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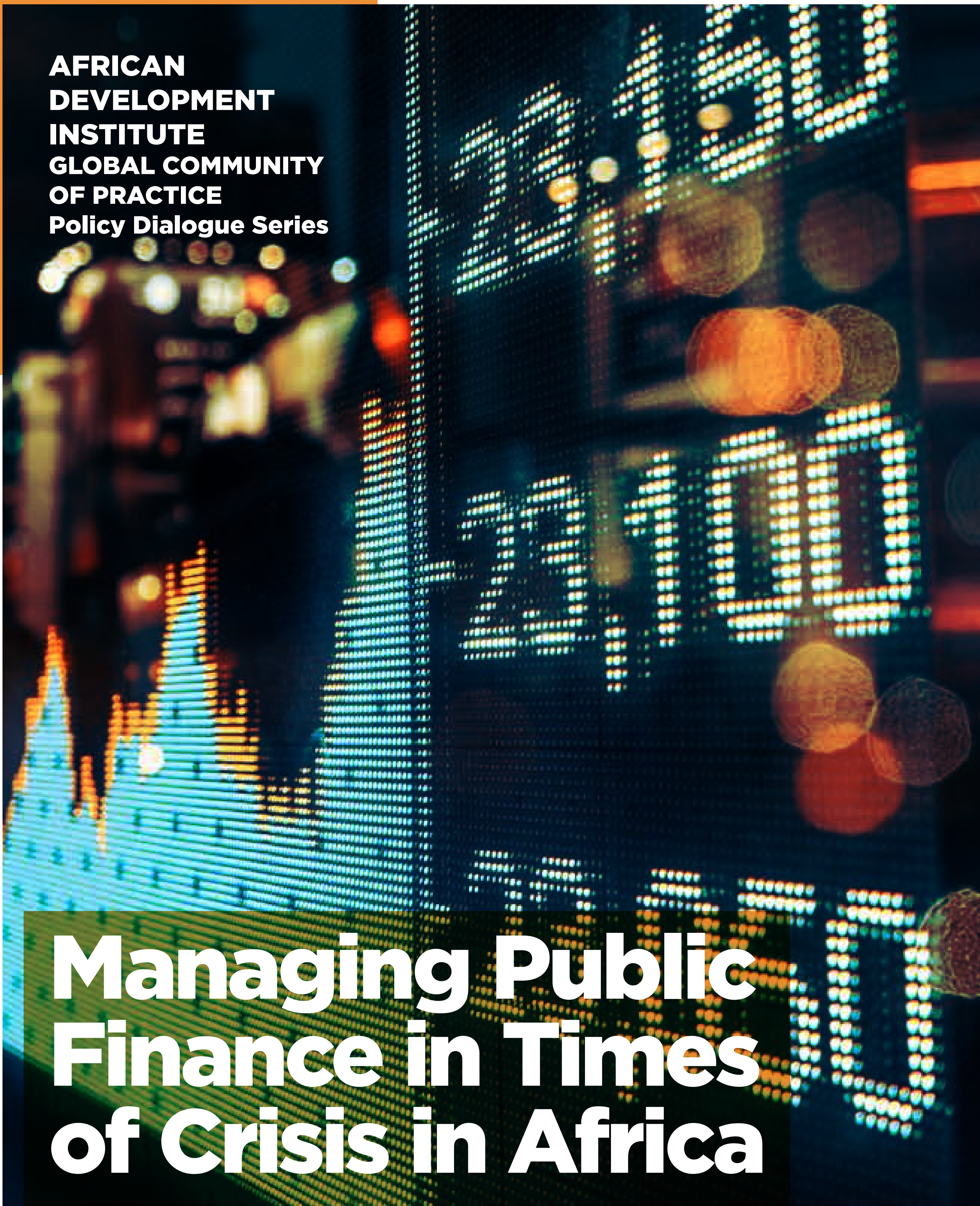

Managing Public Finance in Times of Crisis in Africa

Summary for Policymakers

AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE DE DÉVELOPPEMENT

AFRICAN DEVELOPMENT INSTITUTE
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2. Governance and Economic Reforms

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1 Introduction

The Covid-19-induced recession has been considered the deepest, being more than twice as deep as the recession associated with the 2007- 2009 global financial crisis (GFC), with the effects considered to have lasted for about a decade. Both the GFC and COVID-19 crises have impacted Africa's macro-economic outlook, financial flows, public finance management, lives, and livelihoods in fundamental ways. Parts of Africa also suffered from the Ebola/SARS crisis that exacerbated the adverse economic situation on the continent, including several of them going into recession. It is also important to note that almost all African economies do not implement counter-cyclical measures that will protect them from the periodical down-turns in commodity prices. Hence, it is useful to have a perspective of the common effects of a minor and major crisis that affect fiscal and macroeconomic performance.

Consequently, several African countries faced significant fiscal challenges before the onset of the COVID-19 pandemic in 2020. Africa's fiscal deficits doubled in 2020 - rising to a historical high of 7.2 percent of GDP. Government revenues declined on average by 10 to 15 percent in 2020 across sub-Saharan Africa. As African countries already had very limited fiscal space, including large borrowing to fight the COVID-19 pandemic, the situation was further worsened by the typical plummeting prices of commodities, which most African countries depend on for fiscal revenues and foreign exchange earnings. The debt-to-GDP ratio rose by 10 percent to 15 percent of GDP further squeezing the fiscal space for countries (Figure 2).

The pandemic has also impacted other sources of development finance inflows. Foreign Direct Investments (FDI), Official Development Assistance (ODA), and Portfolio investments to Africa declined by 15.6 percent, 10 percent, and 212 percent respectively, in 2020. Sovereign bond spreads have widened reducing access to international capital markets and flows, and currency depreciations accompanied by a sudden pick-up in inflation in many countries. 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 annual financing gap to end extreme poverty by 2030 is estimated at 30.6 percent of GDP, or $19.1 billion, on average, per country between 2021-2030. In addition, Africa is estimated to lose about $89 billion (about 3.7percent of its gross domestic product (GDP)) annually in illicit financial flows due to leakages in its public finance management systems, among other factors. This amount is arguably enough to fund half of her SDGs financing gap. The crisis has thus exacerbated Africa's challenges in financing the 2030 sustainable development goals (SDGs), the 2015 Paris Climate Agreement, Africa's Agenda 2063, and national development goals, and reversing decades of progress on the continent.

The African Development Bank (AfDB) estimates that African governments will need some $484 billion within the next three years to address the socio-economic impacts of the pandemic and support economic recovery alone. Undoubtedly, the crisis has 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.

Against this backdrop, and in response to the consensus reached by partners at the Stakeholders' consultation held in December 2021 on the proposed establishment of the Public Finance Management Academy for Africa, the African Development Institute (ADI) 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 2-4 March 2022 on the same theme: Managing Public Finance in Times of Crisis in Africa.

The 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 executive training program provided practical tools and implementable policy options and practices for managing public finance in Africa.

This policy brief reviews key policy options that emerged from the policy dialogue and the training. It explains the short-term, medium-term, and long-term policies for managing public finances in times of crisis and supporting the post- Covid recovery. The policy brief also presents a summary of the potency and appropriateness of each policy option within the African contexts and implementation issues associated with such policies. The primary goal is to equip African countries with policy options to bolster fiscal resilience, recover fast and strong, and rebuild better economies.

Figure 1: Covid-19 and fiscal performance in Africa

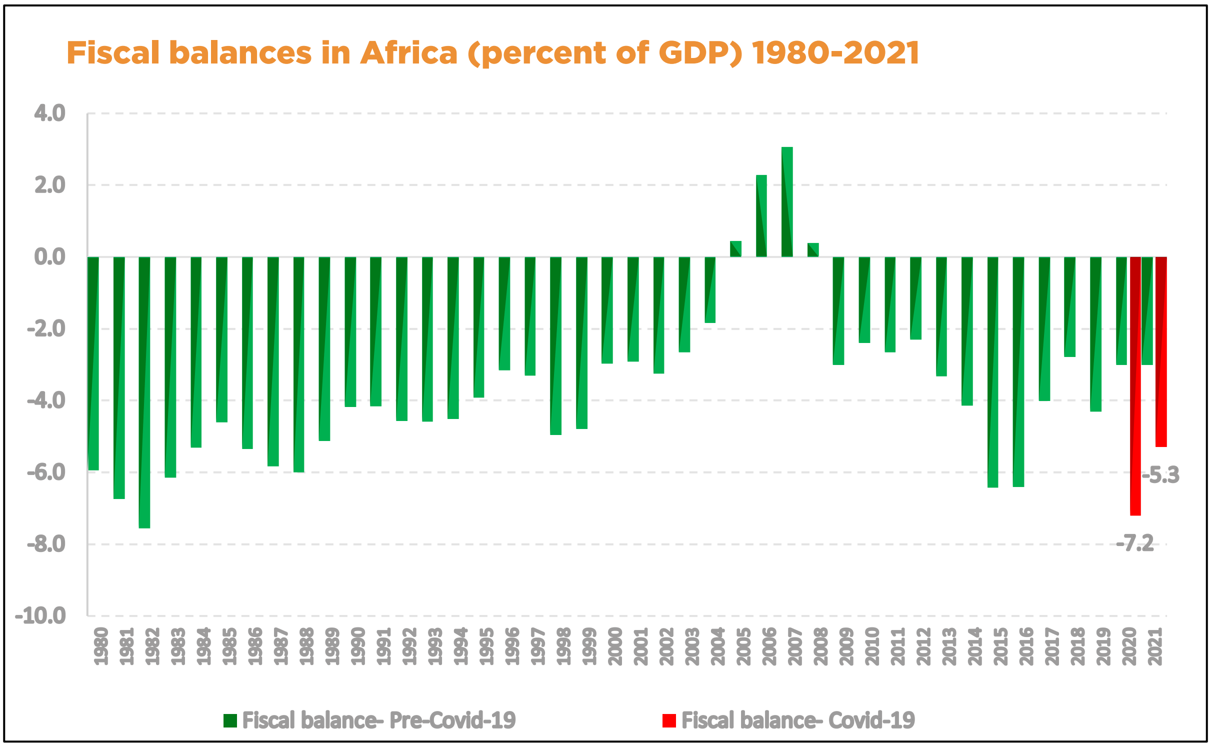
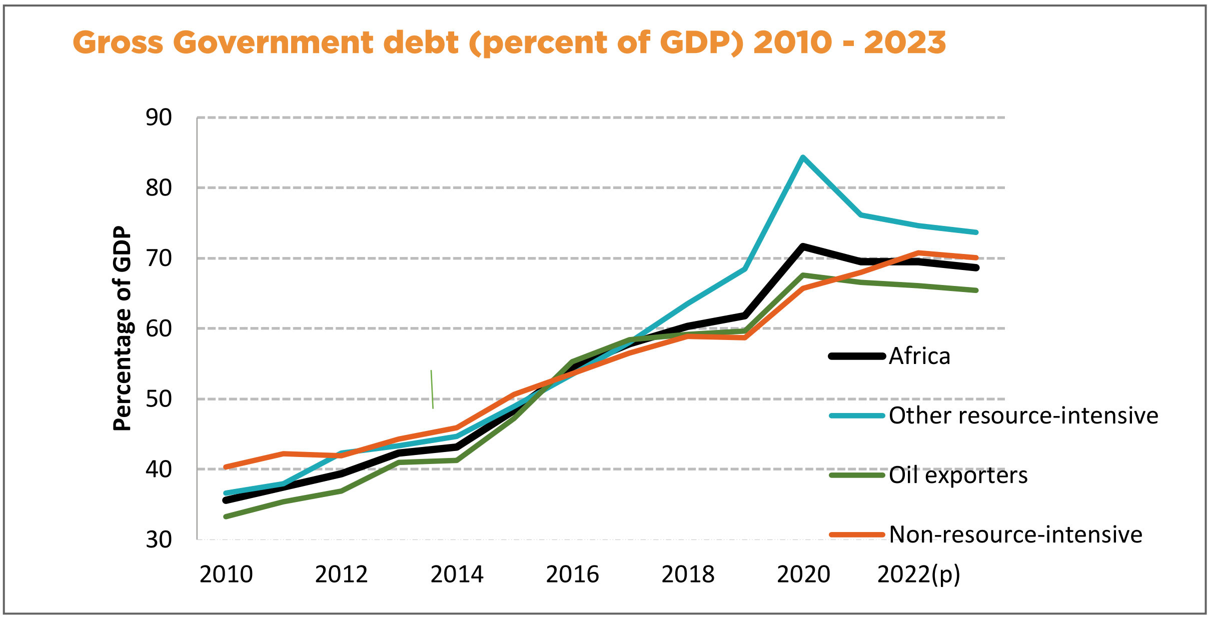


Figure 2: Covid-19 and public debt performance in Africa



Sources: AfDB Statistics and IMF WEO

2 Policy Options

The G-CoP policy dialogue and the executive training produced several policy options for national governments, regional and multilateral organizations in improving public financial management in Africa both during and beyond times of crisis. These policy options cut across resource mobilization, resource allocation and utilization, public financial management capabilities, public finance for managing global commons; and partnership and coordination for public financial management in Africa during crises. These policy options, as discussed at the policy dialogue and the training, drew heavily from country experiences and lessons; research, studies, and expertise of institutions and individuals working in the public financial management space both in Africa and globally. The policy options were also suggested in time dimensions of short-term, medium-term, and long-term.

2.1 Short-Term Policies

In the short term, countries should adopt policies to stabilize their economies, minimize the adverse impact of the crisis or shock and manage the residual effects of the crisis.

2.1.1 Resource Mobilization

i. **Digitalization to improve the collection and administration of tax revenue.** Smart use of information technology has been seen to be instrumental in the success of domestic revenue mobilization reforms. Effective digitalization depends on comprehensive automation of tax processes or operational functions, Hence, adopting the Integrated Tax Administration Systems (ITAS) would allow simplification and automation of tax administration processes, through the introduction of electronic filing of tax returns, and online payment of taxes. Implementation of ITAS will require good data and identity management systems across taxing authorities, banks, and tax-payers. Sufficient investment must be made in the implementation and political commitment to its success will be paramount.

ii. **Adoption of a comprehensive and robust tax compliance improvement plan that connects all aspects of the compliance process.** The framework should enable the collection and use of data from ITAX in risk assessment and mitigation planning across all aspects of the compliance chain. Countries should adopt a reference harmonized compliance framework including modernized taxpayer registration, tax filing, management of payment obligations, risk-based audit, and tax verification programs.

iii. **Prioritize expenditure to ensure that the focus of spending is on necessities during periods of crisis.** To reduce fiscal deficits and the net increase in debt during periods of crisis, it is useful to complement the revenue mobilization effort with expenditure rationalization, prioritization, and switching measures that involve the pipeline of new and ongoing projects. In countries where cash-accounting dominates and records of arrears and projects are not easily available in accounts payable systems, the fiscal authorities may have to take surveys or inventories of pipeline projects to ensure that they focus on priority expenditures (e.g., health expenditure and Covid-19).

iv. **Strengthen capacity for effective formulation and implementation of debt policy and Medium-Term Debt Strategy to ensure more prudent debt mobilization and management.** The debt management framework can be improved through the identification of real debt needs; definition of rules for the efficient use of debt resources; strengthening of national capacities for the analysis of sustainability risks and macro-fiscal risks related to public debt, and managing explicit and implicit contingent liabilities. Developing debt management frameworks should clearly define and publicly disclose, measure, and cost the risk of debt and boosts transparency, and should ensure the strengthening of laws and institutional capacities for fiscal risk disclosure, accounting, monitoring, and mitigation. In addition, there is a 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. Also important is improving public access to public debt data: sources and conditions of indebtedness; allocation of mobilized resources; the 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.

v. **Leverage financing from the private sector, including in public-private partnerships (PPPs), pension funds, crowdfunding, blended finance, and impact investing, for financing public sustainable development.** To support resource mobilization, especially during the crisis, the governments may require private-sector contributions to solidarity funds, taxing the informal sector, taxing high net worth individuals, and taxing the conspicuous consumption of the elite. However, Regional Member Countries face 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.

   In addition, high country risks often discourage investors and limit their commitment to PPP financing, which requires good predictability and visibility over the medium and long term. PPP management frameworks in Africa can be improved by: strengthening the technical and human capacities of national structures specialized in the management of PPPs (particularly in the design, the procurement process, the drafting of contracts, and the monitoring of execution); existing legal frameworks; transparency in the PPP contracting process; and expand continental guarantee instruments to reduce risk levels. Regional member countries should also strengthen actions aimed at improving the business environment to make countries more attractive to private investors.

vi. **Strengthen legal and institutional capabilities to mitigate illicit financial flows, especially those which are due to the operation of multinational corporations.** Africa is estimated to lose about $89 billion (about 3.7 percent of GDP) annually in illicit financial flows. Strengthening the legal and institutional capabilities by improving frameworks for reducing tax avoidance, profit shifting, transfer pricing, enhancing the exchange of information, and general improvement of tax compliance and enforcement would be key. Also, important will be to strengthen the surveillance and enforcement capability of anti-corruption agencies, and their bilateral and multilateral cooperation with anti-corruption initiatives.

   The fight against illicit financial flows has been constrained by inadequate legislation and cooperation among countries; weak national legal and institutional capacity for intelligence gathering, prevention, enforcement of anti-corruption, anti-illicit financial flows measures; and poor coordination at the international level. Therefore, making substantial progress will require strengthening monitoring capacity with the government's digital capacity; building 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; strengthening national institutional capabilities for intelligence gathering, prevention, enforcement of anti-corruption, anti-illicit financial flows measures; strengthening international coordination, for example through the OECD tools such the Automatic Exchange of Information (AEI) would help to mitigate illicit financial flows.

vii. **Adopt and implement Tax Administration Diagnostic Assessment (TADAT).** This will allow for a 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.

2.1.2 Resource Allocation and Utilization

i. **Introduce discretionary fiscal stimulus packages that are timely, targeted, and temporary, with clear exit options to enhance the effectiveness of fiscal policy during a crisis.** These measures complement the expenditure or austerity measures discussed earlier. The literature suggests that the structure of a fiscal stimulus plan should take into account several factors, in particular: the initial fiscal position and existing tax and expenditure structures; the expected duration of the economic downturn it intends to address, and correspondingly, the potential trade-off between short-term stabilisation objectives (demand side) and longer-term growth-enhancing tools (supply side); the expected size of the fiscal multipliers of various tools and the time needed for the measures to feed through to demand and output; the institutional characteristics that facilitate implementation; and the need to minimize distortions in market mechanisms. Also taxing sectors that benefit more from the crisis can help to boost revenues. For instance, the digital sector was booming during the Covid-19 pandemic crisis; while some health-related businesses were enjoying economic rent.

ii. **Establish robust budget codes, including functional classification, in charts of accounts that allow for the creation of new program codes and line**

items in the budget to respond to specific needs during crises. Inadequate common budget codes and chart of accounts across tiers of government; absence of appropriate IT platforms (such as integrated financial management information systems (IFMIS)) 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; etc.; put paid to the ability of government to respond quickly and effectively to the allocation of resources for crisis response.

Determining the appropriate budget codes and chart of accounts and the technology to run it; designing the chart of accounts; acquiring the appropriate IT platform and launching it; training the planning, budget, and finance staff on the new budget codes and chart of accounts; and implementing it across government; are some of the steps towards attaining this objective. This will ensure speed, and that resources allocated for crisis-responsive expenditures are properly accounted for and reported.

iii. **Create standing crisis response operations mechanisms** (either as a desk, a unit, or an inter-ministerial committee comprising of central PFM agencies, depending on the circumstances of each country) that can quickly activate and coordinate PFM crisis response actions when necessary. Although this may be affected by weak inter-ministerial coordination and collaboration, the review of the country's PFM legal framework to incorporate provisions for a standing inter-ministerial committee on PFM emergencies and crises response will help in achieving the policy measures.

iv. **Put in place business continuity plans.** These could include counter-cyclical policies for both revenue and expenditure, for example, mechanisms to increase government spending or cutting taxes to help stimulate economic recovery during a crisis. Some countercyclical fiscal policy responses (taxes and expenditure) such as stabilizers must be introduced as automatic features of sound fiscal management. Additionally, digitization of business processes, including meetings and public engagements, requests, and approvals, internal and external communications, service delivery, and training, need to be prioritised to ensure government business continuity.

v. **Incorporate flexibility in the policy and budgeting process to ensure that there is responsive policy realignment and budgetary re-allocation during crises.** Rigidity in bureaucratic processes; delays in amendment of existing rules, regulations, and laws; and difficulty in drafting, introduction and enactment of new laws have been seen as major challenges to policy and budget flexibility, especially during a crisis. Therefore, 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.

2.1.3 Public Financial Management Capabilities

i. **Governments should develop standard operating procedures for policy-making and coordination during a crisis, with clear mandates and sunset clauses embedded in law, regulations, and public service rules.** This should be communicated to the whole government and the public not only for their information but also for their buy-in. Improved partnerships and collaboration amongst government ministries, departments, and agencies (MDAs) will help to foster coordinated responses to crises at national and international levels. The main challenges have been the overlaps, unclear mandates, turf control tussle, and silo-working amongst MDAs of government.

Resolving these will require mandate mapping; functional reviews of the MDAs to clarify roles and responsibilities; and enacting adequate legal frameworks with clear mandates for MDAs, and sunset clauses where necessary. Collaboration between and amongst different MDAs should be encouraged during crises to have a single-minded focus on the crisis, and work together to address all the issues, with each MDA making their contribution, in responding to the crisis. An example of a health crisis could be the setting up of the Health Economics Unit within the Ministry of Health and getting relevant MDAs to collaborate under this Unit to tackle a health crisis.

ii. **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.** 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 to reduce the loss of technical meaning and context by general interpreters.

iii. **Undertake Africa-wide Public Expenditure and Financial Accountability (PEFA) assessments to benchmark the PFM capabilities of RMCs as a basis for identifying common gaps, weaknesses, and needs; as well as individual strengths of countries that can be leveraged for peer-to-peer learning.** These will help in building a comprehensive and effective PFM reform action plan and capacity development strategy to build robust public finance systems. To meet the funding and technical resourcing need for this initiative, multilateral and bilateral development partners should support the PEFA assessments and PFM benchmarking exercises; while the PEFA Secretariat will help to mobilize certified PEFA assessors and trainers globally for this exercise. The **African Development Bank** can provide coordination of the exercise.

2.1.4 Public Financial Management for Managing Global Commons

i. **Mainstream climate change into planning, budgeting, and expenditure processes.** There are concerns about inadequate climate financing in RMCs, the challenges in attracting climate change financing, and the inability to build the pipeline of climate change projects. Dealing with these challenges will require the implementation of innovative financing measures such as carbon pricing; development of regional carbon markets; setting up low-carbon-footprint incentives; imposing taxes to discourage excessive damage to the environment; understanding the cost-benefit analysis of consumption, production (what are the gains and what are the losses); capacity for assessment of carbon activities, data gathering, and management; as well as improving the capacity to build adequate climate change project pipelines.

ii. **Development Finance Institutions can direct their activities (and hence implicit subsidies) towards activities with positive externalities for the environment, and mitigation and adaptation against climate change.** It's been observed that domestic investors have a low interest in environmentally friendly investments, probably because of low returns relative to the high initial investment costs of climate-friendly projects. To mitigate this, DFIs can provide climate finance because of their huge financial resources, influence, and convening powers to support and subsidize private sector green investments, thereby helping Africa to achieve inclusive and environmentally sustainable development goals; and encourage investment directly in energy, energy efficiency, and other climate-friendly projects and technologies which support the environment, and climate change mitigation and adaptation.

2.1.5 Partnership and Coordination for Strengthening Public Financial Management

I. **Develop partnerships to assist countries to build tools for data collection, analysis, and evidence-based decision-making.** For example, support through the Institutional Support Projects strengthens the research capacity of local think-tanks, universities, and knowledge institutions, and builds the statistical and data management capability of Ministries, Departments & Agencies (MDAs) of government and their human resource skills. These require that adequate funding should be directed to these objectives and that the high staff turnover in MDAs that are responsible for statistics and data management be stopped to allow skills that have been developed to reside where they are needed and to be put to good use.

II. **Align official development assistance to national development priorities.** Instruments for partnerships and engagement with development finance institutions (DFIs) and donors should be reformed to ensure development finance effectiveness and flexibility during crises and beyond. The challenge could be the mismatch of priorities between official development assistance (ODA) and government policies. African countries and regional institutions are largely donor-dependent; as a result, they remain on the receiving end of donor assistance, which often do not sufficiently address Africa's realities. Also, weak public financial management systems, for instance, inadequate accounts classifications systems, and integrated financial management information systems (IFMIS), do not allow for proper capturing and accounting for official development assistance through the recipient government's country PFM systems.

III. **Build strong strategic partnerships amongst African-based DFI institutions for stronger regional-integration project financing.** Besides, countries' abilities to participate and undertake joint venture investment projects and co-investments in mutually beneficial infrastructure projects should be strengthened; this is because the infrastructure that is developed in partnership with those whom it benefits tends to last longer and generate more development impact. To improve the coordination of these joint ventures, the capacity for effective coordination, monitoring, evaluation, and reporting should be strengthened in countries and DFIs.

2.2 Medium-Term Policies

In the medium term, governments could implement policies that consolidate fiscal and budgetary bases, enhance the resilience of fiscal policies against future crisis, and supports sustainable economic recovery.

2.2.1 Resource Mobilization

I. **Adopt Medium-Term Revenue Strategies (MTRS) to bolster revenue collection and management.** While efforts are being made on the expenditure side, with the budgetary reforms in some countries to switch from resource budgets to program budgets and the introduction of multi-year planning in expenditure programming, there is usually less focus on revenues. The consideration of revenue will help to balance the focus of fiscal policy planning between expenditures and revenues. The Medium-Term Revenue Framework/Strategy (MTRF or MTRS) would thus complement the traditional Medium-Term Expenditure Framework (MTEF). To do so, RMCs should: acquire models to help in forecasting fiscal revenues in the medium-term; and strengthen institutional capacity and technical instruments to prepare medium-term budgetary and revenue frameworks.

II. **Build fiscal buffers during good times to strengthen resilience against future crisis periods.** Most regional member countries are exporters of primary agricultural products or mineral products (crude oil, gas, mining products) whose prices are highly volatile. The recurring macroeconomic volatilities significantly affect the continuous funding of current and public investment expenditures, especially during a crisis. Establishing sovereign wealth funds (SWF), sinking funds (for debt repayment), and stabilization funds (for smooth budget operations) can help to build fiscal buffers in good times, which can help to stabilize the economy in the face of shocks. Fiscal buffers and SWFs must also be supported by fiscal rules that encourage savings in times of booms for example setting up oil price benchmarks.

Fiscal buffers can be supported by fiscal rules such as oil-price benchmarks that encourage savings in times of boom or high commodity prices and also prevent the arbitrary depletion of balances in the funds. However, inadequate legal and institutional capacity for designing countercyclical tools, and the presence of high fiscal deficits and public debt can limit the building of adequate fiscal buffers. Other challenges the continent faces in building fiscal buffers include the investment of its sovereign wealth funds in foreign markets, leaving the continent susceptible to forex risks, and political pressures, especially from sub-national governments against the establishment of national fiscal buffers.

Reining in expenditures in good times; expenditure switching and reduction techniques; instituting strong institutional frameworks for natural resource management, and benchmarking commodity prices against a threshold that triggers savings of excess revenues are some of the measures towards building and strengthening fiscal buffers.

III. **Develop financing instruments adapted to the specific characteristics of the countries.** For Resources Rich countries, loans indexed to the evolution of commodity prices should be offered to help free up countries' fiscal space, especially in times of crisis. At the same time, Resources Rich countries must strengthen the management of macroeconomic policies and implement policies aimed at increasing value addition and reducing dependence on primary products.

IV. **DFIs to increase guarantees and liquidity facilities to banks with which they have lines of credit in the region. With this in mind, Financial Institutions such as the African Development Bank,** Afreximank, and AFC could increase guarantees and liquidity facilities to banks with which they have lines of credit. This will help to shore up and resolve short-term liquidity pressures during crisis periods. In many instances, the debt management policies must be designed to prevent the crystallization of guarantees, notably those that support SOE-managed investment expenditures or projects.

2.2.2 Resource Allocation and Utilization

i. **Develop robust social transfer schemes (cash transfers; etc.) which are more effective than subsidies to energy and other utilities.** Some of the militating factors to the achievement of this policy objective may include inadequate and inaccurate data on poor and needy households to enable proper targeting of interventions, and exclusion of the poor and needy in the financial services and payment system. Improving national data collection capacity; conducting periodic households surveys to determine poor households; implementing financial inclusion measures using non-sophisticated digital payment systems, such as mobile money through mobile phones that has deep penetration within the population; and establishing good accountability mechanism are some of the ways that this policy could be achieved.

ii. **Implement PFM systems reforms that allow for sustaining better budget planning, execution, and control to make spending more efficient over the medium-to-long term.** Studies on the budget management frameworks have often revealed challenges for many countries in planning, execution, monitoring, and ineffective concomitant and/or ex-post controls. Reforms could focus on aligning planning and budgeting, especially in the medium term, strengthening performance budgeting frameworks, and improving accounting and reporting practices. Low-income and lower-middle-income countries that depend on donors to implement major PFM and DRM systems must cultivate the practice of making budgetary allocations to sustain the system and not them donor-dependent—as donor funding may not always materialize.

iii. **Develop macro-fiscal forecasting capabilities.** These are necessary to establish scenarios for resource availability quickly, sector needs, and resource re-allocation at the onset of the crisis. Macro-fiscal forecasts should be anchored on medium-term fiscal strategy; incorporate appropriate fiscal rules such as commodity price benchmarks, and limits to tax expenditure; incorporate broad-based fiscal risk assessment, including contingent liabilities, quasi-fiscal activities, and sub-sovereign fiscal risks. Macro-fiscal forecasting and modelling capacity have been hampered on the continent by inadequate and sometimes the absence of data for forecasting; low staff capacity in macro-fiscal modelling; absence of medium-term fiscal strategies including fiscal rules to anchor the macro-fiscal forecasts; and inadequate financial resources to make the required investment.

iv. **To build the required macro-fiscal forecasting capability, countries should develop macro-fiscal data management plans**; develop medium-term fiscal strategies with fiscal rules; develop functional and appropriate forecasting or modelling techniques; train and retain staff in the relevant agencies of government with responsibility for macro-fiscal forecasting; and engage and involve the legislature on the fundamentals for the macro-fiscal forecasts to forestall their objections and delays when fiscal projections and budgets are presented to them for approval. Countries can seek technical assistance to develop their macro-fiscal forecasting capacity. Development partners should be encouraged to support investment in capacity development for macroeconomic and fiscal modeling and forecasting.

v. **Move from input-based to results-based budgeting, to ensure that the allocation of resources is aligned to sector service delivery performance objectives; and that the public financial management system helps to deliver on these policy objectives.** The achievement of this policy has been impacted by fiscal indiscipline in the strategic allocation of resources; the absence of smart performance indicators; and weak digital capabilities in countries' PFM systems. Implementation should consider the application of the Public Expenditure and Financial Accountability assessment and measurement methodology.

vi. **Developing sector medium to long-term strategies with good monitoring and evaluation frameworks incorporating smart performance indicators is fundamental to the implementation of results**-based budgeting systems. Implementation could be measured by key social sectors such as health education, water, and sanitation that have readily available performance indicators and measures in most countries. The continent's MIC states should allocate sufficient budget resources regularly to sustain donor-sponsored comprehensive IFMIS and DRM systems.

2.2.3 Public Financial Management Capabilities

i. **Strengthen the procurement system.** This can be done for example by implementing beneficial ownership, open contracting standards, asset declaration regimes, and implementing e-procurement. 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. To overcome this would be to work with the demand side of government—civil society, media, and legislature—to enact new legislation or amend existing laws to incorporate stronger transparency provisions for public procurement. Digitization of the procurement process will also greatly enhance the attainment of this objective.

ii. **Ensure adequate legal framework to provide operational and financial independence of Supreme Audit Institutions to minimize political interference.** The legal framework should have a clear mandate, well-defined standard operating procedures, transparency of operations, access to information, full discretion in delivering mandate, and real-time audit mechanisms of Internal Audit Agencies and Supreme Audit Institutions. SAIs should be designated as essential services and granted freedom to recruit their staff and operate independently from any political establishment.

2.2.4 Public Financial Management for Managing Global Commons

i. **Accelerate actions to promote green growth. Africa must increase efforts to mobilize more financing to better respond to the challenges of climate change.** Indeed, Africa's access to climate finance is well below the US$331 billion estimated adaptation needs by 2030 (GCA, 2021). The African Economic Outlook 2022 estimates that Africa will require US$146-US$173 billion annually to implement the Nationally Determined Contributions. Addressing governance and capacity bottlenecks is critical to creating an enabling environment for mobilizing climate change finance flows in Africa. It is necessary to build partnerships for external financiers to support green growth recovery and enable the economies to start transitioning to low-carbon development strategies.

2.2.5 Partnership and Coordination for Strengthening Public Financial Management

i. **Increase the capacity to mobilize Development Aid and adopt mechanisms that make its use more flexible, particularly in the event of a crisis.** There is a need to reform the instruments for partnerships in engaging with Development Finance Institutions (DFIs) to ensure that they are flexible in and out of a crisis. To ensure effective resource allocation of Official development assistance (ODA), budget codes and chart of accounts should be developed to cover all forms of ODA. This will allow resources to be made readily available during periods of crisis to countries in need.

ii. **Developing robust development assistance and donor coordination framework will ensure that donors align with the policy priorities of the beneficiary countries and institutions.** Strengthening PFM systems, for example, by developing IFMIS will enhance the transparency and accountability capability. This is needed to give credibility to the PFM system and enhance the confidence of donors to pass their development assistance through the country's PFM systems in the form of budget support.

iii. **It will also allow governments to allocate ODA resources to their policy and program priorities and monitor their productivity towards the achievement of desired objectives.** Besides, beneficiary governments should provide matching funds to demonstrate their commitment, ownership, and active participation in the partnership between them and the donors in the agenda-setting and management of ODAs.

2.3 Long-Term Policies

In the long term, policies should be implemented to enable public finances to better promote inclusive and sustainable growth and improve capabilities to respond to and absorb future shocks and crises.

2.3.1 Resource Mobilization

i. **Diversify the economy from commodity dependence to build fiscal resilience against shocks** (especially in resource-rich countries). Over the long term, this helps to insulate the economy from boom-bust cycles associated with commodity prices, and build fiscal resilience, as the revenue base would be diversified. About 32 African countries are resource-intensive. This heavy dependence on natural resources increases the risk of fiscal and macroeconomic volatility in these countries. instabilities.

ii. **To reduce dependence on natural resources, resource-rich countries must adopt strategic plans and clear actions to diversify their economies from minerals.** This may involve: (a) adopting clear development strategies for sectors other than natural resources; (b) channelling public resources into programs to boost growth in non-mineral sectors; (c) providing incentives to promote private investment in non-mineral sectors such as agriculture, manufacturing, and services; (d) leveraging natural resource rents to support the development of other economic sectors; and (e) building enabling macroeconomic and business environments.

iii. **Promote accessibility to the African Continental Free Trade Area (AfCFTA) through the implementation of sub-regional, regional, and continental trade agreements.** African countries should accelerate the implementation of the 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. Countries also need to adapt tax and customs structures to AfCFTA trade liberalization and Regional Economic Communities (RECs).

iv. **In this regard, countries should strengthen their domestic tax systems and processes to replace the potential revenue loss from the dismantling of tariff barriers.** They must assess the complementary impact of trade agreements with external parties, such as the EU's Economic Partnership Agreement (EPA). Studies have shown that the stakes of the implementation of this vast free trade market are enormous for the continent and widen the economic and fiscal revenue bases.

v. **Establish funding mechanisms to increase concessional lending and development assistance from multilateral development institutions**

during a crisis. This would allow Regional Member Countries to ensure the continuity of development projects during these periods without further worsening the public debt situation. This would include: (i) providing blended finance for public sector projects, with grants covering project preparation or green objectives; (ii) defining conditionalities that favor key reforms to improve PFM and support recovery and/or economic and financial recovery.

2.3.2 Resource Allocation and Utilization

i. **Provide continuous training and capacity building and institutional strengthening of public finance institutions in RMCs.** Development partners could provide continuous support to RMCs in updating PFM tools and instruments (especially digital) which often evolve as technology and global challenges and shocks change. There is a need for continuous, not discrete, human capacity development especially in core skills in auditing, accounting, economics, procurement, and financial management, and ensure continued adaptation to changing global technological and economic architecture.

2.3.3 Public Financial Management Capabilities

i. **Ensure clear, coherent, and continuous support for PFM reform within the Executive and, over time broaden support across the political spectrum.** To improve the efficiency and effectiveness of PFM policies, there should be political will and buy-in. The opposition members of the government should also be sensitized to the need for PFM reforms, to ensure continuity in the event of a change of Government, even in post-crisis periods.

2.3.4 Public Financial Management for Managing Global Commons

i. **Develop and implement plans to transition to low carbon development strategies.** Implementing measures such as carbon pricing, carbon incentives, taxes, abolishing fossil fuel subsidies, and promoting focused investment in renewable energy initiatives would help to transition to low carbon development strategies. To tangible results, greater government involvement is needed, through (i) the definition of clear strategies and (ii) effective implementation of those strategies.

2.3.5 Partnership and Coordination for Strengthening Public Financial Management

i. **Develop and strengthen long-term relationships between universities and policymakers,** and tailor curriculum to reflect key public finance policy issues. Strengthening linkages and collaborations with universities and research centres would improve human capital and build capacity in PFM in the long term.

ii. **Develop partnerships in supporting the development of PFM institutions and systems,** for example, capacity in taxation in specialized areas by directing TAs by DFIs to specialized areas, such as transfer pricing and illicit financial flows and use of artificial intelligence in PFM. African governments need to commit to developing and maintaining the systems and be ready to migrate the systems as technology evolves. Development partners could also ensure that ODIs are directed to accountable development institutions in Africa, like the African Development Bank to scale up resources for advanced training in PFM.

3 Policy Timing, Design, and Implementation

Countries should pay attention to the policy design, sequencing, and timing of implementation. Poorly designed policies are likely to be ineffective in delivering desired economic outcomes regardless of theoretical potential. While some of the policies might have worked in other countries even in the context of crisis, countries should look at their context and see the feasibility of implementing them.

Several policies to strengthen public finance management frameworks need political support to implement and make them effective, so country-specific political dynamics matter. For instance, tax, budget, and control of legislative reforms to respond to the crisis, reallocation, and proper management of resources during a crisis.

Furthermore, policymakers should map out the potential multiplier effects and co-benefits of policy strategies and reforms on other sectors of the economy at the policy design stage. It was noted that lack of capacity for policy implementation is also an ongoing concern in many countries on the continent. Policy design should include clear indicators of accountability and strategies for monitoring progress to maximize impact. National contexts and priorities differ, and so should the policies targeted addressing them. The G-CoP experts encouraged African governments not just to focus on fiscal policies for responding to the crisis, but on the ones that rebuild better economies - focusing on sufficiency, efficiency, inclusiveness, and equity.

The G-CoP experts noted that policy timing and flexibility in implementation will be important characteristics for achieving the desired outcomes. The effectiveness of PFM policies in dealing with a crisis depends, to some extent, on the nature, size, and duration of the shock. The PFM tools to deploy in crises also depend on existing fiscal conditions (government budget position relative to medium-term objective, government indebtedness, the extent of contingent liabilities, and other long-term risks, such as aging costs).

Countries with sound fiscal positions and sustainable public finances would have the greatest scope to take countervailing measures in a crisis. For instance, the size of stimulus packages to inject is determined by the fiscal space, and whether the country has fiscal buffers or not. For example, Cote d'Ivoire's response to the pandemic was very swift because of its better fiscal position, low debt levels, and stable macroeconomic conditions which have been maintained for over a decade.

To establish strong fiscal policy credibility in times of crisis, it is crucial for governments to be flexible and include certain contingencies. For example, the design of fiscal rules that establish a clear plan on how to proceed in the event of an unexpected severe crisis. These contingencies or escape clauses will allow the government to not only commit in advance to exceeding certain fiscal limits only in very specific and unprecedented circumstances but also provide the government with an opportunity to lay out a credible plan to return to compliance after the shock/crisis.

Some fiscal policy responses during a crisis period may be difficult to remove once implemented. For example, with tax cuts, and exemptions, citizens may want them to continue, as they raise their disposable income, even if they were meant to be temporary. It is therefore important for some of such policies to contain sunset clauses or long-term compensation measures if the government decides to maintain these tax cuts and exemptions.

Some policies including counter-fiscal measures or austerity measures during a fiscal consolidation may seem painful in the short run but could be beneficial in the long run. The authorities should press ahead to implement policies they believe will yield positive results in the long run. For example, austerity measures involving cut in government benefits or higher taxes may be painful to citizens in the short term but, could reduce exposures to recurrent deficit financing and help to reduce macroeconomic imbalances in the future.

4 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 a 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 secure buy-in and support from the citizens, and stakeholders and ensure an 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, and effective response to a crisis.
- Fiscal buffers are crucial for an effective policy response to a crisis as they support the implementation of countercyclical policies during a crisis.
- The establishment of robust safety nets and social protection schemes is critical to ensure targeted responses to those most vulnerable to the crisis. They 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 modelling and forecasting 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 problems like Covid-19, climate change, etc., require global action to address their economic impact.
- Continental and regional approaches to managing exogenous shocks are 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: (i) key to building sustainable capacity building in public financial management in Africa, they allow optimal and effective utilization of resources; and (ii) 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.

5 Conclusion

The Covid-19 pandemic has impacted Africa's macro-economic prospects, lives, and livelihoods in fundamental ways, reversing decades of progress on the continent. It has exacerbated African countries' challenges in financing the 2030 sustainable development goals, climate goals, and national development goals, deepening the need for improved mobilization and management of public finances to deliver desired development aspirations. Delegates of the GCOP policy dialogue and executive training proffered several policy options to strengthen public finances to respond to the crisis and help countries build strong, sustainable, and inclusive economies.

In the short term, African countries could digitalize their public financial management systems, develop business continuity plans, develop crisis response protocols for PFM processes, introduce fiscal stimulus packages containing timely, targeted, and temporary discretionary measures, standard operating procedures for policymaking and coordination during crises and ensure operational and financial independence of Supreme Audit Institutions (SAIs).

Over the medium-term governments could implement PFM system reforms to allow for better budget planning, execution, and control to enhance the efficiency of government spending, build fiscal buffers, develop macro-fiscal forecasting capabilities, establish effective medium-term, revenue, and debt management strategies, strengthen legislation to mitigate illicit financial flows and stem corruption.

In the long term, governments could focus on diversifying economies to build fiscal resilience, implement policies to support green growth recovery, implement the African Continental Free Trade Agreement (AfCFTA) and leverage its opportunities, and develop partnerships in support of PFM institutional structures and systems, and coordination of responses to crises and capacity for resilience to future exogenous shocks.

Countries need to pay attention to the policy design, sequencing, and timing of implementation. Policy design should include clear indicators of accountability and strategies for monitoring progress to maximize impact and ensure public finance capabilities are better placed to respond to the crisis.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