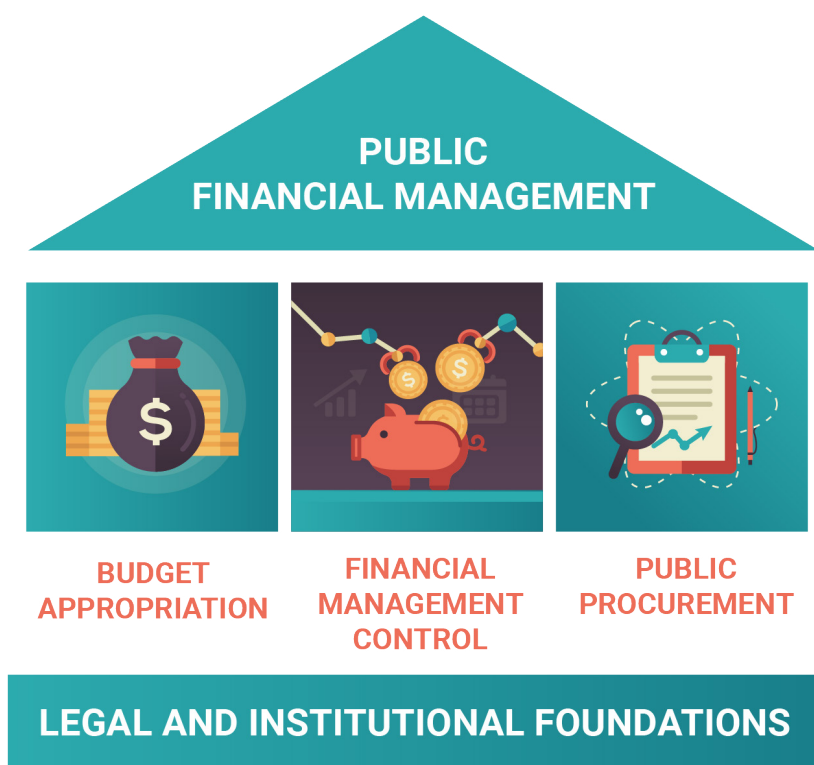
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INTRODUCTION

This document provides an overview of the conceptual framework and core principles that underpin the design of the Post-Disaster Financial Management Review and Engagement Framework – hereafter the “PD-PFM Review”.

The PD-PFM Review is an analytical instrument that seeks to help countries build resilient, responsive public financial management (PFM) systems by pinpointing critical PFM policies, practices, and procedures that can be strengthened to improve a government's capability to respond more efficiently and effectively to natural disasters and other catastrophic events, without loss of the integrity and accountability. The PD-PFM Review focuses on four key elements of the PFM system: legal and institutional foundations; budget appropriation arrangements; financial management controls; and procurement arrangements.¹

Figure 1. Core modules of the PD-PFM Review



1 - Development and application of the PD-PFM Review is supported with funding provided by Global Affairs Canada and is part of a larger World Bank executed Externally Financed Output (EFO) titled Inclusive Economic Management in the Caribbean. This EFO is in place for three years (2017-2020) for the benefit of selected Caribbean countries. A component of this EFO focuses on ensuring PFM processes and systems can respond effectively to increasingly frequent natural disasters that are associated with worsening of climate change.

The objective of the PD-PFM Review is to help countries assess the capability of their PFM systems to respond to natural disasters by measuring the extent to which disaster-response considerations are integrated into key PFM functions and activities. This assessment can be used to design, implement and evaluate reforms that seek to strengthen their capacity to manage public funds more efficiently and effectively in post-disaster situations. The PD-PFM Review has been developed and tested as part of a program to support resilience in selected Caribbean countries: Antigua and Barbuda, Belize, Dominica, Grenada, Guyana, Jamaica, St. Lucia, St. Vincent and the Grenadines, and Suriname.

The PD-PFM Review is designed to provide a quick and robust overview of the strengths and weaknesses of a PFM system that may affect disaster response and recovery efforts. The review is not an audit or a comprehensive assessment of the PFM system. It does not substitute for disaster risk or fiduciary assessments. Rather, the review is a standardized tool that countries can quickly apply, in a modular way if required, to pinpoint specific elements of their PFM systems that could be refined to optimize the allocation and execution of public resources to facilitate timely recovery from natural disasters. The modules of the PD-PFM Review can be applied separately, allowing countries to assess their capability in specific areas. Successive PD-PFM Reviews over a number of years can be used to track the progress of reforms and adjust their design to target weaknesses.

The PD-PFM Review applies generally accepted principles of good public financial management in the context of disaster response and recovery. According to the Public Expenditure and Accountability (PEFA) program, the 'purpose of a good PFM system is to ensure that the policies of governments are implemented as intended and achieve their objectives'. When a disaster occurs, the primary objective of government is typically to minimize loss and facilitate the recovery of affected areas and population as soon as possible. Achievement of this objective requires a responsive and orderly PFM system. The PD-PFM Review identifies eight core principles that should guide the development of such a system.

Following a disaster, PFM institutions, policies, processes and procedures, actors, and information systems should ensure:

- **Accountability.** Appropriate public or external scrutiny, internal control, and robust review of service quality take place that hold public officials accountable for adherence to established standards and procedures when making and recording decisions and the consequences of their actions.
- **Efficiency.** Resources are used to deliver timely, high-quality outcomes that represent fair value for money.
- **Flexibility.** Fiscal rules, institutional frameworks, and administrative guidelines include clauses that allow timely and appropriate response to disasters.
- **Gender Sensitivity.** Attention is paid—in the assessment, planning, and programming stages of recovery—to the differentiated roles and special problems that women and men face in particularly difficult disaster-related circumstances.
- **Reliability.** Emergency financial protocols are executed consistently irrespective of the physical state of the government.
- **Resilience.** Financial resources are used to restore, redevelop, and revitalize natural and socioeconomic (including governance) environments so that they are better able to withstand the impacts of future disasters.
- **Responsiveness.** Relevant PFM actors and processes are identified and strategically sequenced to deliver targeted results in a timely and organized manner with minimum delays and loss of opportunities.
- **Transparency.** Openness and clarity in the public finance decision-making and management processes enhance citizens' trust in the decisions taken by public officials.

The PD-PFM Review is designed to determine the extent to which the above eight principles are reflected in a country's PFM system. In particular, the PD-PFM Review seeks to understand, and adjust where appropriate, how a government prepares, activates, and manages public funds in the context of catastrophic events. The PD-PFM Review assesses legislation, institutions, policies, and procedures from the pre-disaster planning stage, the declaration of a disaster, through budget appropriation, budget execution, procurement and the applications of financial controls. The PD-PFM Review gives particular attention to the PFM processes and practices that need to react quickly following a disaster, identifying where deviations from standard practices may be necessary.




Photo Credit: World Bank

The PD-PFM review focuses on four key aspects of the PFM system: legal and institutional foundations; budget appropriation arrangements; financial management controls; and procurement arrangements

EVALUATION FRAMEWORK

The PD-PFM Review comprises four modules. Module 1—Legal and Institutional Foundations; Module 2—Budget Appropriation; Module 3—Financial Management Controls; and Module 4—Public Procurement.

Figure 2. PD-PFM Review Evaluation Framework



Modules	I	II	III	IV	TOTAL
Indicators	2	2	4	3	11
Dimensions	8	8	25	11	52
Guiding Questions	27	31	61	29	148

Module 1: Legal and Institutional Foundations

The efficacy of post-disaster response depends on clear rules and institutional arrangements for planning, mobilizing, appropriating, and executing financial resources to support post-disaster relief and recovery.

Public finance rules should be specified in a budget law—or set of laws—that lays out the procedures and specifies the responsibilities of the key public finance actors in the context of disasters. Two indicators are used to assess the extent to which there is clarity on the public finance operational framework that is instituted to expedite the government's response during and after natural disasters and similar emergencies:

- **M1.1: Post-disaster PFM rules.** Indicator M1.1 examines the extent to which legislation and procedures specify what specific budgetary processes are prescribed in the context of disaster response, when these budgetary steps should be taken, and who is responsible. Legislation should define the conditions in which these post-disaster rules should apply and for how long.
- **M1.2: Institutional arrangements for managing post-disaster financing.** This indicator examines the extent to which institutional mechanisms are in place to execute the financing of post-disaster relief and recovery operations in accordance with the legal and regulatory framework. During a state of emergency, clear, streamlined institutional mechanisms are needed to: enable the transmission of data, information, and decisions between the finance ministry and emergency response agencies; expedite approval processes and the flow of funds; and ensure the appropriate use of mobilized resources.

Module 2: Budget Appropriation

A significant part of the financing for disaster response and recovery will be channeled through the State budget. Appropriate provisions for disasters before they occur can significantly reduce fiscal risks and greatly enhance a government's ability to provide victims with aid immediately after a disaster when they may need it most. Ex-ante budgeting for disasters can boost savings, reduce risk exposure and promote aggregate fiscal stability. Budget frameworks that allow greater flexibility after disasters increase government's response capacity by allowing quick redeployment of expenditures across budget lines. The post-disaster redeployment of resources has to be done transparently and following clearly defined procedures to maintain citizen's trust. The following indicators are used to assess the extent to which a country's national budget is responsive and flexible enough to finance timely post-disaster relief and recovery operations:

- **M2.1: Budget planning for disaster relief and recovery.** This indicator examines the extent to which various sources for financing disaster relief and recovery (including reserve funds, contingent spending arrangements, contingent loan facilities, risk transfer instruments) are predetermined, programmed, and managed to optimize the government's financial response capacity without compromising fiscal balances or development objectives.

- **M2.2: Budget flexibility for post-disaster relief and recovery.** This indicator examines the existence of clear rules for in-year adjustments to the national budget by the government after parliamentary approval that allow for a timely and flexible response to unforeseen external shocks such as natural disasters. Indicator M2.2 takes stock of the various means to supplement and/or reallocate approved appropriations across and within the budgets of government ministries, departments, and agencies (MDAs) in response to a disaster. The indicator assesses the limits on the extent and nature of any such adjustments. Approval times by government and other PFM actors, such as parliament, and the clarity of the reallocation procedures are also considered.

Module 3: Financial Management Controls

The management of public resources in response to disasters should ensure that stakeholders are held accountable for the way they use public resources and exercise authority. This module focuses on evaluating the controls that are in place to ensure that post-disaster relief and recovery financial resources are used as intended in a transparent manner. It assesses whether there is: appropriate supervision of officers and separation of financial duties to mitigate the risk of corruption; adequate record keeping allowing for proper monitoring and audit; and sufficient information system resiliency. The following four indicators are used to assess Module 3:

- **M3.1: Post-disaster expenditure controls.** This indicator examines the extent to which the segregation of duties, or other controls, are applied in the authorization of expenditures, transaction processing, custody, and recording functions during post-disaster situations. An individual or small group of individuals should not be able to initiate, approve, undertake, and review the same action. Separation of functions is one of the most important features of an internal control plan that reduces the risk of fraud or expropriation.
- **M3.2: Post-disaster spending traceability.** This indicator examines the extent to which post-disaster relief and recovery financial transactions can be tracked and verified ex-post. It assesses the availability of reliable, relevant, and timely information about funding allocations, procurement, implementation progress, and contract management.
- **M3.3: External control and legislative scrutiny.** Indicator M3.3 assesses the extent to which post-disaster relief and recovery expenditures are internally and independently reviewed, with sufficient frequency, to ensure compliance with legislation and regulations. It includes a review of the instruments that the legislature and supreme audit institution can deploy to oversee the use of funds during the disaster or reconstruction phase, and the sanctions or remedies that can be applied.

- **M3.4: Resiliency of information systems and vital records.** This indicator examines whether public financial management information systems and digital records, including vital registries and financial transactions, can withstand the impacts of a catastrophic event.

Module 4: Public Procurement

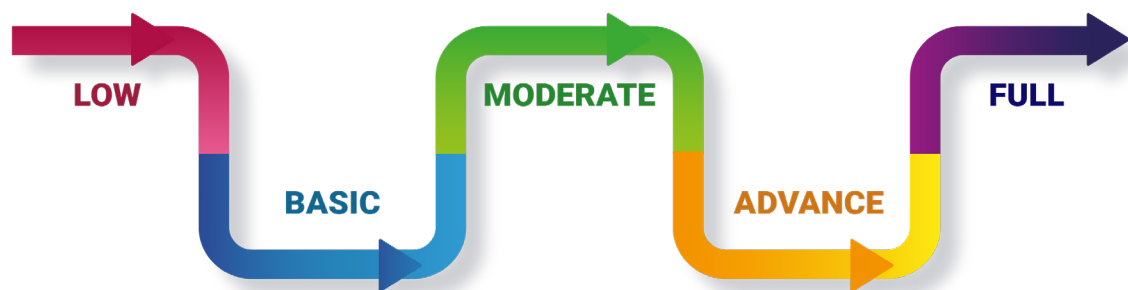
Timely disaster response may require the procurement of goods and services through expedited procedures. Such expedient procedures should ensure adequate accountability, transparency, and overall value for money, considering quality, cost and time of delivery. Ideally, public finance legislation reviewed under Module 1 should prescribe the public procurement procedures that can be followed after a disaster. More detailed instruments and instructions should supplement legislation, providing guidance on how to apply the legislation in specific post-disaster circumstances. Module 4 reviews the scope of operational tools at the implementing agency level to guide expedited purchases using three indicators:

- **M4.1: Procurement planning for emergencies.** Indicator M4.1 examines whether market research, sourcing strategies, framework agreements, memorandums of understanding, and/or other strategic initiatives are considered at the planning stage of the procurement cycle to optimize approaches for making purchases in response to the immediate and serious needs that may arise from unanticipated disaster threats.
- **M4.2: Emergency procurement procedures.** Indicator M4.2 assesses the extent to which procuring entities with emergency responsibilities have access to standard operating procedures (SOPs), handbooks, user guides, or other manuals that instruct how procurement is to be conducted in post-disaster situations.
- **M4.3 Model documents for emergency procurement.** Indicator M4.3 assesses the model documents and templates that inform the formulation of procurement documents to purchase goods, works, and services in post-disaster situations. This indicator also assesses whether implementation conditions are specified in these documents and the extent to which these clarify the conditions under which contractors may perform agreed activities prior to submitting prices.

ASSESSMENT STRATEGY

The PD-PFM Review assesses the extent to which disaster response considerations are integrated into key PFM functions and activities. The PD-PFM Review covers the broad policy and institutional framework and more granular level processes. The review allows an assessor to quickly collect data that describes how a Ministry of Finance operates in disaster situations, highlighting potential weaknesses and strengths. Annex 1 presents a list of key interview questions and the different aspects of the PFM system that pertain to each question. Each of the indicators described above has several dimensions. The indicators are assessed on a three-point scale based on existence of the function/process with the following scores: Yes = 1, Partial = 0.5, or No = 0. The summary score is calculated by adding together the scores for each indicator and expressing the final score as a percentage of the potential score if all indicators were scored as 1. The summary score can be used to provide an overall assessment of the degree of integration of disaster response considerations across the PFM system.

The extent to which disaster-response considerations are integrated into PFM functions are assessed in five categories.



- ▼ **Low (or no) Integration**, an aggregate score of less than 25 percent, denotes that a few PFM functions support post-disaster response and those which do help to accelerate response are likely to be incidental rather than part of a coherent strategy. This may indicate a low level of awareness of post-disaster response as a functional imperative of the overall PFM system. Significant improvements are needed to facilitate efficient and effective response to disasters.
- ▼ **Basic Integration**, an aggregate score of between 25 and 50 percent, indicates that disaster-response considerations are integrated in some key PFM functions. Some PFM processes carried out with the intent to expedite response to disasters, but this approach is not yet systematic. This category signals that disaster response awareness is still limited. The PFM system would benefit from further strengthening to facilitate response to disasters.

- ▼ **Moderate Integration**, an aggregate score of between 50 and 75 percent, denotes that disaster-response considerations are integrated in the majority of key PFM functions. Many PFM processes are performed with the intent to expedite response to disasters, and, these functions are documented, reasonably well coordinated and streamlined. This category signals awareness disaster response as a functional imperative. The PFM system is capable of facilitating an effective response to disasters.
- ▼ **Advanced Integration**, an aggregate score of between 75 and 90 percent, denotes that disaster-response considerations are integrated in most PFM functions. Most PFM processes expedite response to unforeseen disaster events. There a strategic intent to use PFM processes for disaster response, most processes are documented, coordinated and streamlined. This category signals that that the capability of the PFM system to respond to disasters is accepted as a core functional requirement and efforts have been in practice long enough to demonstrate their impact on disaster response performance.
- ▼ **Full Integration**, an aggregate score of over 90 percent, denotes that disaster-response considerations are integrated in all key PFM functions. Almost all PFM processes are undertaken strategically to expedite disaster response, are streamlined, coordinated and automated where possible. New disaster-response measures are easily integrated into existing PFM processes. Disaster-responsiveness is a component of the PFM system and organizational culture. The PFM system facilitates efficient or effective response to disasters and efforts have been in practice long enough to demonstrate their impact on disaster response performance.

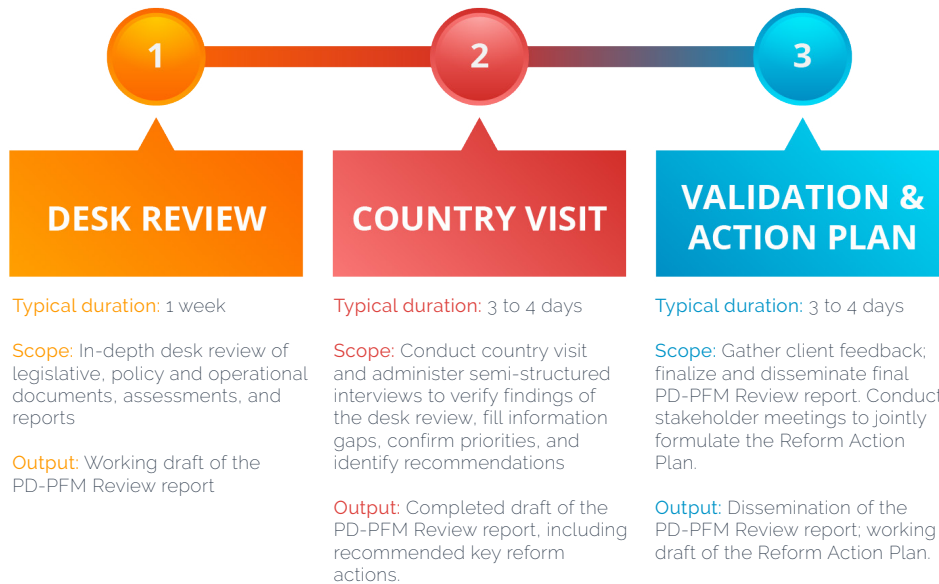


The PD-PFM Review can be completed on-site in as little as three days

Photo Credit: World Bank

REVIEW PROCESS

The PD-PFM review is administered in the following three stages:



Stage 1 — Desk Review

This entails an in-depth evaluation of legislative, policy and operational documents, assessments, and reports (such as the constitution, budget laws, financial regulations, parliamentary rules of procedure/conventions and various PFM or disaster risk assessments) to ascertain the enabling environment provided to manage disaster response from a PFM perspective. A team of assessors reviews the “As-Is” state of preparedness against the list of key interview questions and criteria outlined in Annex 1. Once these practices are documented, they are confirmed in Stage 2.

Stage 2 — Country Visit

The review team visits the country to map the PFM processes and practices that facilitate response to disasters. Through discussions with government authorities using Annex 1 as a guide, areas of strength and vulnerability are identified. The output of Stage 2 is a report of the results with recommendations on ways to strengthen identified vulnerable PFM areas

Stage 3 — Validation and Action Plan Development

In the final stage of the review, a validation exercise is conducted with key stakeholders to ensure that the findings of the PD-PFM Review are valid and credible. The team develops recommendations and works together with the government to formulate a prioritized reform strategy to address the key challenges identified in the prior two stages. All reports undergo a robust internal quality enhancement review by the World Bank prior to dissemination.

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Annex 1: Key Interview Questions

Indicator
M1.1

Is disaster response incorporated into the legal and regulatory framework for public financial management?

What is reviewed: Legislation, regulations, policies, directives, and strategies that define:

- a. disaster events, their notification and termination, and specific phases (such as response, recovery and reconstruction);
- b. disaster response triggers for PFM actors;
- c. operating rules for accelerated (re)allocation, execution, accounting, and oversight of disaster-specific budgetary resources;
- d. powers and duties of public finance officers during disasters; and
- e. the approach for accessing and sequencing disaster risk financing.

Indicator
M1.2

What are the institutional arrangements for responding to disasters from a PFM perspective?

What is reviewed: Institutional mechanisms that facilitate post-disaster financing, such as:

- a. a centralized entity to coordinate disaster response and recovery activities;
- b. mechanisms to coordinate and communicate budgetary arrangements for disaster response;
- c. contingency measures and procedures to ensure operational continuity during disasters; and
- d. staff who are knowledgeable of and trained on how to execute emergency finance procedures.

Indicator
M2.1

To what extent is budget planning carried out to support disaster response and recovery efforts?

What is reviewed: Availability, accessibility, adequacy, and timeliness of predetermined funding options for disaster relief and recovery, such as:

- a. contingent budget lines (e.g. earmarked budget lines, standby appropriations, or unallocated provisions);
- b. extrabudgetary funds (e.g. permanent funds such as contingency funds and national disaster funds, or temporary funds such as trust funds or special funds); and
- c. external standby facilities (e.g. risk transfer instruments such as parametric insurance and asset insurance, contingent loan/grant facilities, disaster bonds).

Indicator
M2.2

Is there adequate budget flexibility to facilitate disaster response and recovery efforts?

What is reviewed: Authorities and procedures that can be used to adjust the national budget after approval for post-disaster response purposes:

- a. Supplementary provisioning;
- b. Advance provisioning;
- c. Within Ministerial, Departmental and Agency budget amendments, including virements;
- d. Reallocations of budget provisions between Ministries, Departments and Agencies;
- e. interim finance directives to guide PFM decision making in disaster situations.

Indicator
M3.1

To what extent are PFM duties and functions structured to enhance disaster-related expenditure controls?

What is reviewed: Instructions for accelerating disbursements and the flow of funds in disaster situations and the unit, department, and/or staff position that is responsible for:

- a. receipt of financial transfers of external assistance for disaster response and recovery;
- b. approving financial transactions for disaster response ex-post and ex-ante;
- c. authorizing the execution of approved transactions for disaster response;
- d. making disbursements in the aftermath of a disaster;
- e. recording transactions in the aftermath of a disaster;
- f. acknowledging the receipt of goods or services involved in the transactions; and
- g. carrying out periodic reviews and reconciliation of existing assets to recorded amounts.

Indicator
M3.2

How are disaster-related expenditures tracked and recorded?

What is reviewed: Evidence of the government's capability to:

- a. track disaster-related expenditure by event, event type (such as flooding or hurricane) and nature (response, recovery or reconstruction) through the Chart of Accounts (COA);
- b. enforce the uniform reporting of disaster-related spending by all government ministries, departments, and agencies (i.e. uniform use of the COA, reporting requirements and standards);
- c. track disaster-related external assistance commitments, transfers and disbursements;
- d. ensure fiscal transparency through timely publication of disaster response plans, budget allocations, contracting information, financial reports and statements, implementation reports and results; and
- e. ensure availability of disaster-response related accounting records, requiring the retention of supporting documents for reasonable periods of time.

Indicator
M3.3

How are disaster-related expenditures scrutinized?

What is reviewed: Mechanisms for verifying, controlling, and monitoring disaster-related spending, with particular focus on:

- a. verification mechanisms (i.e. to confirm the eligibility and legality of disaster-related expenditures, availability of budget, provision of goods/services, and submission of supporting documents for expenses incurred);
- b. commitment control for post-disaster spending;
- c. disbursement monitoring arrangements (from authorizing payments to disbursement of funds from different sources, including special funds and other off-budget accounts);
- d. external oversight including requirements for audit and oversight of disaster-related expenditure;
- e. timeliness of audit submissions to the legislature; and
- f. enforcement of and follow-up on audit recommendations.

Indicator
M3.4

How resilient are PFM information systems and vital records to threats from natural disasters?

What is reviewed: Measures that ensure the protection and continuation of financial transactions in the aftermath of a disaster.

- a. Preparedness of finance agencies to handle disaster including definition of mission-critical functions and systems, established hierarchy of operational importance, pre-identified list of critical applications, impact assessments of system failure;
- b. Disaster recovery planning including availability of an up-to-date, comprehensive IT disaster recovery plan covering computer room environment, hardware, connectivity, software applications, and data protection and restoration, including for hardcopy files;
- c. Recovery readiness including creation of a Recovery Point and Time Objectives for all major PFM applications;
- d. Known vulnerabilities if critical PFM systems collapse;
- e. Data backup routines, technology, and locations; and
- f. Data center resiliency including fire and flood barriers and robust building architecture; multiple connections; uninterruptible power supply with battery backup and generators; redundant servers and storage; multiple high-speed network links entering and exiting at different points; smoke, fire, humidity and flood detection; and physically secured servers.

Indicator
4.1

How is disaster response and recovery procurement planned?

What is reviewed: Operational instruments that support the government's planning needs that may arise from disasters:

- a. Preemptive planning including creation and maintenance of annual and multi-annual procurement plans that include provisions for disaster events, plans and strategies to address with disruptions in the supply chain of critical supplies such as medicine;
- b. Strategic use of market research and analytics including: use of data to extrapolate future requirements from previous disaster response purchases; conducting market research and cost analyses to assess supplier markets before disasters strike; visualizations of end-to-end supply chains through geographic maps and network graphs;
- c. Pre-established contracting arrangements that minimize time to mobilize primary and/or alternate supplies including pre-identification of suppliers and alternate suppliers, establishment of framework agreements and memorandums of understanding for purchases; and
- d. Flexibility to respond forgoing routine procurement procedures to expedite response; use of preemptive levers used to increase contract flexibility during emergencies such as inserting clauses in contracts that enable adjustments in volumes.

Indicator
4.2

How is disaster-related contracting carried out in disaster situations?

What is reviewed: Guidelines, techniques or procedures that support the accelerated acquisition of goods, services, and works for disaster response and recovery, including:

- a. Standard operating procedures, protocols and instruction manuals that lay out how entities should execute procurement and contracting for disaster response and recovery;
- b. Measures prescribed for disaster response and recovery circumstances that streamline the procurement process for disaster-related procurement;
- c. Protocols to ensure adequate and timely access to information on each phase of the public procurement of disaster-related works, supplies and services;
- d. Mechanisms for the timely determination of vendor eligibility and their registration; and
- e. Post-award contract oversight functions and procedures that ensure the timely implementation and completion of post-disaster contracts including a monitoring and evaluation framework for contract performance; clearly defined contract management functions and responsibilities; methods for inspection, quality control, supervision of civil works, and final acceptance of products; and techniques for invoice examination.

Indicator
4.3

What instruments are used to streamline and expedite disaster-related public procurement?

What is reviewed:

- a. The existence of up-to-date model procurement documents and templates that are of acceptable quality and widely accessible to all procuring entities, which may be used for the acquisition of goods, services, and works that are most frequently needed for disaster response and recovery; and
- b. The specification of implementation conditions in contracts that are awarded for disaster response and recovery operations.



The PD-PFM Review is a rapid, modular, standardized tool that assesses how well PFM systems respond to climate change

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FOR MORE INFORMATION CONTACT:

Richard Sutherland
Public Sector Analyst
rsutherland@worldbank.org
1-202-458-4577

Leah April
Senior Public Sector Specialist
lapril@worldbank.org
1-202-725-0643

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