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AFRICAN DEVELOPMENT INSTITUTE GLOBAL COMMUNITY OF PRACTICE

Policies for Enhancing Resilience and Transparency in Public and Private Financial Management in Post COVID-19 Africa

G-CoP

SPM

Summary for Policymakers

AFRICAN DEVELOPMENT INSTITUTE
INSTITUT AFRICAIN DE DÉVELOPPEMENT

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01 Introduction

The COVID-19 pandemic is exacerbating the precarious debt situation in Africa as in other regions of the world. The advent of the pandemic has led to significant shrinkage in economic activities and consequently fiscal base and associated fiscal revenue. Long before the pandemic, African countries had been underperforming on tax revenue collection compared to other developing regions of the world. For instance, in 2018, the region recorded the lowest tax-to-GDP ratio, i.e.,13.4 percent, compared to 14 percent in Asia and 18 percent in Latin America. Moreover, the pandemic slowed down economic activities in key sectors like agriculture, retail services, tourism, entertainment, and trade due to border closures. The slowed economic activities have further significantly reduced fiscal revenues and associated tax-to-GDP ratio. The pandemic's recession has further worsened African countries' precarious debt situation. As a result, Africa's debt-to-GDP ratio is projected to rise from 60 percent in 2019 to 75 percent by the end of 2021 (AEO 2021). The rise is far above the 40 percent recommended as an upper bound benchmark for developing countries. Debt levels in African countries grew from 38 per cent of GDP in 2011 to 60 per cent in 2019, an increase of 23 percentage points (AEO, 2020; AEO, 2021). The interest burden rose substantially with rising debt levels, with mean regional interest payments (expressed as a percentage of government revenues) doubling from 5 percent in 2011 to just under 10 percent by 2019. For the 38 African countries for which debt sustainability data are available, half were facing serious debt challenges, and seven were in debt distress. At the same time, eleven were at high risk of debt distress. In 2019, more than half of African countries recorded fiscal deficits above 3 percent. However, countries have been reluctant to ask for debt relief from official creditors due to its limited volume and stringent conditions. Another reason could be the risk of suffering downgrades by rating agencies, which could limit access to the international capital market when they are most needed.

While COVID-19 impacts are deepening the debt sustainability challenges in Africa, it is not entirely to blame.

Multiple factors drive debt vulnerability: poor domestic resource mobilisation, lack of prudent budgeting and public expenditure management, weak domestic financial and capital markets, non-prudential borrowing, quality of the debt and lack of monetary and fiscal discipline, and weak oversight by supreme audit institutions. These create vicious cycles in PFM that lock countries into debt. The recurring challenges include borrowing for emergency relief and not for growth-enhancing investments, low domestic revenue, weak loan repayment capacity, deteriorating risk and credit ratings, higher risks of default and cost of capital, lack of fiscal buffers for the future. Thus, the debt vulnerability challenge will persist as long as countries fail to adopt aggressive policies to reform PFM to crowd in more domestic resources and block leakages in the cycle.

The pandemic outbreak significantly affects both public and private finance globally, especially in Africa.

The impact of the pandemic on public finance is two-pronged. First, it necessitates increased spending and reallocation of fiscal resources from wherever possible, especially from other sectors to the health sector. The required responses to the pandemic are not by choice; they are necessities because lives are at stake. The responses need to be deployed urgently on a scale sufficient to make a dent in containing the spread of the virus. Therefore, countries must look for resources wherever possible to implement policies aimed at fighting the pandemic, especially by providing basic social safety nets and palliatives for the poor and vulnerable.

African countries have turned to private sector financing to shore up their fiscal space and mobilise finances to tackle the pandemic and other challenges. As a result, private sector financing is getting pronounced, especially among the Middle-Income Countries (MIC)

characterised by Eurobonds and other commercials, bilateral and syndicated loans. Today, there are no less than 21 African countries with outstanding sovereign Eurobonds of over US$155 billion (AEO, 2021). These include some countries that were beneficiaries of debt relief under the Heavily Indebted Poor Country (HIPC) initiative in the 1990s and early 2000s.

The impact of the COVID-19 on private sector investments is huge in Africa.

Apart from the immediate risks on transport and social infrastructure, and particularly on small and medium scaled businesses arising from lockdowns and border closures, across countries (at varying degrees), the broader adverse effects on critical areas such as tourism, trade, commodities, remittances, government revenue, and both formal and informal sectors are profound. Moreover, the high private sector risk aversion and tightening financing conditions due to the impacts of the pandemic poses a heightening challenge for governments seeking to mobilise private investment for their sustainable infrastructure needs, at least in the near term.

Public and private finance resource flows to Africa to fight the pandemic have mainly been limited.

As a result, most countries in the region are trapped in a dilemma: where there is an increasing need for spending to deal with the short, medium and long-term impact of the pandemic, but at the same time, domestic revenues have shrunk and are still shrinking considerably due to a low ebb of domestic economic activities. Moreover, the increased cost of borrowing and servicing private commercial loans has severely affected countries. Many countries categorised as least income, low income, and fragile situations cannot access the sovereign borrowing window due to high -interest rates or lack of creditworthiness. Moreover, further borrowing from development finance institutions is drying up due to sovereign rating-related challenges. Further, the unprecedented easing of monetary and fiscal policy in developed economies also exacerbates inflationary challenges in Africa, contributing to the weakening of local currencies in Africa limiting financial flows to the region.

It is noteworthy that not all debts are bad debts; the quality and intent matter

For example, some of Africa's debt deliver global public goods - financing security expenditure to curb terrorism, climate mitigation and public health defence systems. These are global public goods with global common characteristics. For example, debts incurred to deal with conflicts and terrorism in the Sahel and other African countries in fragile situations is a worthwhile endeavour. Africa's' ' military expenditure stands at 2.4 per cent of GDP, higher than the world average of 2.1 per cent.

To solve the conundrum, the African Development Institute of the African Development Bank organised a Global Community of Practice Policy dialogue on "Policies for Enhancing Resilience and Transparency in Public and Private Financial Management in Post COVID-19 Africa.»

Delegates at this policy dialogue called for radical reforms in the policies that govern the extraction and use of the vast wealth of resources for the continent's development. Specifically, the delegates noted that «accelerating domestic resource mobilisation is necessary for African countries to own and sustainably drive development aspirations endogenously».

02 FISCAL EFFECTS OF COVID-19 PANDEMIC ON AFRICAN COUNTRIES

The scale and severity of the direct health impacts of COVID-19 in Africa appear to be low compared to other regions. Excluding Western Pacific, Africa has the lowest number of COVID-19 deaths (Figure 1). However, the economic impacts of the pandemic are expected to be more severe.

According to the African Development Bank Group's AEO (2020), the continent would have suffered GDP losses in 2020 between $145.5 billion and $189.7 billion from the pre-COVID–19 estimated GDP of $2.59 trillion. Some African countries have seen a sudden uptick in inflation of up to 5 percent. Expansionary fiscal spending could double by the end of 2020 while government revenues, foreign direct investments and remittances plunged significantly. As a result, between 28.2 and 49.2 million more Africans were pushed into extreme poverty, and an estimated 25 - 30 million jobs were lost by the end of 2020. The most affected economies are those with high debt burdens and high dependence on volatile international financial flows, poor healthcare systems, or reliance on tourism, international trade, and commodity exports.

At the backdrop of a shrinking fiscal base, Africa's debt-to-GDP ratio at the end of 2019 was 61 per cent. The pandemic deepened the debt burden by another 10 percentage points. More than 50 percent of African countries recorded deficits above 3 percent in 2019. COVID-19 could deepen the already large fiscal deficits in many African economies, especially Southern African countries. However, if the current downward trend in COVID-19 cases and death rates continue, the fiscal deficit is expected to narrow in 2021, though they would remain above 2017-19 levels. While the debt burden remains a concern, Africa is still in better shape than advanced economies, where debt is projected to rise by 17 percentage points to 122 per cent of GDP post -COVID-19. COVID-19 is worsening fiscal stances for all regions in the world. Though the direct impacts are higher in the G7 countries and China than in Africa, the economic fundamentals are different. African nations entered the pandemic with fiscal deficits. Their constrained fiscal and monetary capacity to implement social safety net-type policies for households and businesses could worsen the impacts on African economies and prolong the recovery path.

Government revenue as a percent of GDP is lowest in Africa (around 18 percent), compared to 46 percent in the European Union. In addition, many resource -rich African countries have a highly undiversified economy with a high revenue concentration – largely depending on commodity exports. Therefore, the COVID-19 impacts on commodity prices directly affect government revenue mobilisation in these countries. As a result, Africa needs to exert more effort post -COVID-19, expanding the tax and mobilising non-tax revenues from public and private sectors.

Africa needs to shift from the narrative of setting ad hoc debt thresholds and debt sustainability discourse to improving the quality of debt, ensuring efficient use of debt, and promoting debt transparency. Growing with debt is fundamental in economic growth, especially during recessions. However, a significant driver of high debt and deficits in most African countries is military expenditures to address different fragilities caused by exogenous factors such as climate change. While delivering a global public good, this deepens the drag on fiscal conditions and the ability of countries in fragile situations to address other competing development goals. The challenge is not debt financing per se but the quality of debt. If adequately invested in growth -enhancing projects, debt finance could be critical in rapid structural transformation for inclusive development.

Another source of the challenge is illicit financial flows from Africa: estimated at US$50 billion annually; US$1.2 trillion since 1980. Illicit financial flows out of Africa since 1980 stood at $1.2 trillion, far above FDI and ODA inflows to the continent. At 32/100, Sub-Saharan Africa is ranked as the most corrupt region of the World by Corruption Perception Index, 2019. Many African countries rank among the bottom 20 countries with the lowest CPI ratings, and no African country ranks among the top 20.A quick review of the literature on economic governance show that the least ranked countries share in the regular mention of the following words: weak institutional capacity, corruption, double-dipping, trade mis-invoicing, unjustified high remunerations for Public Officials, illicit financial flows, low domestic resource mobilisation, inefficient resource utilisation, and lack of consequence management. These countries also rank low in terms of gross domestic product per capita. A quick analysis conducted by the author suggests a strong correlation between the CPI index and GDP per capita in all the 81 countries surveyed by Transparency International in 2019.

Emerging evidence from surveys shows propensity for increased fraud levels due to COVID-19. The COVID-19 lock downs, travel restrictions, social distancing and the requirement to wear face masks all limit the ability of Supreme Audit Institutions to access data or track fraud cases efficiently. Blocking these leakages can provide the financing required to accelerate Africa recovery from the recession. On the other hand, countries have eased fiscal and monetary policy to unprecedented levels to mitigate the impacts of COVID-19 on economies. This expansionary fiscal spending (fiscal stimulus packages) that COVID-19 has occasioned could exacerbate fraud and illicit financial flows in countries where the pre-conditions for corruption exist. However, governments' execution of these expenditures, projects, and programs should follow a transparent process following a procurement method, which itself must be well-defined, transparent, and provide open access to information (SNFI, 2018). Transparency, accountability, and trust are key pre-conditions for efficient resource mobilisation and utilisation. With the high perception of corruption on the continent, governments may struggle with tax administration.

The rising currency depreciation will further deepen the low savings rates and exacerbate capital flight in Africa. These confluences of factors will make Africa's recovery from COVID-19 an uphill task. Africa's tax-to-GDP, savings-to-GDP, and investment-to-GDP ratios are among the lowest in the World. The level of informality in Africa's economy makes tax administration difficult and dependence on external revenue sources for financing development is not a sustainable policy. Yet, implementing comprehensive tax administration reforms costs money and requires the political will to fight corruption and block illicit financial flows.

COVID-19's unprecedented impacts led to outstanding, and probably, «unguarded» fiscal and monetary easing in the developed economies. This has significant inflationary implications in the future. In developing countries, COVID-19 presents a rationale for unprecedented borrowing and deficit-financing to level that would otherwise be considered unconventional. Because this is an emergency response policy, proper expenditure planning and prioritisation is a challenge, especially in countries where institutional capacity for public financial management is lean. This could leave room for heightened inefficiencies and corruption.

This leaves most countries in a quagmire. Indeed, to contain the spread of the pandemic, essential measures such as increasing health, social protection, and WASH services, as well as rolling out vaccination programs, are needed. Expansionary fiscal spending is thus required to help countries deal with the unprecedented impacts of COVID-19 in the short, medium and long-term impacts on economies. However, the sources of revenue (domestic and external) have contracted significantly due to lock down of economic activities. In addition, limited relief, stringent conditions, and worsened creditworthiness limit the capacity of lower-income countries and states experiencing fragilities to access loans. Middle income countries, on the other hand, can borrow from commercial markets but, at high cost, heightening debt sustainability issues. In light of these challenges, it thus appears essential for countries to radically re-think their approaches to mobilising and managing development finance to remain afloat. On the one hand, many experts have called for re-prioritised balanced budgeting and semi-accruals accounting systems, short term austerity measures to safeguard capacity to finance growth in the future. On the other hand, other experts call for expansionary fiscal spending, especially in a context marked by a need to preserve public health. For them, this would help ride out the significant impacts of COVID-19 on the fiscal space of countries. There are unanimous calls for massive mobilisation of the private sector to finance development, but lack of transparency and accountability systems impair risk ratings of countries and limit private financial inflows. The levels of capital flight out of Africa have increased significantly during the COVID-19 pandemic as investors move their resources to safe assets (AEO, 2021).

Governments need to think outside the box now more than ever. Recalling the Chinese proverb that: « the best time to plant a tree was 20 years ago. If you missed it, the next best time is now», the Delegates called on African Governments to take advantage of the COVD-19 pandemic to address the challenges around asymmetry of information, policy implementation, currency exchange policies, and conventions in the way public and private finances are managed to unleash the massive wealth of the continent in the new global economic realities post-COVID-19.

To make progress, Africa must take decisive policy actions to improve the quality of economic management, public administration, budget and financial management and domestic revenue mobilisation. Africa can no longer sit on this vast wealth of natural capital and continue to depend on external grants and/or aid for development, the delegates noted.

03 POLICY FOR ENHANCING RESILIENCE AND TRANSPARENCY IN PUBLIC AND PRIVATE FINANCIAL MANAGEMENT

The G-CoP Policy Dialogue delegates called for policy actions in six interrelated areas, including Domestic Revenue Mobilization: Tax and Non-Tax Revenue; Prudential Budgeting and Public Expenditure Management; Fiscal Policy Planning and Management; Deepening Capital and Financial Markets; Strengthening Supreme Audit Institutions – Data, Transparency and Curbing Leakages, Corruption and Illicit Financial Flows; and strengthening Public – Private Partnerships for Debt Management in Post COVID-19 Africa.

04 POLICY FOR ENHANCING DOMESTIC REVENUE MOBILISATION

Certainty and sustainability of resource flows are two key benefits of reliance on domestic resources for development financing. Given its superiority over external financing, delegates called for Governments to enact laws and implement fiscal policy and governance structures and systems and invest in technologies that would provide the framework and platform for domestic revenue mobilisation.

Short-term policies

1. **Curb corruption and illicit financial flows.** According to UNCTAD (2020), corruption and illicit financial flows are two issues that contribute to stifling macroeconomic stability and increasing inequality in many African countries, thus depriving them of important financial resources. In addition, they undermine confidence in African institutions by undermining the transparency and accountability of policymakers. It is worth noting that there is also the challenge of poor governance of State-Owned Enterprises (SOEs) which encourages kleptocracy. Limited domestic and global coordination and ineffective anti-corruption strategies exacerbated by poor security and governance measures are also contributory challenges. In this context, it is important to ensure an environment of greater trust and collaboration between policymakers, on the one hand, and economic actors (citizens and private sector), on the other hand. Governments should work with internal and Supreme Audit Institutions and anti-corruption agencies to monitor the use of public resources and implement consequence management as necessary. The African Union and its member States should work to improve their harmonised strategy and compliance mechanism for fighting corruption and illicit financial flows in Africa at national and sub-national levels.

2. **Check revenue leakages.** One source of leakages is unnecessary tax holidays, exemptions, waivers, preferential rates and other forms of tax incentives given by governments to sectors that really do not deserve it. Other challenges include aggressive tax evasion by high-net-worth individuals and multinational corporations, and payments of subsidies on fossil fuel. There is need to curb the discretionary powers given to political officeholders to grant waivers and determine, without justifiable rationale, any tax relief to be given to individuals and business entities in any sector. As a starting point, an evaluation of tax expenditures granted at national and sub-regional levels should be taken by all African governments. Also important is the need to review the benefits granted to political officeholders and address «»»double dipping»»» by some of them.

3. **Make effective use of policy-based operations (PBOs) to promote domestic revenue mobilisation.** Indeed, PBOs are a key instrument of the Bank because they permit to assess how relevant, efficient,

effective, and sustainable some programs are (IDEV, 2019). They thus have an objective of drawing lessons and strengthening the implementation of reforms. That is achievable using policy dialogue with RMCs that are benefitting from the PBOs. DFIs should ensure proper analysis of the state of DRM and risk assessments of countries to which they plan to provide PBOs, using the best available data and information. Regular evaluation and impact assessment of PBOs should be regularly undertaken to provide insight into the effectiveness of PBOs in promoting DRM.

Medium-term Policies

4. **Digitise/automate domestic revenue mobilisation and utilisation procedures to enhance transparency, traceability, accountability, and consequence management.** The COVID-19 pandemic and its associated social and physical distancing as well as lockdowns have further emphasised the importance of digital taxation. Governments to invest in electronic tax administration (collection, use and accounting), and in national resource exploitation, beneficiation, trade, and revenue appropriation. However, the poor IT infrastructure and limited incentives to use a digital platform for tax collection may pose a challenge. One possible option is to provide incentive for electronic card transactions at the point of sale/purchase to encourage uptake. This could be a reduction in payment of VAT rate by a certain percentage when electronic payment system is used. IT firms and app developers may also be provided with some fiscal incentives to encourage investment in relevant IT infrastructure.

5. **Deepen organic development of domestic capital and financial markets.** This will include strategies to encourage, support and enforce mechanisms for tapping into unutilised and underutilised resources like the pension funds. The challenge here is that most countries do not have the necessary regulatory framework that could help unleash the potentials of these 'trapped'' funds. Countries could set up Inter-agency Task Force for deepening capital and financial markets to ensure all relevant stakeholders contribute at all stages of the process. Multilateral institutions such as DFIs could provide necessary assistance to countries to set up these relevant institutions. The key focus should be on achieving market diversification, longer market tenor, and increased market liquidity.

6. **Encourage fiscal decentralisation and regionalisation of revenue collection, utilisation, and public accounting.** This would take forms that include co-production or co-financing measures, self-financing or cost recovery through user charges, expansion of local revenues by allowing them to impose certain taxes, loan guarantees by national or higher-level government to a borrowing lower-level government, and revenue transfers especially from central to sub-national governments for general or specific uses. However, devolution of fiscal powers may further aggravate the challenge of corruption, revenue leakages, and regional inequality. To address this challenge, efforts of the anti-corruption agencies need to be heightened to ensure surveillance of the bank accounts of the revenue collecting agencies. Maintaining a treasury single account for all revenue collecting agencies will also help to stem the tide of revenue leakages.

7. **Development Finance Institutions to re-profile and use their credit risk capital to support domestic revenue mobilisation and private sector investments in natural resources beneficiation and value creation in Africa.** However, given their nature and source of their funds, DFIs may have low credit risk which may limit their engagements in some interventions. DFIs may be required to revisit their credit risk appetites with their shareholders and in conversations with the Rating Agencies to avoid potential downgrades. In addition to providing technical assistance and knowledge for development, DFIs should position themselves as trusted brokers, between providers of capital – domestic and foreign – including securitisation of remittances and other innovative development finance instruments. Governments should, on their part, implement measures to ensure that the revenues mobilised are used for their intended purposes.

8. **Devise a blend of innovative financing approaches.** This would include pension funds, sovereign wealth funds, blended finance, impact investing, fin-tech-based financing, crowdfunding, climate for debt swaps, guarantees, etc. Innovative non-disruptive taxes like « «»sin»»» and « «»green»»» taxes should also be considered. DFIs and other multilateral institutions should chart the course for countries to follow. They

should develop continent-wide strategic approach for promoting innovative financing such as resource-backed loans, guarantees, debt-for-climate swaps, etc. Another innovative approach countries could adopt would be to improve compliance with payments of existing taxes through strategies such as the Voluntary Asset and Income Declaration Scheme (VAIDS). The use of innovative financing approach to ramp up domestic resources in Africa has been limited. Adopting these measures at country. regional and continental levels will address this challenge.

9. **Enforce tax compliance.** For many African countries, the challenge is not imposing more tax but ensuring compliance with payments of several already existing taxes. Poor IT monitoring infrastructure, weak revenue agencies, poorly motivated tax personnel, poor perception of public service provision and delivery, high probability of not being caught when taxes are evaded, poor tax knowledge, etc. Widespread tax education and advocacy, IT infrastructure development, incentivised tax revenues and institutional strengthening for revenue collecting agencies will further strengthen compliance enforcement for tax payments.

10. **Broaden the tax base.** Large and widespread informality and poor tax administrative system are some of the key hurdles to broadening tax base in Africa. Efforts must be made to formalise the informal sector gradually but consistently through policy and social dialogue. This requires a strategic approach to linking the informal sector to the formal sector through measures that may include the bank verification number. There is need to invest in collection of information and statistics on the informal sector to help inform its characteristics, peculiarities as well as the challenges to inform required strategy for its formalisation.

Long-term policies for Building Resilience

11. **Strengthen the social contract among the key stakeholders: governments, private sector, and citizens to build trust in public finance management systems in countries.** Social contracts break down in situations where citizens and businesses feel they are not getting the best out of governance. This could be due to insecurity as well as poor provision of public services. To address these challenges, there is need for improved transparency, accountability, and monitoring of public service delivery as well as compliance with food governance and consequence management.

12. **Encourage strategic franchising to facilitate location of top brand industries and ivy league institutions' production factories in Africa.** The poor business environment breeds uncertainty in macroeconomic policies that tend to discourage foreign investment. Volatile political system, State fragility, precipitation towards social disorder, insecurity of lives and property, and policy inconsistencies are some of the critical factors that tend to cast shadow over the business environment. Improving the business environment would attract such brands, which will, in turn, help grow the tax base through more private sector participation. Africa should consider this as a deliberate policy and emulate the success of the likes of Dubai who now have some of the big European Universities setting shop there. In this way most students now go to Dubai as opposed to Europe. Moreover, some of companies that produce these high-end preferred clothes for instance, should be franchising in Africa and create jobs as most of the consumption of their goods happens here

13. **Build domestic value chains in key resource sectors and implement local content policies to encourage local industrial production and value addition and gradually reduce export quotas for low-value-added commodities.** Economies of most African countries are heavily dependent on one or very few commodities whose prices depends, in turn, on the vagaries of international market. Therefore, active efforts must be put in place to diversify the economies away from dependence on revenues from commodity exports to higher grade and more sophisticated processed commodities. Deliberate efforts must be made to develop trade policies that provide specific roadmap for countries to add value to their natural commodities and break into the global value chain.

14. **Strengthen institutional capacity for tax administration, smart contracting for natural resource-based projects and trade agreements.** Tax collecting institutions are generally weak in their tax administration capacity. Thus, significant tax revenues go uncollected or unaccounted for. Adopting Integrated Tax

Administration Systems (ITAS) and Single Revenue Accounts (SRA) and popularising their use amongst taxpayers are practical steps in this regard. DFIs and other multilateral institutions should provide specific assistance to countries on improving the institutional and staff capacities of revenue agencies.

15. **Improve business climate to accelerate foreign direct investments and private sector capital inflows into African markets.** Domestic financial resources come from tax revenues which is dependent on business buoyancy. Governments should take first loss positions and provide sovereign guarantees to Investors to shore up confidence in African markets. This may require strategies for securitising remittances that is currently worth well over US$80 billion annually.

16. **Development finance institutions should consider increasing issuance of bonds in domestic currencies.** The advantage of this is that it helps address possible exchange rate risks in addition to contributing to deepening the domestic capital and financial markets. This may also include the use of partial credit guarantees for domestic investors in diverse sectors of the economy that will, in turn, facilitate their bond issuances, thus attracting a more diverse local and foreign investor base. The starting point will be provision of technical assistance to unlock local conditions that may constrain issuance of bonds in local currency in the regional member countries

05 POLICY FOR ENHANCING PRUDENTIAL BUDGETING AND PUBLIC EXPENDITURE MANAGEMENT

The national budget is the primary most important short-term national economic plan that articulates a government's policy priorities based on available resources as well as the challenges facing the economy. Thus, prudence in budgeting that balances focus on revenues and expenditure will provide a good anchor for strengthening public financial management. In this regard, the delegates make the following policy recommendations.

Short-term policies

17. **Implement Automated Integrated Financial Management Information Systems (A-IFMIs) and Treasury Single Accounts (TSAs) and enforce transparent cash and debt management.** Digitised budgeting, procurement, cost control and public accountability systems will reduce leakages, corruption, and illicit financial flows. However, implementation challenges may include strong resistance from individuals, institutions, and agencies who believe that the policy is aimed at government controlling and micro-managing their daily business affairs. Some countries also lack the requisite legal and regulatory framework needed to support implementation of A-IFMIs and TSA. Furthermore, domiciling the government accounts in the central bank may cause liquidity problem in the banking system. To ensure effective and successful implementation of the A-IFMIs and TSAs, these teething challenges need to be properly addressed as a first order condition.

18. **Undertake capacity building for revenue collection and debt management offices in countries.** Many revenue collection agencies have limited capacity to register and assess taxpayers and pursue their obligations, liabilities, and prompt payments. Specific areas of need include domestic market borrowing, external borrowing, effective fiscal policy coordination with monetary policy, debt administration and data security, cash flow management and forecasting, and debt management strategy.

19. **Shed unnecessary fiscal burden emanating from high waste of public funds. Indeed, these expenditures, which contribute to the deterioration of the budget deficit, have no productive function that could create added value.** They include unjustifiably high salaries and remunerations of appointed and elected public officials and political authorities. In some cases, they even hold several jobs in the public administration and thus receive several salaries. In addition, there are situations in which appointees or elected officials continue to receive their current salary while receiving a pension for their previous position, which is usually a full salary for life. Another challenge in combating financial mismanagement is the use of public funds by officials for personal needs or unnecessary expenditures. This includes, for example, the purchase of presidential fleet planes or luxury cars. Countries should

consider developing guidelines that can provide an immediate solution to these problems before the longer process of enacting relevant laws to curb this menace.

20. **Invest in strategic sectors and service delivery. Most African economies re faced with challenging decision in resource reallocation emanating from equally competing numerous needs requiring attention.** For example, while the COVID-19 pandemic was raging, some countries are simultaneously facing raging insecurity issues relating to insurgency, banditry and even insurrection. Reallocation of significant resources away from these burning issues that threaten the corporate existence of a country may be a very difficult. To address this challenge and similar others, countries need to undertake analysis of the underlying rationale for each public interventions, their relative costs vis-à-vis benefit of alternative interventions, allocative efficiency citizens' preferences through collective decision-making, marginal utility of spending, the distributional impact of spending, etc. Outcome of the assessment will help countries to understand what really count and should be a priority for fiscal spending. This will help to ensure a move away from elephant projects and improve focus on building the real sector with a special emphasis on smart health infrastructure, food systems and education.

Medium-term Policies

21. **Eliminate accumulation of Arrears is important. Budget deficits imposes huge burden on future generations through debt, especially avoidable debt.** It also poses a major systemic risk to an economy that include currency devaluation, as well as high interest and inflation rates. The advantage of this approach, among others, is that it allows for evaluation of a government's ongoing ability to finance its activities and to meet its liabilities and commitments. It also allows for proper assessment of fiscal efficiency and accomplishments. One policy option is to adopt a shift from cash accounting to semi-accrual accounting. Use Medium Term Expenditure Frameworks (MTEFs) to manage liabilities and reduce budget over-runs. This may mean austerity measures in the short term but will reduce exposures to recurrent deficit financing except in times of sever shocks.

22. **Promote prudential borrowing only for growth-enhancing infrastructure and during sever shocks.** Unfettered fiscal borrowing will eventually lead to fiscal and debt distress. To avoid this challenge, governments should move away from haphazard borrowing and exercise caution in running to capital markets for loans to cover recurrent expenditure even in good times. Loan amortisation should be encouraged to avoid haphazard borrowings and reduce roll-over risks. Borrowings should be linked to specific infrastructure development or social service delivery. Through this means, it will be possible to assess the objectives and goals of the loan and what it delivers.

23. **Adopt a counter-cyclical fiscal policy stance.** Many African economies operate procyclical fiscal policy. This is sometimes due to the nature of their economies and sources of fiscal revenues. Another reason is because the economies usually do not have sufficient fiscal buffers to fall back on during shocks or recession. African countries should consider establishing sovereign wealth funds, sinking funds and build budget buffers in good times to reduce the risk of deficit financing in times of minor to moderate shocks. They should also they put in place relevant fiscal regulations as well as fiscal and legal frameworks that will allow the use of the funds during period of need.

24. **Simplify the tax handles.** African taxpayers face high costs that complicate their abilities to comply with the tax system in terms of time, money, and mental stress. For example, many businesses stay out of the formal economy because of the complexity that characterises the tax system. The result of this is that a large number of businesses get a « «»free ride»,» « limiting government's ability to reach its full revenue potentials. Tax code simplification will increase tax equity and improve abilities to police deliberate tax evasion. One policy option is to tax SMEs differently to incentivise compliance with tax payments. This can be achieved through presumptive systems based on turnover or revenues for businesses that are below the VAT threshold. One important direction of simplifying tax system is to make as few distinctions as possible across economic activities and personal characteristics. Also, rather than targeted deductions, exemptions, or credits, they should be universal in application. For countries implementing multi-level fiscal framework (Federal, State and Local), multiple taxation should be avoided. In all of this, a step-by-step systematic approach should be adopted.

25. **Adopt Medium-Term Revenue Strategy as a whole-of-government overarching strategic domestic revenue improvement framework.** Most African countries have rather focus on medium-term expenditure strategy but less on revenues. One reason for reluctance is that countries are shying away from committing themselves for fear of being unable to meet the target set. The objective of Medium-Term Revenue Strategy (MTRS) is to provide a clear vision for a country's domestic resource mobilisation through future tax system that allows a country to meet its fiscal needs. Usually, the MTRS outlines a medium-term comprehensive approach to the tax system reform with a view to increasing fiscal revenues. Countries should focus on setting up MTRS that has the following features over the medium term: a high-level road map of tax system reform covering revenue administration, tax policy, and legal frameworks; sustained medium-term government commitment to undertake necessary reforms; a revenue target needed to fund delivery of economic and social services; and securing sufficient resources and coordinated approach needed for successful delivery. Multilateral institutions should encourage countries to adopt this system through effective policy dialogues and capacity development engagements.

Long-term policies for Building Resilience

26. **Make a gradual shift from cash accounting to accrual accounting, perhaps starting with semi-accrual.** Government need not engage in sophisticated accounting valuation. They should start from the knowns regarding contractual obligations and projects. Understanding the government liabilities will help government to avoid budget overruns.

27. **Development Finance Institutions to revisit the use of country classifications and risk ratings during times of severe shocks.** Risk ratings and risk appetites of DFIs limit headroom for emergency responses for countries in times of need. Development Finance Institutions (DFIs) should revisit their risk appetite and classification of countries during shocks based on severity (mild, moderate, or severe).

28. **Undertake public spending reforms.** The reforms should include boosting spending on social security, streamlining recurrent expenditures, and labour markets reforms to bolster competition. Spending reforms should also target greener growth recovery and spending on key physical and soft social infrastructure with focus on healthcare delivery, education, innovation, etc.

06 POLICY FOR ENHANCING FISCAL POLICY PLANNING AND MANAGEMENT

Fiscal policy planning and management are pivotal in the macroeconomic growth stability of any country. Through this process, economic agents are incentivised to contribute to economic activities through investments, savings, innovation, and high-quality human capital development. Governments can, therefore foster fiscal policy planning and management that promote inclusive development, equity, and general welfare of the people. To achieve these objectives, the following policy actions were proposed.

Short-term policies

29. **Adopt targeted fiscal stimulus to provide social safety-nets to protect lives, private investments, and firms during the COVID-19 pandemic.** Immediate fiscal reorientation is required to focus on most vulnerable households and small and medium scale enterprises and use electronic systems of distribution to avoid leakages.

30. **Devise smart contracts and deepen public-private partnerships.** Focus on appropriate pricing, knowledge and technology transfer, local content, and inclusion of local entrepreneurs in public-private infrastructure projects planning and implementation. This requires adoption of value-for-money approach.

31. **Pursue zero tolerance to corruption and illicit financial flows.** Governments should work with internal and Supreme Audit Institutions to monitor the use of public resources and implement consequence management as necessary. Corruption robs countries of development.

32. **Promote fiscal discipline. Two actions are required: consolidation and coordination.** This requires need to focus on building the real sector and technologies to enhance productivity in the economy.

33. **Encourage and deepen fiscal transparency and accountability.** Focus on national development effectiveness of policies and implement development impact assessments. Hold Ministers and Public Officials accountable for development impacts through the proverbial sticks and carrots. Build transparent and realistic systems that the citizens can see, feel, and relate with. This can be achieved through creating a system of public oversight on public service delivery

34. **Negotiate tax forgiveness with the G7 and G-20 countries.** This action, if implemented, will give eligible countries significant emergency liquidity support, especially if both creditors and borrowers fully participate in this arrangement. The G-20 Debt Service Suspension Initiative (DSSI) and the G20 Common Framework on debt treatment for public and private debts are mere debt postponements, similar to

kicking the can down the road. When payments obligations fall due, there is high probability that there will be bunching which could result in massive defaults leading to widespread sovereign downgrades. Multilateral financial institutions, especially the AfDB should champion the cause of African countries in seeking debt forgiveness rather than just debt suspension.

Medium-term policies for Reopening and Rebuilding the Economies

35. **Undertake fiscal policy re-orientation and policy harmonisation.** African governments should move away from pro-cyclical fiscal policy stance (spending more during boom times) and ensure counter-cyclical spending (save more during boom times and spend more during shocks). This will require structural shifts in budget planning and expenditure management to long term savings and creating of buffers, sinking funds and sovereign wealth funds in good times.

36. **Realign perverse subsidies.** Subsidy payments are major sources of fiscal stress in many African countries. In most instances, these subsidies are paid on consumption rather than inputs. They are also poorly targeted to the extent that rich ones who do not need them are the beneficiaries while the poor and vulnerable who truly need them are not reached. Government subsidies that are regressive to the poor such as fuel subsidies should be phased out or realigned based on national realities. For fossil fuel, one strategy for its removal is to target when crude oil price is at the lowest level when the effect of the subsidy removal will be least felt.

37. **Balance the focus of fiscal policy planning between expenditures and revenues.** Currently, there too much focus on expenditure and less on revenues. Develop Medium-Term Revenue Framework (MTRF) to complement the traditional Medium-Term Expenditure Framework (MTEF).

38. **Reduce and eliminate fiscal wastage resulting from overpricing of public infrastructure projects.** This may require a re-definition of incentive framework to ensure infrastructure is properly priced. E-procurement and digitisation may help.

39. **Promote fiscal prudence.** Deploy fiscal prudential tools, set realistic targets/thresholds, and establish counter-cyclical fiscal buffers during good times. Countries to develop Emergency Risk Financing Fund to prepare to deal with future exogenous shocks.

40. **Deepen fiscal consolidation.** Use smart technologies and shared services to create efficiency gains. This may require calculating the level of fiscal consolidation required to stabilise or reduce debt and achieve specified threshold in fiscal indicators by certain target year in the future.

Long-term policies for Building Resilience

41. **Engage in widespread public sector reforms.** Improve fiscal discipline to enhance efficiency, transparency, and accountability with effective consequence management. Accountability systems for public service delivery should be developed and implemented transparently to reduce leakages, corruption, and illicit financial flows. There is need to enact and implement laws that ensure zero tolerance to both the endogenous and exogenous drivers of leakages in public finance across the value chain including corruption, paternalism, tribalism, overbearing influence of big corporations and illicit financial flows.

42. **Digitalisation of economic governance systems including public and private financial management (PPFM) systems.** Digitalisation is crucial for economic governance in many ways. It relaxes data and information constraints by ensuring economic transactions are traceable and verifiable and allows the government to undertake highly ambitious technology-based tax system while improving its public administration quality. It also permits to limit interactions between government officials and individuals, limiting the risk of corruption. In addition, it ensures for example that digital payments to intended recipients are efficient, ultimately guarding against corruption and over-payment. To reap these benefits, governments should adopt e-governance of the PPFM systems and invest in providing network access, electronic identification systems (Universal National Identifiers) for all citizens and legal entities within the economy and ensure inter-operability of e-governance systems across Government Agencies, and markets; and facilitate public engagement in the performance monitoring and evaluation of public officials.

43. **Invest in the development of fiscal infrastructure.** This includes establishing strong and efficient fiscal infrastructure, including good governance architecture. Effective delivery of budget and other fiscal reports in a timely and accurate manner requires robust fiscal infrastructure. The infrastructure is in three categories: staff; technology; and policies, procedures, and regulations. Governments should ensure that they are equipped with competent and well-trained staff, appropriate software and digital platforms, and clear, relevant policies and regulations to promote transparent fiscal operations.

44. **Invest in fiscal capacity building and incentive systems.** This is important to building strong fiscal institutional capacity for inclusive and sustainable development. Yet, there is huge « underinvested» in this area, leading to inability to meet the high demand for technical assistance and training in African countries. This partly explains why African countries have a huge capacity gap for taxation and spending. National governments should make conscious efforts to build capacity for an appropriately skilled and effective public sector and create incentives to keep them focused on the job. Multilateral development institutions should support the countries to build institutional and individual capacities through focused technical assistance and policy dialogues in the countries.


27,410
26,718
26,190
25,714

07 POLICY FOR ENHANCING DEEPENING FINANCIAL MARKETS

One key benefit of financial deepening is that it accelerates economic growth by expanding financial access to those who hitherto do not have it. It also leads to financial solutions that create wide array of financial instruments providing financing for both the public and private sector as well as individuals. The financial innovations ensuing from financial deepening induces payment mechanisms and systems that further engenders economic sophistication. Financial deepening leads to the creation of new securities, markets, and institutions, and has strong capacity to improve the financial services sector. This will allow seamless flow of financial resources and afford the public sector additional channels through which additional financial resources could be raised to finance development projects. Given its importance to public financial management delegates at the Policy Dialogue recommended the following policy for deepening the financial sector.

Short-term policies

45. **Central Bank to strengthen prudential guidelines and increase financial sector supervision to forestall emergence of weak financial system and possible contagion.** This requires assuring bank forbearance on domestic private loans by providing liquidity to commercial banks and critical businesses that are constrained by liquidity.

Medium-term policies

46. **Invest Pension Funds and Sovereign Wealth Funds in local markets.** African countries have multi-billion dollars trapped in pension, insurance and sovereign wealth funds that cannot be used for development financing. To relax this constraint and release these funds for effective use, countries need to establish regulations that provide a framework for the use of these funds and mandate a higher allocation for use in development financing. This will reduce the fiscal stress on countries and consequently reduce risk of debt distress.

47. **Invest in business incubation. Indeed, access to finance is an important constraint for many African businesses.** In this context, Development Finance Institutions (DFIs) in Africa – AfDB, AFC, AFREXIM Bank, etc., should incubate African businesses through their project development initiatives and have an exit strategy through listing them on African stock exchanges.

48. **Improve contract enforcement, reduce information asymmetries, and ensure the availability of guarantees.** Undeniably, this also requires developing solid institutions capable of protecting property rights, creditor rights, and information and better regulation and the rule of law.

Long-term policies for Building Resilience

49. **Economic and capital market reforms.** Economies of many African countries are fraught with obstacles that tend to clog the wheels of efficient financial market operations and performance. There is need, therefore, to focus on removing bottlenecks and encourage capital flows and currency conversion among African countries. To implement the African Continental Free Trade Agreement, the African Development Bank Group and AFRIEXIM Bank should work together to create a Pan-African Settlement Platform – «an African Trade Portal» – that can allow inter-regional trade in national currencies.

50. **Deepening the Domestic Stock Exchange Markets.** Strategic Privatisation and listing of State-Owned Enterprises (SoEs) through public offer for sale. Companies that are of strategic importance to the economy and provide public goods and services and companies that benefit from government's palliatives during shocks should be required to list their shares on the domestic stock exchange. Simplify listing processes and requirements to improve capital market accessibility to small, medium, and large-scale companies. Lessons could be learned from the Johannesburg Stock Exchange (JSE) – the 18th-largest exchange in the world, with one of the highest equity capitalisation-to-GDP ratios globally.

51. **Digitisation and inter-operability of market platforms.** Digitisation and interoperability of market platforms promote trade and economic transactions across countries and regions. This, investing in development of e-market platforms to enhance inter-operability of market and payment platforms across the continent will yield tremendous economic returns. Governments should invest in the regulation of digital markets to mitigate cybercrime and other risks. A major challenge that needs to be tackled to make this system work is data ownership and regulation. Big fintech and telecom companies are usually in possession of big data that tends to give them excessive power. Multilateral institutions like the AU and the African Development Bank should champion data ownership and regulation frameworks, like the European Union's General Data Protection Regulation.

52. **Harmonise strategy and compliance mechanism for fighting corruption and illicit financial flows.** Corruption and illicit financial flows are robbing African countries of the critical resources needed for development. Usually, these take the forms of corruption, tax avoidance, trade mis-invoicing, illegal activities such as drug trafficking, abusive profit-shifting, etc. Indeed, the estimated US$89 billion illicit capital flight Africa loss annually represents missed development opportunities. African countries The African Union and its member States should develop a harmonised strategy and compliance mechanism for fighting corruption and illicit financial flows in Africa. These multilateral institutions should assist countries in the region to domesticate global ad continental initiatives such as the UN High-Level Panel on International Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda launched in 2019, African Tax Administration Forum, the Global Forum on Transparency and Exchange of Information for Tax Purposes, and the Financial Action Task Force. The Multi Donor Action with the European Union and the German Federal Ministry of Economic Development and Cooperation to combat the scourge of IFFs on the African continent launched in December 2020 should be effectively utilised to roll out continental and country-specific initiatives to combat IFFs. One policy action will be to support all African countries to set up anti-IFF institutions and strengthen existing ones.

53. **Undertake economic and capital market reforms.** Focus on removing bottlenecks and encourage capital flows and currency conversion amongst African countries. To implement the African Continental Free Trade Agreement, the African Development Bank Group and AFRIEXIM Bank should work together to create a Pan-African Settlement Platform «an African Trade Portal» that can allow inter-regional trade in national currencies. Some of the key areas of reform focus should include a review of market processes and rules, recapitalisation of capital market operators, enhanced market infrastructure and

supervision, introduction of new and innovative products, opening up to foreign capital, providing access to International Capital Markets.

54. **Undertake curriculum reforms that include financial literacy from primary to secondary and university education.** The goal of financial literacy is to imbibe financial skills, values, knowledge, attitudes, understanding, and behaviours with a view to enabling students to make intelligent financial decisions in their daily life now and in the future. Financial literacy allows opportunity to inculcate and nurture sound financial culture in future adults. Despite its importance, curriculum reforms that include financial literacy could be constrained by limited or lack of resources, complexity in coordinating the various stakeholders involved, already overloaded curricula, insufficient financial expertise and know how, and absence of relevant teaching materials. Investing in financial literacy will enhance the savings and investment culture. As a first step, countries need to develop a national financial literacy and learning framework to guide the proposed financial education. Multilateral institutions should help to deploy lessons learned from more advanced regions where this has been done successfully.

08 POLICY FOR ENHANCING STRENGTHENING SUPREME AUDIT INSTITUTIONS

Supreme Audit Institutions (SAIs) are part of the wider system of accountability and have a critical role to play in PFM through strengthening public institutions, managing public spending, and ensuring financial accountability. They undertake performance and/or value for money audit of public institutions and promote PFM through detection and deterrence of corruption and public finance misappropriation. According to Lima Declaration, the core objectives of SAIs are to ensure proper and effective use of public funds; development of sound financial management; proper execution of administrative activities; and communication of information to public authorities and the general public through the publication of objective reports. To get the best out of SAI, however, the institution must be independent, have a clear mandate, is adequate resourced, adheres to international standards, able to engage in peer learning, and has conducive environment to operate.

Short-term policies

55. **Implement audit recommendations and ensure consequence management.** Public financial recklessness and impropriety are driven by lack of consequence management and accountability in the implementation of audit recommendations. The first step in this process is that African countries should establish and strengthen existing national audit offices and empower them to carry out independent and objective assessment of the administration of public finance in the implementation of projects, policies, and programs with a view to identifying any significant risks to the efficient use of public finances. The countries are encouraged to enact laws to ensure institutionalisation of independent audit institutions and ensure transparent implementation of audit recommendations and consequence management where appropriate.

56. **Promote civil society engagement.** The civil society is a critical stakeholder in building broad base and support for social contract and tax compliance built on governments' service delivery to its citizens. Engagement of civil society actors will allow for a fairer and more equitable use of public financial resources to benefit the majority. There is need, therefore, for enhanced civil society engagement to boost public accountability on implementation of audit recommendations. One policy action is for governments to develop resources to help the civil society to get involved in tax reform and engage in peer learning. To be success, however, there is need to apply the right strategy, ensure a two-way interaction between the government and civil society, build the capacity of civil society organisations, build effective coalition, identify champions among the civil society organisations, and leverage political will.

57. **Adopt proactive rather than reactive approach to supreme audits to promote fiscal transparency.** Accounts of some agencies are not audited for several years, giving room for corruption and

mismanagement. Proactive actions are required to ensure regular scheduled audit of activities of government institutions. Such regular checks will put managers of these public funds at alert.

58. **Strengthen the oversight role of the parliament.** Parliamentary committees should be set up to oversee various areas of public finance. They should also be empowered to request and undertake specific management audit to assess the effectiveness and efficiency of organisational processes being audited.

Medium-term policies

59. **Governments to develop legal and institutional framework for establishing SAIs where they are inexistent.** Due to financial and capacity challenges, many African countries are unable to establish a supreme audit institution in the true sense of it. Multilateral development institutions should come to the aid of these countries to establish one and strengthen existing ones through effective capacity building and technical assistance. Also ensure the synergy between the SAIs and law enforcement or anti-corruption agencies are properly strengthened.

60. **Promote operational, functional, financial, and organisational independence of SAIs.** For SAIs to carry out their responsibilities objectively and effectively, they need to be operationally, functionally, financially, and organizationally independent. Otherwise, their audit activities will be interfered with by interested stakeholders and their outputs will be compromised. Enact laws to guarantee the skills independence, operational independence, and financial independence of the SAIs to minimise political interference.

61. **Invest in capacity strengthening for the SAIs to ensure they have the needed human, technological and financial resources to operate effectively.** One reason African SAIs lack capacity is because of their non-affiliation to global sister global and counterpart institutions. To build the capacity of these institutions, there is deliberate need to ensure they are affiliated to global bodies like International Organization of Supreme Audit Institutions (INTOSAI) and regional bodies like the European Court of Auditors. Multilateral institutions like the AU and AfDB should broker establishment of the African Court of Auditors that would serve as AU independent external auditor institution and provide capacity development and training for national supreme audit institutions. This requires enduring legal infrastructure and institutional and regulatory frameworks.

Long-term policies for Building Resilience

62. **Promote data governance through digital services and continuous real time access to data onsite and off-site.** States should take advantage of the many benefits that digital technology offers today to modernise their data storage and management systems. The lockdown and social distancing implemented at the peak of the COVID-19 pandemic prevented SAIs from accessing needed data and information required to do their work. the reason is because most, if not all the information they need to conduct audits are in hard copy and can only be accessed on-site. To avoid this and promote efficiency in the performance of the works of the SAIs, governments should consider digitising their financial activities and reports. SAIs should also be equipped with relevant digital infrastructure required to access these necessary data real time to ensure that red flags are identified and addressed in a timely manner.

63. **Develop and support long-term human and institutional capacity development for SAIs.** Limited resources tend to limit human and institutional capacities of SAIs in developing countries. With limited capacities such institutions are unable to meet their constitutional responsibilities or stay independent. Multilateral institutions should support human and institutional capacity development of SAIs through strategic and systematic capacity development plan based on excellent needs assessment with a view to identifying existing gaps.

64. **Avoid undermining SAIs. Multilateral institutions, especially development finance institutions should avoid undermining SAIs by setting up parallel audit systems for their projects**. Instead, multilateral institutions should actively engage and use SAIs to audit projects they support in the countries. And the audit reports produced through this process should be effectively used to engage government institutions and other stakeholders. These will further strengthen the capacity of the SAIs and give them more exposure through training support and coaching where requisite capacity is lacking. It will also raise the profile of the institutions before the governments, parliaments, and civil society.

09 POLICY FOR ENHANCING PUBLIC PRIVATE PARTNERSHIPS FOR PUBLIC FINANCIAL MANAGEMENT

Successful implementation of public financial management reforms requires concerted efforts from all stakeholders, prominent among which is the private sector. Partnerships and cooperation between the public and private sector promote ownership and consensus in implementing public financial management initiatives. For the partnership and collaboration to succeed, however, conducive environment for collaboration must prevail. To strike the right chord that ensures effective collaboration and partnerships between the public and private sector to achieve effective public financial management, the following recommendations are proposed.

Short-term policies

65. **Engenders a conducive environment for successful public private partnerships for public financial management.** One of these conditions is existence of champions, change agents and leaders for change. Such agents and leaders should be created across the entire spectrum of governance, vertically and horizontally. Second, there is need for the right institutional and organisational environment. This requires institutional capacitation. Lastly, windows of opportunity for partnerships must be created.

66. Engage the civil society in PPP structuring and evaluation. The civil society is full of rich and diverse experiences that can be very useful when structuring public private partnerships deals. They are also highly capacitated to monitor and evaluate deals using various means that include the social media. Their roles in these areas will complement public sector efforts in public financial management.

Medium-term policies

67. **Multilateral institutions should help strengthen and deepen domestic capital markets in RMCs.** Capital markets of most African countries are shallow and underdeveloped, focusing mainly on short term instruments. Stock market capitalisation are generally low and have limited hedging instruments required for effective market operations. Multilateral institutions should support African countries by providing the essential technical and regulatory infrastructure needed to drive the financial markets, develop secondary market liquidity, and diversify the investor base. they should support countries in their

efforts to establish Diaspora bonds, remittances, and future-flow securitisation, green and blue financing, and State-contingent instruments such as GDP-Indexed bond. They should also assist the countries to attain regional financial market integration by providing relevant inter-regional settlement framework and infrastructure. Presently, different regional institutions are driving financial integration in different regions. These include WAEMU, WAMZ, EAC, COMESA, etc. Multilateral institutions should help to coordinate these efforts to ensure successful integration.

Long-term policies for Building Resilience

68. **Governments to develop legal and institutional framework for establishing public-private partnerships where they are inexistent and strengthen those in existence.** PPP is a relatively new phenomenon in Africa. Hence, countries have very limited knowledge about its modus operandi. The starting point to build the knowledge and expertise is by developing appropriate institutional mechanisms and frameworks for its existence, effective functioning, and sustainability.

69. **Governments to bridge the civil society trust deficit.** Social polarization between civil society and the government further serves to deepen mistrust and weaken reforms. Heightened international coordination is needed to build trust, enhance political stability, and strengthen weak institutions.

10 POLICY PRIORITISATION

Whichever policy options are chosen, countries need to pay attention to the policy design, sequencing, relevance to local conditions, and the timing of implementation. Poorly designed recovery policy is likely to be ineffective in delivering desired economic outcomes regardless of theoretical potential. Countries are advised to avoid «copy pasting» policies designed for other contexts. Policymakers should proactively engage local experts and scientists to help them identify the appropriateness of policies in their local conditions and contexts. Furthermore, policymakers should map out the potential multiplier effects and co-benefits on other sectors of the economy at the policy design stage. Lack of capacity for policy implementation is an ongoing concern on the continent.

The African development Institute conducted an exercise to rank the emergent policies from the Policy Dialogue. The process involved rating the effectiveness of each policy with respect to three criteria: (i) potency (measure of effectiveness in achieving desired development outcomes); (ii) Implementability (measure of relevance to local socio-economic and political economy of Africa countries); and (iii) Potential multiplier effects (measure of positive externalities in other sectors and general inclusive development in Africa).

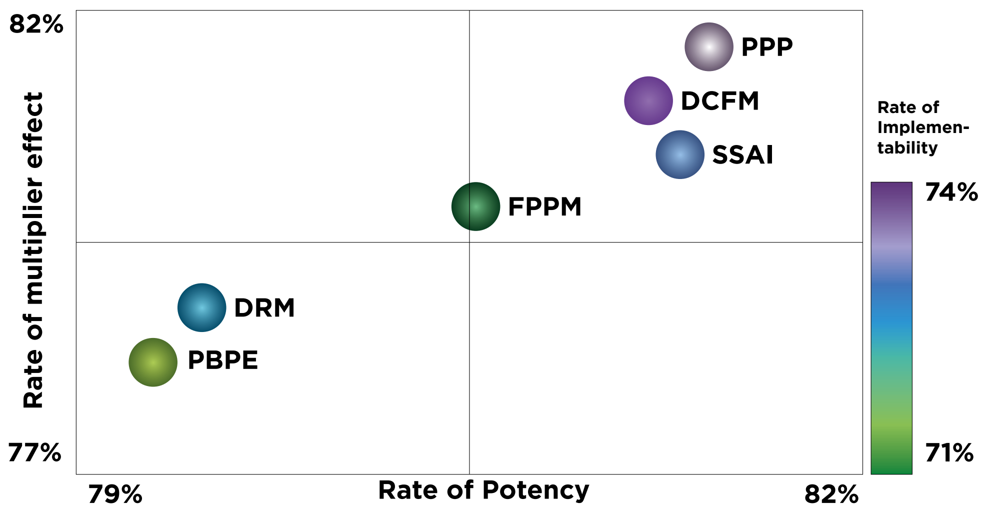
Each criterion was assigned a relative measure of importance («criteria weight») in influencing policy choice. Using a multicriterial decision analysis method- the Analytical hierarchical process (AHP), 6 experts rated the importance of each criterial in determining the overall effectiveness of a policy. The overall rating of a policy is given by the aggregate weighted sum of its rating against the three criteria (see annex for details). The African Development Institute conducted an immediate follow-up online survey after the Policy Dialogue among the G-CoP stakeholders (experts and resource persons), who were requested to rate the effectiveness of each policy against each of the three criteria on a scale of 1 to 10 where 1 means «Least effective» and 10 means «Most effective». This allowed us to obtain policy evaluation weights from 116 experts from 32 countries. The policy evaluation weights were combined with criteria weights to obtain the overall rate or effectiveness on each policy.

Overall Public and Private Finance Management Policy Prioritisation

Figure 2 shows the overall perceived multiplier effect, potency, and implementability as well as overall effectiveness of the proposed public and private finance management policies. At the theme level, all the proposed policies have multiplier effects and potency ratings that are above 75 percent, with the rate of implementability ranging from 71 to 74 percent. The upper right quadrant contains the highly effective policies, with high rate of potency and high rate of multiplier effects. In this quadrant are policies related to deepening capital and financial markets (DCFM); public – private partnerships in resource mobilisation and debt management for Inclusive development (PPP), and strengthening supreme audit institutions, data transparency and curbing leakages such as corruption and illicit financial flows (SSAI).

It is noteworthy that all the six public and private public financial management thematic policies are rated highly at almost 80 percent on all the four criteria. While public-private partnerships in resource mobilisation and debt management for inclusive development have high rate of potency and much higher rate of multiplier effect, compared to deepening capital and financial markets policies, they are less implementable (light purple) compared to deepening capital and financial markets (dark purple). In lower left quadrant, are the policies related the domestic resource mobilisation (DRM), and prudential budget and public expenditure management PBEP). The Fiscal Policy Planning and Management (FPPM) policies are perceived to have a higher rate of potency and higher rate of multiplier effects compared to both the DRM and PBEP policies in the lowest quadrant, that are rated as least implementable policies.

Figure 1: Perceived multiplier effect, potency, implementability, and overall effectiveness of public and private finance management policies in Africa



Code	Policy Description	Overall Effectiveness
PPP	Public - Private- Partnerships in Resource Mobilization & Debt Management for Inclusive Development	78.21%
DCFM	Deepening Capital and Financial Markets	78.18%
SSAI	Strengthening Supreme Audit Institutions Data Transparency and Curbing Leakages Corruption and Illicit Financial Flows	77.64%
FPPM	Fiscal Policy Planning and Management	76.22%
DRM	Domestic Resource Mobilisation	76.07%
PBPE	Prudential Budget and Public Expenditure Management	75.48%

A deep dive policy paper that assesses the recommended policies within each of the six main PPFM themes using the three criteria will be further undertaken. This will provide additional insight on implementability, potency and multiplier effects of the policies within each theme with a view to understanding the most appropriate policy prioritisation for RMCs.

11 POLICY IMPLEMENTATION

While we have attempted rank the policies, different contexts call for different approaches. As noted by the G-CoP experts, policy timing, timeliness and flexibility in implementation will be an important characteristic for achieving the desired outcomes. In the context of COVID-19, there are many known unknowns and unknown unknowns. More than one year into the pandemic, it is yet unclear how long it will last and whether there will be several recurrences as we are witnessing presently. With the current nationalistic approaches to the prevention and containment measures, it is likely that hotspots of the virus may shift to less developed countries for much longer. These could become future epicenters for another global spread of the virus as we are currently witnessing in India and South Africa. In addition, it remains unclear whether the estimated recession will be deeper than projected with possible default cascades.

The discussion on the shape of the recovery of the economies remain unclear. It is yet to be seen whether economies will take the «V», «U», prolonged «U» or even a «W» multiple «W» or «L» shaped recovery path. Without a coordinated global action, the recovery path may likely be a multiple « W», if multiple waves we are experiencing now is widespread and last longer into the future.

Policies being adopted must be appropriate and relevant to African contexts and realities. While extreme urgency was required in introducing prevention and containment policies that were sometimes inappropriate for local conditions, successful policies for the recovery and rebuilding phase will be defined by appropriateness of the specific policies adopted to specific social, political, environmental, and financial contexts of actors.

Equity considerations demand that recovery policies should not pass on significant liabilities across nations and/or to the future generations. Intergenerational inequities will be exacerbated within and among countries if policy responses to pandemics such as COVID-19 focuses on re-booting unlimited consumption and/or rebuilding national economies only. The COVID-19 lockdown and social distancing policies have exposed the significant inequities in the current economic system which focuses on maximising current consumption to maximise GDP growth without much recourse to the distribution effects of policies and externalities of social and natural capital, and the overall welfare of the current and future generations. The G-CoP experts encouraged African governments not just to focus on borrowing to deal with the current challenge but should ensure their borrowing is enshrined in the principle of efficiency, absorptive capacity, inclusiveness, and equity. COVID-19 has awakened the need for responsible borrowing, and this should be maintained even in the post COVID-19 era.

12 CONCLUSION

Fiscal stress has been evident among African sovereigns in the years leading to the COVID-19 pandemic, driven by largely challenging economic, financial, governance, and institutional conditions as well as easy access to credit markets. COVID–19 related financing is adding to the fiscal stress of the countries. The pandemic heightens the likelihood of a widespread and far-reaching sovereign debt crisis, if not properly managed as 14 out of the 38 African countries for which debt sustainability analyses were available in December 2020 were rated at high risk of debt distress and another 6 already in debt distress.

African countries must, as a matter of urgency, work together through the African Union to develop a harmonised strategy and compliance mechanism for fighting corruption and illicit financial flows in Africa. They also need to enact laws to guarantee the skills, operational, policy and financial independence of the SAIs to stem the tide of fiscal purge that is heightened by the COVID-19 pandemic and other external shocks.

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