

**AFRICAN
DEVELOPMENT
INSTITUTE
GLOBAL COMMUNITY
OF PRACTICE
Policy Dialogue Series**

Managing Public Finance in Times of Crisis in Africa

Matrix of Policy Options



AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE
DE DEVELOPPEMENT



AFRICAN DEVELOPMENT INSTITUTE
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The Matrix of Policy options should be cited as Citation: African
Development Bank Group (2022): Matrix of Policy Options. **Policies for
Managing Public Finance in Times of Crisis in Africa**. Contributions of
the African Development Bank, Global Community of Practice, Policy
Dialogue Series on Managing Public Finance in Times of Crisis in Africa,
Februray and March 2022 [Urama, K.C; Ogunleye, E.K; Hove,S; Saindou,
A.B.; Wabiri,N.; Sebutsoe, N.; Ibe,C.; N'guessan,R.; Coulibaly, A; Kalayu, G.;
Sugden,C; Amadou,I; Vion, J; Musa, B.Y; Boussaid M; Terkper S; Said, J
(eds.)]. African Development Bank Group, Abidjan, Cote d'Ivoire.

1. African Development Institute

2. Governance and Economic Reforms

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Acknowledgements

We acknowledge, with deep appreciation, the support and sacrifices of the four reviewers who generously made their time available to review the previous versions of the report and offer excellent comments and suggestions. We also acknowledge all the participants at the Global Community of Practice Policy Dialogue on Managing Public Finance in Times of Crisis for their availability, participation, and very animated and interesting discussions based on wide-ranging perspectives. We are grateful to all institutional partners that broached the idea of this policy dialogue and their inputs and sacrifices in co-developing, co-implementing, and co-delivery of the policy dialogue. These include: The IMF, the World Bank, Collaborative Africa Budget Reform Initiative, African Tax Administration Forum, OECD- Global Forum for Transparency and Exchange of Information for Tax Purposes; West African Institute for Financial and Economic Management (WAIFEM); African Economic Research Consortium; African Organization of English Speaking Supreme Audit Institutions (AFROSAI-E); African Capacity Building Foundation; Public Expenditure and Financial Accountability (PEFA); Pan-African Federation of Accountants (PAFA); Economic Research Forum, Egypt; Centre for Global Development, USA, The Global Green Growth Institute (GGGI); and International Public Sector Accounting Standards Board (IPSASB).

The report has benefited from inputs made at the policy dialogue through discussions, interventions, and think pieces from participants that include:

Government Representatives: Mr. Harvesh Kumar Seegolam, Governor Central Bank of Mauritius, Mauritius; M Kokou Philippe Tchodie, Commissaire Général de l'Office Togolais des Recettes, Togo; Mr. Ben Akabueze, Director-General, Budget Office of the Federation, Nigeria; Dr. Hassan Mahmud, Director, Monetary Policy Department, Central Bank of Nigeria, Nigeria; and Dr. Samuel Omenka, Technical Assistant to the Director-General of Budget, Budget Office of the Federation, Ministry of Finance Budget and National Planning, Nigeria.

Research Institutions, Think Thanks, and other international organisations: Mr. Charles Boamah, Former Senior Vice President, African Development Bank Group; Mr. Neil Cole, Executive Secretary, Collaborative Africa Budget Reform Initiative, South Africa; Dr. Ian Parry, Principal Environmental Fiscal Policy Expert, Fiscal Affairs Department, International Monetary Fund, USA; Prof Ibrahim El Badawi, Managing Director, Economic Research Forum, Egypt; Mr. Srinivas Gurazada, Head of Secretariat, Public Expenditure and Financial Accountability (PEFA); The World Bank, USA; Dr. Mallé Fofana, Director and Head of Programs, Africa. Global Green Planning and Implementation – GGP&I, The Global Green Growth Institute (GGGI), Cote D'Ivoire; Mr. Logan Wort, Executive Secretary, African Tax Administration Forum, South Africa; Mr. William Gyude Moore, Senior Policy Fellow, Centre for Global Development, USA, Former Head of the President's Delivery Unit and Minister of Public Works, Liberia; Mr. Ian Carruthers, Chairperson, International Public Sector Accounting Standards Board (IPSASB); Dr. Chris Heitzig, Senior Research Fellow, Global Economy, and Development - Africa Growth Initiative, Brookings Institution, USA; Dr. Baba Yusuf Musa, Director-General West African Institute for Financial and Economic Management (WAIFEM), Nigeria; Danielle Serebro, Acting Programme Manager, CABRI. South Africa; Prof. Gunnar Köhlin, Director Environment for Development Initiative Department of Economics, University of Gothenburg Sweden; Dr. Friday Ohuche, Development Economist and Public Finance Expert, Economic and Management Insights Limited, Abuja, Nigeria; Mr. Bright Simons, Founder and CEO/ former Board, Member African Population and Health Research Center, Ghana; Mr. Tim Jones, Head Policy, Jubilee Debt Campaign, United Kingdom; Mr. Moumouni Lougue, Directeur Général des Impôts, Direction Générale des Impôts, Burkina Faso; Mr. Masheti Masinjila, Executive Director, East African Civil Society, Kenya; Mrs. Maisie Nkai, CEO, Supreme Audit Institution, South Africa; Ms. Alta Prinsloo, Chief Executive Officer, Pan-African Federation of Accountants, South Africa; Ms. Lorena Rivero del Paso, Public Financial Management Advisor,

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1 Introduction

The Covid-19 has exacerbated African countries' challenges in financing the 2030 sustainable development goals (SDGs), the 2015 Paris Climate Agreement, Africa's Agenda 2063, as well as national development goals across the continent. It has impacted Africa's macro-economic outlook, fiscal positions, debt vulnerabilities, lives and livelihoods, and financial flows in fundamental ways, reversing decades of progress on the continent. Africa's GDP contracted by 2.1 percent in 2020. About 30 million Africans were pushed into extreme poverty in 2020, with about 39 million people expected to fall into extreme poverty in 2022. The pandemic has also exacerbated pre-existing public finance challenges in Africa. Fiscal revenues have declined by about 10-15 percent, while government expenditure edged up due to health-related spending, resulting in doubling of fiscal deficits to a historical high of 7.2 percent of Gross Domestic Product (GDP). As African countries already have very limited fiscal space, including large borrowing to fight the COVID-19 pandemic, the situation was further worsened by the plummeting prices of commodities, which most African countries depend on for fiscal revenues and foreign exchange earnings. Public debt has ballooned to \$546 billion - about one-quarter of Africa's GDP and higher than Africa's annual government revenues, adding about 10 percentage points to Africa's debt burden.

Development finance has also been adversely impacted, with 15.6 percent, 10 percent, and 212 percent decline in Foreign Direct Investments (FDI), Overseas Development Assistance (ODA), and Portfolio investments to Africa respectively. Sovereign bond spreads have widened, reducing access to international capital flows, and currency depreciations, accompanied by a sudden pick-up in inflation in many countries. The annual financing gap to end extreme poverty by 2030 is estimated at about 30.6 percent of GDP, or \$19.1 billion, on average, per country between 2021-2030.

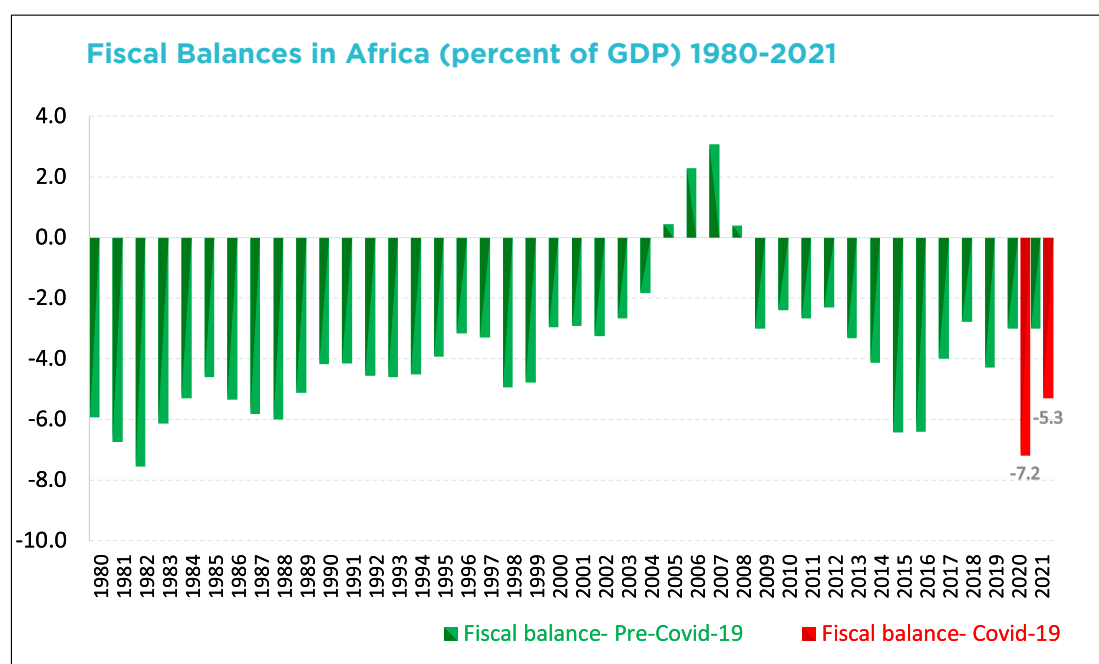
The crisis has thus deepened the need for enhanced mobilization and prudent management of scarce public finances to deliver desired development impacts. Therefore, Africa's sustainable recovery from the fiscal impacts of Covid-19 will largely depend on the availability and efficient management of affordable financing for inclusive and sustainable development.



In response to partners demand, and in line with the programme of the Bank's proposed Public Finance Management Academy for Africa, the African Development Institute convened a 2-day Global Community of Practice (G-CoP) policy dialogue from February 28 to March 01 2022, and a 3-day Executive Training from March 02 to March 04, 2022, on Managing Public Finance in Times of Crisis in Africa to discuss strategies and policies to build strong public finance systems to respond to the crisis in future. The two-day policy dialogue brought together 522 experts from over 58 countries, including leading global experts in macro-economic policy, former Ministers of Finance, former Central Bank Governors, and anchor institutions globally to explore practical policy options to strengthen public finance management capabilities to better respond to the crisis and help them build resilience for the future. The seminar and training examined the short, medium, and long-term implementable policy options for public financial management to respond to the present and future crises, and enable countries to build more resilient, inclusive, and sustainable economies in Africa post-COVID-19. It also examined the potency, applicability, and multiplier effects of each policy measure considering Africa's social, economic, and political context.

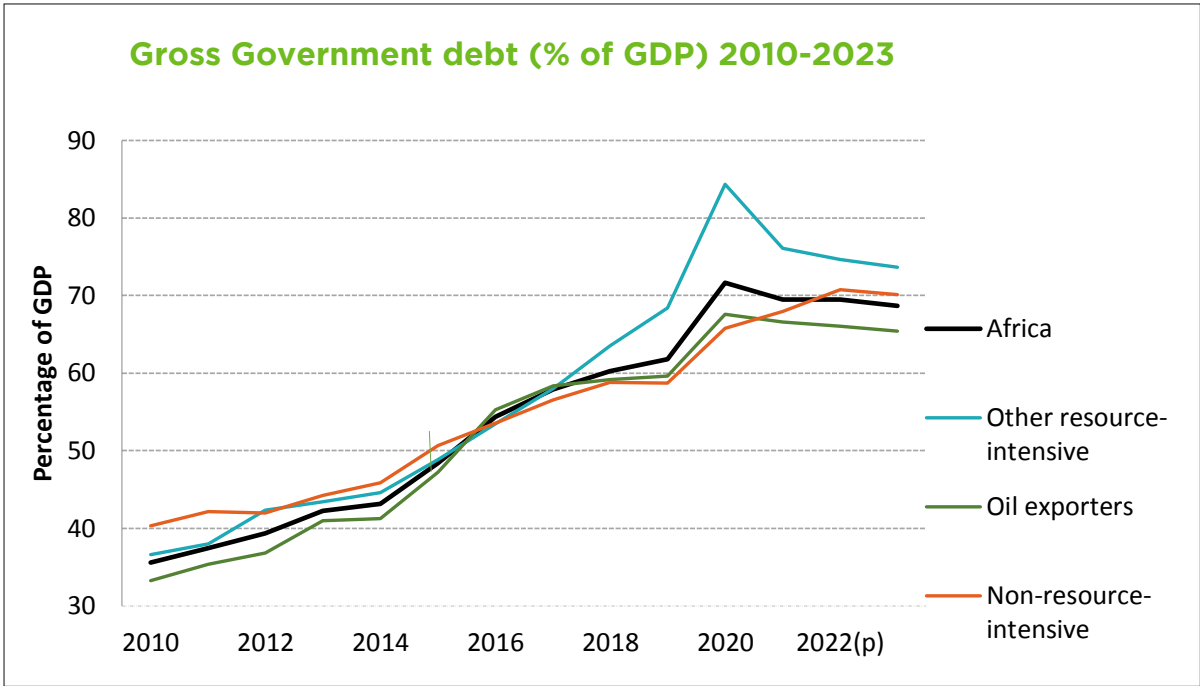
This policy brief summarizes the key policy options that emerged from the policy dialogue and training. It includes the short-term, medium-term, and long-term policies for managing public finances in times of crisis and supporting the rebuilding of resilient and inclusive economies in Africa post- Covid. The policy brief also presents a high-level summary of the potency and appropriateness of each policy option within the African contexts and suggests remedial actions to address the implementation challenges. The overarching goal is to equip African countries with policy options to bolster fiscal resilience, recover and rebuild better economies.

Figure 1: Covid-19 and PFM Performance in Africa



Source: AfDB Statistics

Figure 2: Covid-19 and public debt in Africa



Source: IMF WEO



2 Matrix of Policy Options for Managing Public Finance in Times of Crisis in Africa

2.1 Resource Mobilization – Domestic and External Resources

Short-Term Policy Options	National Policy Options	Implementation Challenges	Remedial Actions ¹
	i. Digitalize to improve the collection and administration of tax revenues, for example by adopting the Integrated Tax Administration Systems (ITAS).	<ul style="list-style-type: none">Technical and strategy challenges in implementing digitalization	<ul style="list-style-type: none">Invest and develop capacity in digitalization.
	ii. Adopt a comprehensive and robust tax compliance improvement plan that connects all aspects of the compliance process.	<ul style="list-style-type: none">Implementation of harmonized and transparent frameworks.	<ul style="list-style-type: none">Adopt a reference harmonized compliance framework and support RMCs to develop improvement action plans on tax compliance. The framework should enable the collection and use of data in risk assessment and mitigation planning across all aspects of the compliance chain.

¹ Remedial Actions Or opportunities as a roadmap to guide decision makers taking into consideration the consequences of not doing the policy option

**Short-
Term
Policy
Options**

	National Policy Options	Implementation Challenges	Remedial Actions
	<p>iii. Strengthen capacity for effective formulation and implementation of debt policy and Medium-Term Debt Management Strategy to ensure prudent debt mobilization and management.</p>	<ul style="list-style-type: none"> • Weak capacity of countries to define debt plans that meet the real needs of RMCs and support development. • Opaque debt deals and limited access to data. 	<ul style="list-style-type: none"> • Improve the debt management framework by: identifying real debt needs; defining rules for the efficient use of debt resources; strengthening national capacities for the analysis of sustainability risks and macro-fiscal risks related to public debt; • Develop debt management frameworks that clearly define and publicly disclose, measure, and cost risk of debt to boost transparency and should ensure strengthening of laws and institutional capacities for fiscal risk disclosure, accounting, monitoring, and mitigation. • There is need to identify and quantify contingent liabilities and the “hidden debt” to prevent “debt surprises” that could exacerbate debt distress or the risk of debt distress • Improve public access to public debt data: sources and conditions of indebtedness; composition, currency, term structure, allocation of mobilized resources; follow-up of the repayments of the installments and the origin of the resources to be used for the payment of the installments. • African countries must also deal with the post-crisis management of debt that may result from the fiscal, monetary, and financial stimulus packages implemented by the fiscal and monetary authorities

Short-Term Policy Options	National Policy Options	Implementation Challenges	Remedial Actions
	iv. Adopt and implement Tax Administration Diagnostic Assessment (TADAT). This will allow for better diagnosis of tax systems and challenges and to inform evidence-based tax policy and tax administration reforms. The TADAT framework helps to determine the extent and priority reforms needed in tax policy and administration.	<ul style="list-style-type: none"> • Opaqueness of some countries' tax administration systems may prevent them from participating in TADAT assessments. • Some countries that may be willing to participate, but funding of the exercise may be a constraint. 	<ul style="list-style-type: none"> • The AfDB and other partners such as the IMF and the World Bank could fund the TADAT assessments for countries that lack funding but are willing to undertake the assessment.
	Regional Policy Options	Implementation Challenges	Remedial Actions
	v. Leverage financing from the private sector and advance innovative ways to raise funds to finance development, for instance requiring private sector contributions to solidarity funds (e.g. through solidarity taxes), taxing the informal sector, taxing high net worth individuals, and taxing conspicuous consumption of the elite, blended finance, partial guarantees, impact investing, fin-tech based financing crowdfunding, PPPs	<ul style="list-style-type: none"> • Tax evasion and tax avoidance by the private sector • Limited capacity to manage PPPs, for the analysis of costs and economic and financial profitability, as well as transparency in the management of the revenues generated and the monitoring of the repayment of debts resulting from Public-Private Partnerships 	<ul style="list-style-type: none"> • Improve PPP frameworks, by enhancing technical and human capacities of national structures specialized in the management of PPPs, particularly in the design, procurement, project analysis, drafting of contracts, and the monitoring of execution; transparency in the PPP contracting process. • Strengthen regulatory frameworks for private sector development.

Short-Term Policy Options	Global Policy Options: Multilateral and Bilateral Interventions.	Implementation Challenges	Remedial Actions
	vi. Strengthen legislation to mitigate illicit financial flows and stem corruption by: improving the legal frameworks to reduce tax avoidance, profit shifting, and transfer pricing; enhancing the exchange of information, tax compliance and enforcement, and harmonizing strategies and compliance mechanisms among RMCs	<ul style="list-style-type: none"> • Inadequate cooperation among countries. • Weak national legal and institutional capacity for intelligence gathering, prevention, enforcement of anti-corruption, anti-illicit financial flows measures. • Poor coordination at the international level. 	<ul style="list-style-type: none"> • Strengthen monitoring capacity by building the government's digital capabilities. • Build a platform for the exchange of harmonized financial information between RMCs on the one hand, and partner and/or at-risk countries on the other. • Strengthen national institutional capabilities for intelligence gathering, prevention, enforcement of anti-corruption, anti-illicit financial flows measures. • Strengthen International coordination, for example through the OECD tools such as the Automatic Exchange of Information (AEI).
Medium-Term Policy Options	National Policy Options	Implementation Challenges	Remedial Actions
	vii. Adopt Medium-Term Revenue Strategies (MTRS) of the government to bolster revenue collection and management.	<ul style="list-style-type: none"> • Low level of control of taxpayers and significant weight of the informal sector. 	<ul style="list-style-type: none"> • Develop technical and human capacity-building plans for financial administrations for better control of tax bases.
	viii. Build fiscal buffers and counter-cyclical fiscal policy frameworks and embed them in the PFM system to manage both reoccurring minor crises, and to help strengthen the systems' resilience to mitigate the effects of major crises.	<ul style="list-style-type: none"> • The presence of high fiscal deficits and public debt can limit the building of adequate buffers • Inadequate legal and institutional capacity for designing countercyclical tools. • Africa's sovereign wealth funds are often invested in foreign markets leaving the country susceptible to forex risks. 	<ul style="list-style-type: none"> • Saving during good times through creating Sovereign Wealth Funds (SWFs) • Reining in expenditures in good times to allow savings. • Invest sovereign wealth fund resources in the domestic markets

Medium-Term Policy Options	Regional Policy Options	Implementation Challenges	Remedial Actions
	ix. Propose to external lenders index loans to resource-intensive countries based on the changes in commodity prices to help free up the fiscal space countries, especially during periods of crisis.	<ul style="list-style-type: none"> Exogenous commodity price fluctuations. 	<ul style="list-style-type: none"> Strengthen macroeconomic policy management of resource-rich countries. Increase value addition and reduce dependence on primary products.
	Global Policy Options: Multilateral and Bilateral Interventions.	Implementation Challenges	Remedial Actions
	x. Development Finance Institutions (DFIs) to increase guarantees and liquidity facilities to banks with which they have lines of credit in the region.	<ul style="list-style-type: none"> Country risks often remain high. High default rates on loan repayments. Country risk ratings, fiduciary risk considerations may limit the scale and speed of disbursements to address the crisis timely. 	<ul style="list-style-type: none"> Expand continental guarantee instruments to reduce risk levels and provide more stable guarantees.



Long-Term Policy Options	National Policy Options	Implementation Challenges	Remedial Actions
	xi. Propose to external lenders index loans to resource-intense countries based on the changes in commodity prices to help free up the fiscal space countries, especially during periods of crisis.	<ul style="list-style-type: none"> Lack of clear strategies accompanied by policy actions about how resource sectors can support the development of other sectors. Private investment often remains concentrated in the natural resource sectors, which are more buoyant in these countries. Poor level of productive technology adoption. 	<ul style="list-style-type: none"> Support resource-rich countries to adopt action plans with tangible and rapid results to create favorable conditions for investment in other sectors.
	Regional Policy Options	Implementation Challenges	Remedial Actions
	xii. Implement the African Continental Free Trade Agreement, AfCFTA and leverage its opportunities to support economic expansion and integrate the region's small scale and fragmented economic and financial systems to enhance resource mobilization.	<ul style="list-style-type: none"> Uneven distribution of gains from AfCFTA across RECs and across countries with losers and winners emerging. Trilemma of special and differential treatment of countries given the diversity of countries 	<ul style="list-style-type: none"> More regular tax revenue could cover short-term losses. The African Development Bank can help to support countries with knowledge synthesis and policy dialogue to encourage the domestication of AfCFTA.

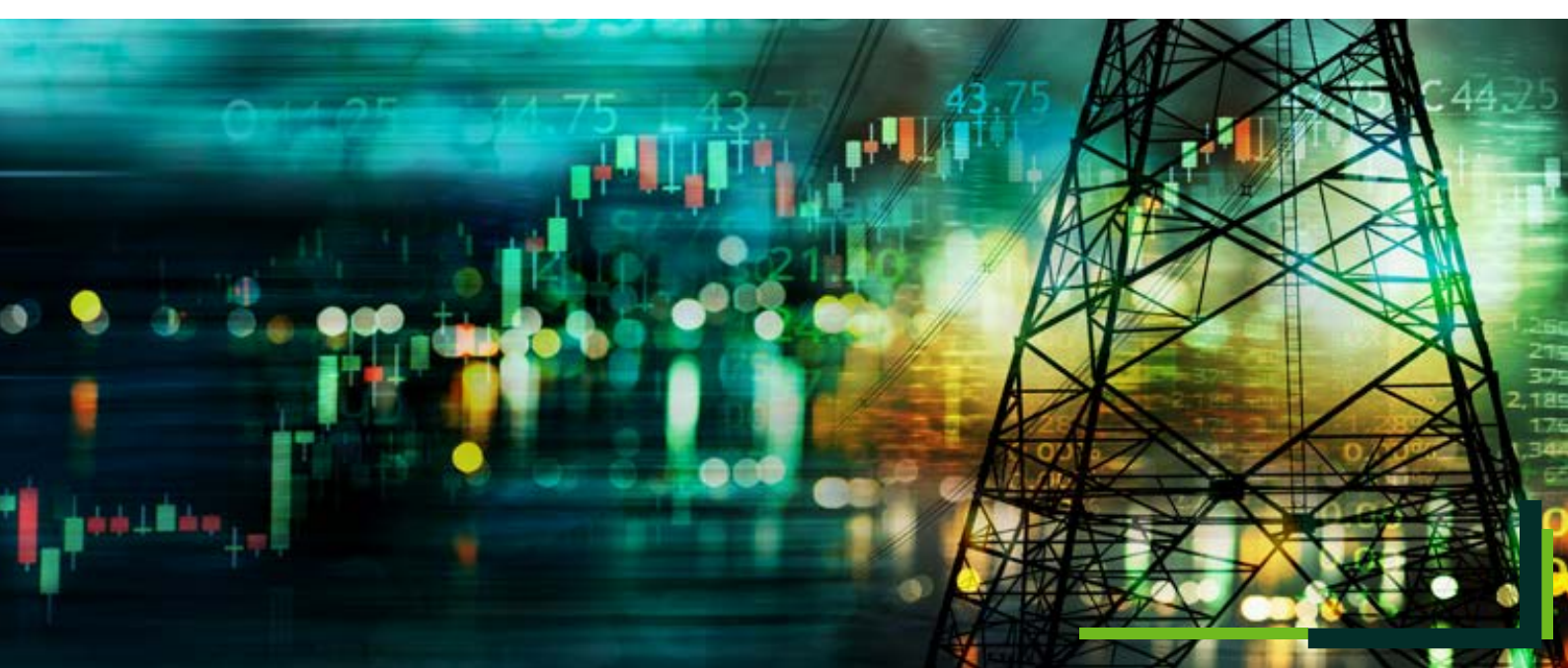
Long-Term Policy Options	Global Policy Options: Multilateral and Bilateral Interventions	Implementation Challenges	Remedial Actions
	xiii. Multilateral Development Institutions to scale up concessional loans and development assistance during a crisis.	<ul style="list-style-type: none"> • Insufficient concessional loans versus financing needs • Concessional loans coming with stringent conditions 	<ul style="list-style-type: none"> • Provision of blended finance for public sector projects, with grants covering project preparation or green purposes. • Conditionalities should foster key reforms to improve PFM.



2.2 Resource Allocation and utilization

Short-Term Policy Options	National Policy Options	Implementation Challenges	Remedial Actions
	i. Introduce fiscal stimulus packages that contain discretionary measures that are timely, targeted, and temporary, with clear exit options.	<ul style="list-style-type: none"> Limited fiscal space to implement such measures. 	<ul style="list-style-type: none"> Tax sectors that benefit more from the crisis, for instance, the digital sector was booming during the Covid-19 pandemic crisis.
	ii. Establish robust budget codes and chart of accounts that allow the creation of new program codes and line items in the budget to respond to specific needs during crises. This will ensure that resources allocated for these crisis-responsive expenditures are properly accounted for and reported.	<ul style="list-style-type: none"> Inadequate common budget codes and chart of accounts across tiers of government. Absence of appropriate IT platforms for the implementation of the chart of accounts Inadequate capacity within the finance and accounts staff to implement modern budget codes and chart of accounts. 	<ul style="list-style-type: none"> Determine the appropriate budget codes and chart of accounts and the technology to run them. Design the chart of accounts, acquire the appropriate IT platform and launch. Train planning, budget and finance staff on the new budget codes and chart of accounts and implement across government
	iii. Develop social transfers schemes (cash transfers; etc.) that are more effective than subsidies of energy and other utilities	<ul style="list-style-type: none"> Inadequate and accurate data on poor and needy households to enable proper targeting of interventions. Exclusion of the poor and needy in the financial services and payment system. 	<ul style="list-style-type: none"> Improve national data collection capacity and establish periodic household surveys. Implement financial inclusion measures using non-sophisticated digital payment systems, such as mobile phones, which has deep penetration within the population. Invest in capacity building – including in designing social welfare programs

Short-Term Policy Options	Regional Policy Options	Implementation Challenges	Remedial Actions
	iv. Promote results-based PFM and move from needs-based budgeting.	<ul style="list-style-type: none"> Lack of capacity for ensuring budgetary discipline to guide the strategic allocation of resources Performance indicators may take time to develop 	<ul style="list-style-type: none"> Link PFM with performance objectives. Apply the Public Expenditure and Financial Accountability (PEFA) framework to measure outcomes, and other indicators of performance that can be available quickly, such as health and education indicators
	Global Policy Options: Multilateral and Bilateral Interventions.	Implementation Challenges	Remedial Actions
	v. DFIs and development partners to support the maintenance of critical public (e.g. health, education, social protection) spending especially in low-income countries to improve counter-cyclicality (e.g. crisis response window).	<ul style="list-style-type: none"> Inadequate resources amid competition especially during a crisis. 	<ul style="list-style-type: none"> Leverage innovative approaches to mobilize development financing for crisis e.g. private sector, wealthy individuals etc. DFI and development partners are better placed to respond to crisis.



Medium-Term
Policy
Options

	National Policy Options	Implementation Challenges	Remedial Actions
	vi. Digitalization of PFM processes and systems (e.g. Integrated Financial Management Information System (IFMIS)) to enhance transparency, flexibility and speed during crisis.	<ul style="list-style-type: none"> Absence of appropriate digitalization policies that define the real needs, plans, appropriate designs and implementation strategy. Weak IT infrastructure Inadequate capacity within member states' governments to design and implement digitization programs. 	<ul style="list-style-type: none"> Develop digitalization policies that are based on needs assessment, and availability of appropriate technology considering the existing capacity for design and implementation. The implementation of IFMIS with the core modules including budgeting, accounting, treasury, and cash management (extend Treasury Single Account (TSA) to major spending units for better cash management), reporting; and auxiliary modules such as payroll, procurement and public investment management to enhance the ability to allocate and manage resource during a crisis. The African Development Bank and development partners can support RMCs in building the capacity for IFMIS design and implementation based on country's policies and needs. Invest in IT infrastructure development and data management capabilities. Promote data interoperability platforms to provide linkages between different ministries and entities relevant to PFM.
	Regional Policy Options	Implementation Challenges	Remedial Actions
	vii. Develop robust macro-fiscal forecasting capabilities, which are necessary to quickly establish scenarios for resource availability, sector needs, and resource re-allocation at the onset of the crisis.	<ul style="list-style-type: none"> Inadequate and sometimes the absence of data for forecasting. Low capacity of staff in macro-fiscal modeling. Absence of medium-term fiscal strategies including fiscal rules to anchor the macro-fiscal forecasts. Inadequate financial resources. 	<ul style="list-style-type: none"> Development partners should support capacity for macroeconomic modeling and forecasting. Engage and involve the legislature on the fundamentals for the macro-fiscal forecasts in order to forestall their objections and delays when fiscal projections and budgets are presented to them for approval.

Medium-Term Policy Options	Global Policy Options: Multilateral and Bilateral Interventions.	Implementation Challenges	Remedial Actions
	viii. Undertake public service performance surveys using the Bank's Public Service Delivery Index to determine areas of weakness and to improve service delivery and PFM systems. This helps with resource allocation, especially during a crisis.	<ul style="list-style-type: none"> Resource the activity could be a challenge. Possible disagreement among development partners on the framework and indicators to be used for public service delivery performance assessment. 	<ul style="list-style-type: none"> Secure funding from the African Development Bank under the ADI capacity development (Public Service Delivery Improvement workstream) The other multilateral development institutions should collaborate to support PFM and public service delivery performance assessment across the continent to benchmark service delivery, identify areas for improvement and mobilize resources to improve service delivery across the continent. The Bank can also coordinate the survey and benchmarking processes.
Long-Term Policy Options	National Policy Options	Implementation Challenges	Remedial Actions
	ix. Undertake country public investment management reviews to assess the strength and performance of infrastructure governance in the areas of planning, allocating and implementing investment in economic and social infrastructure, which are required for economic transformation and human development in the countries.	<ul style="list-style-type: none"> Dearth of experts and resources to undertake this exercise in about 54 African countries 	<ul style="list-style-type: none"> This can be facilitated through the country office of the African Development Bank in collaboration with the host country governments and development partners (IMF and World Bank).

Long-Term Policy Options	National Policy Options	Implementation Challenges	Remedial Actions
	x. Undertake country public investment management reviews to assess the strength and performance of infrastructure governance in the areas of planning, allocating and implementing investment in economic and social infrastructure, which are required for economic transformation and human development in the countries.	<ul style="list-style-type: none"> Dearth of experts and resources to undertake this exercise in about 54 African countries. 	<ul style="list-style-type: none"> This can be facilitated through the country office of the African Development Bank in collaboration with the host country governments and development partners (IMF and World Bank).
	Regional Policy Options	Implementation Challenges	Remedial Actions
	xi. Improve regional coordination and cooperation in times of crisis. For example, delivery of regional public goods such as Covid-19 vaccines during the Covid-19 pandemic.	<ul style="list-style-type: none"> Weak implementation rates of continental/regional initiatives. Inadequate technical skills for vaccine production. Possible lack of coordination among member countries due to weak political will as well as bureaucratic and legal / funding challenges. 	<ul style="list-style-type: none"> Allocate resources in the national budget for continental/regional initiatives (infrastructures; agriculture; etc.). Establish a regional coordination framework for public goods delivery within the region to be anchored by the African Development Bank. Coordination between African Union Commission (AUC) (political) and African Development Bank (economic) on pushing reforms in countries.

Long-Term Policy Options	Global Policy Options: Multilateral and Bilateral Interventions.	Implementation Challenges	Remedial Actions
	xii. DFIs and development partners could collaborate to provide continuous training and capacity building and institutional strengthening of public finance institutions in RMCs.	<ul style="list-style-type: none"> • High staff turnover implying loss of skills. • Resource constraints 	<ul style="list-style-type: none"> • Development partners could provide continuous (not discrete) support to RMCs in updating PFM tools and instruments (especially digital) which often evolve as technology and global challenges and shocks change. • Focused human capacity development in core skills in auditing, accounting, economics, procurement, and financial management, and ensure continued adaptation to changing global technological and economic architecture.



2.3 PFM and Accountability Capabilities

Short-Term Policy Options	National Policy Options	Implementation Challenges	Remedial Actions
	i. Develop standard operating procedures for policy-making and coordination during crisis, with clear mandates and sunset clauses embedded in the laws and regulations and public service rules. This should be communicated to the whole government and the public for their information as well as for their buy-in. Improved partnerships and collaboration will help to foster coordinated responses to crises at national and international levels.	<ul style="list-style-type: none"> • Overlaps, unclear mandates and turf control tussle amongst ministries, departments, and agencies (MDAs) of government. • Different government agencies/ departments working in silos. 	<ul style="list-style-type: none"> • There should be mandate mapping and functional reviews of the MDAs to clarify roles and responsibilities. • Enact adequate legal framework with clear mandates and sunset clauses where necessary. • Encourage national collaboration between different line ministries. A coordinated response should address all the relevant issues without leaving others behind - focusing on one crisis. For instance, Setting up the Health Economics Unit within the Ministry of Health.
	ii. Incorporate flexibility in the policy and budgeting process to ensure that there is responsive policy realignment and budgetary re-allocation during crisis.	<ul style="list-style-type: none"> • Rigidity in bureaucratic processes; and delays in amendment of existing rules, regulations, and laws. Difficulty in drafting, introduction and enactment of new laws 	<ul style="list-style-type: none"> • The Parliament should set up legislative rules and procedures that enable them to be fast in considering and passing finance and budgetary laws for crisis response. • Flexibility in procurement laws also allow for emergency procurement with strong enough controls; setting up extra-budgetary structures that can be well managed and accounted for.



Short-Term Policy Options	National Policy Options	Implementation Challenges	Remedial Actions
	iii. Strengthen the procurement system, e.g. by implementing beneficial ownership, open contracting standards, asset declaration regimes, and implementing e-procurement.	<ul style="list-style-type: none"> Vested interests within the public service who benefit from the status quo may scuttle or delay the process of re-enacting procurement laws with stronger provisions for transparency. 	<ul style="list-style-type: none"> Work with civil society, media and legislature to enact new legislation, or amend existing laws to incorporate stronger transparency provisions for public procurement. Digitize the procurement process. During Covid-19, countries which had robust and automated procurement systems were able to respond fast to the crisis. Timely disclose all contracts awarded through emergency procedures to enhance transparency.
	Regional Policy Options	Implementation Challenges	Remedial Actions
	iv. Map different PFM systems across Africa – Anglophone, Francophone, Lusophone – to establish their similarities and differences to enable more effective targeting of PFM capacity development assistance by the African Development Bank and other development partners.	<ul style="list-style-type: none"> Collation of information on different PFM systems; translation into one or the other languages could lead to loss of meaning in standardizing the systems. 	<ul style="list-style-type: none"> A standardized framework should be developed around the PFM cycle for the collation and analysis of information from different country systems to enhance effective response during a crisis. The African Development Bank country and regional offices could help in the collation of information on the PFM systems. Interpreters with technical knowledge of PFM should be used for the interpretations from one language to another.



Medium-Term
Policy
Options

	Global Policy Options: Multilateral and Bilateral Interventions.		
		Implementation Challenges	Remedial Actions
	v. Put in place business continuity plans, e.g. through the digitalization of the public sector. The business processes including meetings and public engagements, request and approvals, internal and external communications, service delivery, training, are examples of government businesses that can be implemented using appropriate IT systems and platforms.	<ul style="list-style-type: none"> • High cost of digitalization may be very high for some countries. • Low capacity of public sector staff to manage full digitalized public service. • Difficulties in using the digital service delivery channels in the public sector 	<ul style="list-style-type: none"> • Assessment of key government processes to be digitalized. Begin with digitizing certain aspects, and gradually achieve full digitalization of the entire public service or implementation of e-Govt. • Staff capacity must be built to implement the digital platform for government businesses. • Public awareness and education must be mounted to ensure that citizens are able to use the e-service channels.
	Regional Policy Options	Implementation Challenges	Remedial Actions
	vi. Organize an annual Conference of all multilateral and bilateral development partners, and institutions working on PFM in Africa. This will continuously bring PFM capacity-building issues to the limelight, promote the dissemination of new knowledge on PFM, as well as promote cooperation and collaboration amongst agencies working in this space.	<ul style="list-style-type: none"> • Possible reluctance of institutions to collaborate. • Loss of interest if issues being discussed remain the same. 	<ul style="list-style-type: none"> • The African Development Bank can leverage its convening power on Africa's development to rally all the development partners to an annual conference on PFM. This could serve as an annual African PFM Market Place event. Each year's conference could focus on a specific theme in the PFM cycle, or on burning PFM issues in the continent or globally.

Long-Term Policy Options	National Policy Options	Implementation Challenges	Remedial Actions
	vii. Professionalize and provide operational independence of the Supreme Audit Institutions (SAIs) to enable them to deliver on their mandates without any interference by the executive branch of government.	<ul style="list-style-type: none"> • Fear of vested interests in the executive of a strong SAI. • Inadequate financial and implementation capacity. 	<ul style="list-style-type: none"> • National and sub-national governments should enact relevant legislations to affect the administrative, operational, and financial independence of the SAIs. • Training and retraining of audit staff in all aspects of the PFM system is key to this process. • Promoting data integrity for supreme audit institutions (SAIs). • Continuous improvement of the capacity of audit institutions with up-to-date techniques.
	Regional Policy Options	Implementation Challenges	Remedial Actions
	viii. Develop Harmonized Strategy and Compliance Mechanism for fighting Corruption and Illicit Financial Flows.	<ul style="list-style-type: none"> • Push back from political elites because of vested interests • Lack of cooperation among countries. 	<ul style="list-style-type: none"> • The African Union and its member States should develop a harmonized strategy and compliance mechanism for fighting corruption and illicit financial flows in Africa.
Long-Term Policy Options	Global Policy Options: Multilateral and Bilateral Interventions.	Implementation Challenges	Remedial Actions
	ix. Development partners and capacity development institutions could collaborate on the research, review, and funding of a new PFM curriculum in Africa's tertiary level institutions – universities and colleges.	<ul style="list-style-type: none"> • Obtaining the cooperation of development partners could be a challenge. • Huge investment in time and financial resources required for review. 	<ul style="list-style-type: none"> • The African Development Bank could use its influence to convene the development partners to cooperate on this initiative. • Provide support to universities and tertiary education regulatory authorities in African countries on this initiative. • A cross-sectional sample of tertiary institutions can be selected for the review of their PFM curriculum (cutting across Anglophone, Francophone, and Lusophone Africa).

2.4 PFM for Managing Global Commons

Short-Term Policy Options	National Policy Options	Implementation Challenges	Remedial Actions
	i. Mainstream climate change into planning, budgeting, and expenditure processes	<ul style="list-style-type: none"> Inadequate climate financing in RMCs. Inability to attract climate change financing Inability to build a pipeline of climate change projects 	<ul style="list-style-type: none"> Improve capacity to build adequate climate change project pipelines Develop capacity to integrate climate change issues into national planning and budget processes. Implement measures such as carbon pricing, regional carbon markets, carbon incentives, taxes to discourage excessive damage to the environment. Legislate the use of energy-efficient appliances and incentivize the use of cleaner cooking technologies.
	Regional Policy Options	Implementation Challenges	Remedial Actions
	ii. DFIs can direct their activities (and hence implicit subsidies) towards activities with positive externalities for the environment, and mitigation and adaptation against climate change	<ul style="list-style-type: none"> Low interest by domestic investors to invest in environmentally friendly investments. High initial investment costs of climate-friendly projects 	<ul style="list-style-type: none"> Development Finance Institutions can encourage investment directly in energy, energy efficiency, and other climate-friendly projects and technologies to support the environment, and climate change mitigation and adaptation. They are better placed to provide climate finance because of their huge financial resources, influence, and convening powers.



Medium-Term Policy Options	Regional Policy Options	Implementation Challenges	Remedial Actions
	iii. Abolish inefficient fossil fuel subsidies and promote focused investment in renewable energy that offers a more resilient and decentralized energy source.	<ul style="list-style-type: none"> The complicated political economy of subsidies and vested interest make subsidy reduction and removal costly for public officials. Weak implementation capacities. 	<ul style="list-style-type: none"> Take the opportunity of COVID-19 induced slump in the demand and supply-side factors in the oil industry (the negative price of oil) to remove oil subsidies with limited political costs to Public Officials. Support capacity development for evidence-based, quantification and measurement of climate impacts. Undertake energy subsidy reforms with clear compensation mechanisms and environmental tax reforms in the context of broader tax reforms that could sustain the tax base and payment for ecosystem services with accompanying capacity development measures.
	Regional Policy Options	Implementation Challenges	Remedial Actions
	iv. Adopt innovative approaches to mobilize finances for climate action, such as green bonds, sustainability bonds, green funds, credit enhancement, leasing, and guarantees.	<ul style="list-style-type: none"> Weak institutional structures to mobilize, manage and efficiently allocate climate funds 	<ul style="list-style-type: none"> Strengthen PFM institutions to enhance their ability to mobilize, manage and efficiently allocate climate funds (e.g. empowering public finance institutions by increasing lending authority and ability to co-invest). Promote robust and transparent definitions and standards for green finance to guide mobilization and allocations and investment. Improve capacities to assess, manage and publicly disclose climate change-related financial risks, building on existing frameworks and approaches. Develop liquid markets for green infrastructure financing instruments and create risk mitigation financing tools.

Medium-Term Policy Options	Global Policy Options: Multilateral and Bilateral Interventions.	Implementation Challenges	Remedial Actions
	v. Strengthen government commitment to low carbon internationally and nationally	<ul style="list-style-type: none"> • Changing climate policies deter private investment and raise the cost of capital • Reluctance of some countries to ratify, and for some to commit to Paris climate actions. • Existence of barriers to international trade and investment in low-carbon infrastructure. 	<ul style="list-style-type: none"> • Encourage government commitments at both the international and national level to catalyze low-carbon green investment post Covid-19 • Countries to enact or amend laws to reduce carbon emissions and meet expected reduction targets. • Countries should develop credible, realistic, and implementable plans for decarbonization.
Long-Term Policy Options	National Policy Options	Implementation Challenges	Remedial Actions
	vi. Make energy pricing coherent as part of fiscal reorganization post-crisis, including phasing out fossil-fuel subsidies, building carbon pricing that includes social protections, and emission trading systems. This will help to build fiscal resilience.	<ul style="list-style-type: none"> • Bureaucratic hurdles could slow fiscal reorganization. 	<ul style="list-style-type: none"> • Undertake fiscal reforms to foster decarbonization: for example, by instituting carbon pricing to mitigate distributional implications for households and firms. There would be a need to provide specific support for reskilling and training of workers for industries affected by the immediate crisis and longer-term decarbonization, along with supportive policies such as reforming housing policies to encourage mobility.

Long-Term Policy Options	Regional Policy Options	Implementation Challenges	Remedial Actions
	vii. Increase ambition of long-term environmental objectives (including net-zero GHG emissions) and ensure that policies and investments triggered through fiscal stimulus packages are aligned with low carbon development outcomes in the post-COVID-19 pathway.	<ul style="list-style-type: none"> • High costs of transition to low carbon development. • Lock-in carbon-intensive infrastructure and development patterns. • Inconsistencies in implementing low carbon development policies between countries. 	<ul style="list-style-type: none"> • Institute strong and stable carbon pricing policies or subsidies to improve the returns on investment in green infrastructure projects and reflect the true long-term costs of economic development • Shift investment incentives away from fossil fuels towards clean energy and low carbon activities. • Address market and regulatory rigidities that favor incumbent fossil fuel and resource-intensive technologies and practices. • Enhance coordination and improved public governance, especially among environment and natural resource management, energy and investment authorities
	Global Policy Options: Multilateral and Bilateral Interventions.	Implementation Challenges	Remedial Actions
	viii. Accelerate actions to promote green growth. Africa must increase efforts to mobilize more financing to better respond to the challenges of climate change. Build partnerships for external financiers and development partners to support green growth recovery and transitional plans to low-carbon development strategies.	<ul style="list-style-type: none"> • Insufficient contributions because of global competition for climate finance. • International development assistance fatigue. • Poor donor coordination within countries and across the region. 	<ul style="list-style-type: none"> • Explore other sources of funds to finance climate action and green growth recovery. • African Development Bank could champion better donor assistance coordination in the continent to align with the regional climate development goals. • Develop and implement climate policies and laws to foster regional cooperation. • Increase co-operation to strengthen international and domestic green finance and investment through better targeting all types of development finance.

2.5 Partnership and Coordination for Strengthening Public Financial Management

Short-Term Policy Options	National Policy Options	Implementation Challenges	Remedial Actions
	i. Align overseas development assistance to national development priorities, and reform instruments for partnerships in engaging with DFIs to ensure flexibility in crisis, allowing resources to be made readily available during a crisis.	<ul style="list-style-type: none"> Changing climate policies deter private investment and raise the cost of capital Reluctance of some countries to ratify, and for some to commit to Paris climate actions. Existence of barriers to international trade and investment in low-carbon infrastructure. 	<ul style="list-style-type: none"> Encourage government commitments at both the international and national level to catalyze low-carbon green investment post Covid-19 Countries to enact or amend laws to reduce carbon emissions and meet expected reduction targets. Countries should develop credible, realistic, and implantable plans for decarbonization.
	ii. Revisit the use of Country Classifications and Risk Ratings during times of severe shock.	<ul style="list-style-type: none"> Reluctance to revisit the classifications during a crisis. 	<ul style="list-style-type: none"> DFIs should revisit risk appetite and classification of countries during shocks based on severity: Mild, Moderate or Severe. Risk ratings and risk appetites of DFI limit headroom for emergency responses for countries in times of crisis.
	Regional Policy Options	Implementation Challenges	Remedial Actions
	iii. Development partners could develop partnerships to assist countries to build tools for data analysis and evidence-based decision-making	<ul style="list-style-type: none"> Inadequate research capacity in governments Inadequate funding for national research institutions Poor data systems and institutional capacities for data, intelligence gathering, and coordination. 	<ul style="list-style-type: none"> Strengthen research capacity in Ministries, Departments & Agencies (MDAs). Mobilize targeted resources for capacity development in this area.

Short-Term Policy Options	National Policy Options	Implementation Challenges	Remedial Actions
	iv. Building strong strategic partnerships including African-based PFM institutions.	<ul style="list-style-type: none"> Poor donor coordination within countries and across the region. 	<ul style="list-style-type: none"> Strengthen coordination, reporting and monitoring and evaluation and evaluation. Improve country ability to participate and undertake joint venture investment projects and co investments: e.g. infrastructure that is developed in partnership with those whom it benefits will last longer and generate more development impact.
Medium-Term Policy Options	National Policy Options	Implementation Challenges	Remedial Actions
	v. Increase the capacity to mobilize Development Aid and adopt mechanisms that make its use more flexible, particularly in the event of a crisis.	<ul style="list-style-type: none"> Different agendas of Development Finance Institutions (DFIs) from those of countries. DFIs may put conditionalities to countries on their development aid. 	<ul style="list-style-type: none"> Reform the instruments for partnerships in engaging with Development Finance Institutions (DFIs) to ensure that they are flexible in crisis and out of a crisis. Develop budget codes and charts of accounts to cover all forms of ODA. This will allow resources to be made readily available during periods of crisis to countries in need and ensure efficient resource allocation.
	Regional Policy Options	Implementation Challenges	Remedial Actions
	vi. Strengthen partnerships to promote green technology and cooperation, building capacity for domestic green innovation and adoption to build resilience post- COVID-19 crisis in the region.	<ul style="list-style-type: none"> Barriers to international trade and investment in green innovation goods and services. Limited technology adoption in region. 	<ul style="list-style-type: none"> Barriers to international trade and investment in green innovation goods and services. Take advantage of the AfCFTA to promote trade and investment in green innovation goods and services.

Medium-Term Policy Options	Global Policy Options: Multilateral and Bilateral Interventions.	Implementation Challenges	Remedial Actions
	vii. Build partnerships of DFIs in investing in sustainable private sector projects which can support long-term private sector-led growth. E.g., building partnerships in PPPs for building sustainable regional infrastructure to bolster long-term growth.	<ul style="list-style-type: none"> Lack of pipeline projects for possible PPP investment. High project and financing risks 	<ul style="list-style-type: none"> Supported long-term economic development in Africa, and eventually, build strong economic bases to support strong revenue buoyancy. Reduce project and financial risks to increase uptake in PPP e.g. through partial guarantees by DFIs e.g. by African Development Bank, Afreximbank etc.
Long-Term Policy Options	National Policy Options	Implementation Challenges	Remedial Actions
	viii. Strengthen long-term relationships between universities and policymakers and tailor curriculum to key policy issues.	<ul style="list-style-type: none"> Lack of available resources to develop the relationships. Poor fundings of Universities. Weak network between African scientific institutions and their global counterparts. 	<ul style="list-style-type: none"> Amend legislation to institutionalize the cooperation with financial provisions in the national budget. Strengthen Africa-led policy research institutions so that they can become engines of knowledge generation and innovation.



Long-Term Policy Options	Regional Policy Options	Implementation Challenges	Remedial Actions
	ix. Develop partnerships in supporting the development of PFM institutions and systems, for example, TAs to develop capacity in taxation in specialized areas such as transfer pricing and illicit financial flows, use of artificial intelligence in PFM.	<ul style="list-style-type: none"> Digital divide and resistance to change. High cost of setting up PFM systems. 	<ul style="list-style-type: none"> Develop skills among people who can run and manage the PFM systems. Provide specialized technical assistance to countries. Set up tax-based academies through which the ODI assistance can be channeled to support advanced training in PFM for transformative change. Development partners could also ensure that ODIs are directed to accountable development institutions in Africa, like African Development Bank to scale up resources for advanced training in PFM.
	Global Policy Options: Multilateral and Bilateral Interventions.	Implementation Challenges	Remedial Actions
	x. Safeguard the stability of the global financial/ economic and social systems by promoting global rules for example rules on financial markets; environment, and public health, to build resilience and respond better to the crisis.	<ul style="list-style-type: none"> Reluctance by countries to follow global rules because of their voluntary nature. 	<ul style="list-style-type: none"> DFIs and development institutions can promote rules for financial markets (such as the Basel regulations), environment (Paris Agreement on Climate Change to foster low carbon emissions), WHO's International Health Regulations on public health. Encourage countries to adopt international regulations to allow fast response to crises.

3 Lessons Learned

- Preparedness in normal times is central to a swift response to a crisis.
- Digitalization is critical in building an effective PFM system that responds effectively to the crisis.
- Flexibility in the budgeting and appropriations process and legal framework is essential to assure room for contingency appropriations, emergency spending provisions, and re-allocations.
- Comprehensiveness and transparency of fiscal frameworks, including SOEs revenues, disclosure of balances in special accounts, and setting limits on tax expenditures are fundamental to fiscal policy effectiveness. They help to ensure buy-in and support from the citizens, and stakeholders and assure effective response to the crisis.
- Balancing the speed of disbursement and accountability (“keeping the receipts”) in budget execution is important in building credibility in the PFM systems during a crisis.
- Fiscal buffers are crucial for an effective policy response to a crisis.
- Establishment of robust safety nets and social protection schemes is critical to ensure targeted responses to those most vulnerable to the crisis. This should therefore be prioritized.



- Crisis support is more successful if it is nested in a framework that incorporates post-crisis recovery and includes a focus on fiscal and public expenditure reforms.
- Macro-fiscal forecasting or modelling is an important component in the budget process, as it impacts the effectiveness of achieving macro-fiscal objectives and longer-term fiscal sustainability.
- Global commons problem like Covid-19, climate change, etc, require global action to address their economic impact.
- A Continental approach to managing exogenous shocks is imperative.
- Strengthening countries' public financial management systems are crucial for enhancing access to direct climate financing from global climate funds for African countries.
- Partnerships and collaborations among development partners are key to building sustainable capacity building in public financial management in Africa, as it allows optimal and effective utilization of resources.
- Partnerships collaborations, and speed of specialized support from multilateral and bilateral institutions are critical for swift responses to the crisis.
- Institutionalising innovative and effective practices emerging from a crisis is crucial for building the resilience and readiness of public finances for future crises.









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