AFROSAI-E

# PUBLIC FINANCIAL MANAGEMENT TRANSVERSAL RISK REPORT 2022

PFM
REPORTING FRAMEWORK

# Contents

# Figures and Tables



# Abbreviations

| | |
|---|---|
| **AU** | African Union |
| **IMF** | International Monetary Fund |
| **MDA** | Ministries, Departments and Agencies |
| **MOF** | Ministry of Finance |
| **PEFA** | Public Expenditure and Financial Accountability |
| **PFM** | Public Financial Management |
| **SAI** | Supreme Audit Institutions |
| **SDG** | Sustainable Development Goals |
| **TADAT** | Tax Administration Diagnostic Assessment Tol |
| **UN** | United Nations |

# MESSAGE FROM THE CEO

This is our first Public Financial Management (PFM) Transversal Risk Report for the AFROSAI-E region.

The main goals of PFM are to ensure government finances are sustainable, that resources are appropriately allocated and, that goods and services are effectively delivered to the public. To achieve these goals, PFM procedures and systems must operate efficiently and as part of an institutional framework that incorporates appropriate and steadfast rules, structures, processes and capacities.

This considered, the PFM Reporting Framework Tool allows SAIs to report holistically on PFM risks. The framework focuses on the overall functioning of the system and the related synergies. The tool gives the SAI added advantage of identifying weaknesses in the PFM system at country level and root causes, therefore giving Parliament an overview of where the "bottlenecks" are. It also gives the auditor an advantage to make recommendation and follow up on these recommendations more often than other PFM assessment tools.

In this PFM Transversal Risk Report, the reporting framework is taken a step further by consolidating the different country perspectives on PFM into a holistic regional view. This report does not mitigate the nuances of the individual country reports from Angola, Botswana, Cape Verde, Ghana, Kenya, Mozambique, Rwanda, Zambia, and Zimbabwe. Our sincere appreciation goes to these countries for their contribution to this report.

Sound PFM is crucial for achieving the Sustainable Development Goals (SDGs). In this report, we therefore also highlight the pivotal role that PFM processes play in the attainment of the SDGs. The PFM tool approaches the SDGs by prompting auditors at the planning stage to consider ministries, departments and agencies that have the highest impact on SDGs. In addition, there are embedded procedures which the auditor can use to evaluate the implementation of SDGs across functions to determine the effectiveness and efficiencies of the PFM processes. Consequently, there is increased reporting for ministries such as education and health.

The COVID-19 pandemic had adverse effects on our economies and on the ability of PFM systems and structures, including SAI, to deliver on their mandate. We also reflect on the readiness of the PFM systems to enable ministries, entities and agencies to remain productive, meet their mandates, and act in the interests of the stakeholders – while ensuring their work results in benefits to the citizens.

We recognise that effective PFM systems can have widespread effects on the reach, quality and effectiveness of essential public services. We therefore trust that this report will be a valuable resource for various stakeholders, including practitioners and policymakers. The report will be produced and circulated annually.

**MMR NKAU**
**CEO**

# EXECUTIVE SUMMARY

Many empirical studies have highlighted the positive relationship between PFM and fiscal transparency, fiscal outcomes and the perception of fiscal solvency[1] (IMF, 2012). Good PFM will increase fiscal credibility and economic development – not exclusively, but as a contributing factor.[2]

**Key observations in this report include:**

1. Governments are doing a lot to improve PFM systems. However, there is significant scope for much more work to be done. More specifically, SAIs are consistently identifying serious deficiencies in PFM systems in the region. The PFM tool has given SAIs the ability to identify root causes for the PFM weaknesses raised, but more can be achieved by using this tool. Furthermore, it is in the interests of the SAIs to use the PFM tool to complement the traditional audit approach.

2. The level of adherence to the PFM processes is also consistent with the skills levels across the PFM institutions, with a noticeable decrease from the core PFM institutions to the Ministries, Departments and Agencies (MDAs). This is attributable to a concentration of skills and competencies at SAI and, in some cases, Finance Ministry level. This suggests an urgent need to consider further capacitation at Parliament and MDA levels.

3. Regarding the region's ability to meet the SDGs and 2030 targets, caution is needed. While the intent is to monitor and measure SDG targets that is largely captured at national government level, this intent does not always cascade to the MDAs. This is reflected in the opacity of reporting on SDGs at MDA level, which unless urgently addressed, will result in the region missing the SDG targets. This is reflected by the business quote that says "if you cannot measure it, you cannot Improve it". Furthermore, what is not measured, cannot be reported on objectively. This further highlights an underlying problem relating to the implementation of the SDGs at MDA level.

1 IMF (International Monetary Fund). 2012. "Fiscal Transparency, Accountability and Risk." Board Paper, Washington, DC: International Monetary Fund.

2 De Renzio P., M. Andrews, and Z. Mills. 2011. "Does Donor Support to Public Financial Management Reforms in Developing Countries Work? An Analytical Study of Quantitative Cross-Country Evidence." Overseas Development Institute, Working Paper 329. London: Overseas Development Institute.

# 01 INTRODUCTION

## 1.1 Background

AFROSAI-E is the English-speaking subgroup of AFROSAI, the African sub-region of the International Organisation of Supreme Audit Institutions. AFROSAI-E is a SAI capacity builder in the region and shares information with its members and supports them to better execute their mandates. It is committed to cooperating with and supporting these member SAIs to strengthen their institutional capacity and help them successfully fulfil their audit mandates, thus making a difference in the lives of citizens.

A key consideration since the launch of the PFM-RF is how the tool is positioned in the context of globally renowned holistic and broadly diagnostic PFM tools such as the Public Expenditure and Financial Accountability (PEFA) Framework and the Tax Administration Diagnostic Assessment Tool (TADAT). In response to this pertinent question, the PFM-RF is viewed as a complementary tool to other diagnostic tools by its users.

While the tool is designed for the use of SAIs, it can play its global complementary role through knowledge sharing through the contents of this report. The PFM-RF Transversal Risk Report presents trends in PFM using consolidated, audited data from published audit reports produced by SAIs using the PFM-RF tool.

## 1.2 Objectives

The objective is to develop an annual report that would firmly position the PFM-RF in the global arena as a complementary tool to other globally renowned broadly diagnostic tools by:

**a.** empowering SAIs to promote greater audit impact and quality by informing them and creating awareness of the transversal risk areas within various PFM systems.

**b.** contributing to the body of knowledge on how to improve PFM systems through the identification of transversal PFM systems and SDG implementation risks.

The objective is achieved by a detailed report containing data visualisations, short analyses and country examples, where necessary. It provides an overview of the methodology used for producing the report, highlights key trends in PFM across the five processes of the PFM cycle, analyses the root causes of PFM system failures, presents a case on SDG performance by reporting countries, and highlights the overall PFM system risk areas.

## 1.3 The PFM Framework Tool

The PFM Reporting Framework is an Excel-based tool that allows auditors to assess the performance of PFM processes along the whole budget cycle. It evaluates the effectiveness and targets the readiness of the PFM system to enable the realisation of all SDGs. It also allows auditors to verify the degree of disaster preparedness of the national PFM system. It is inspired by existing assessment frameworks such as the Public Expenditure and Financial Accountability Framework, with the main focus on the work of SAIs. The assessment tool focuses on core PFM institutions such as the Ministry of Finance, Parliament, and Revenue Authority, as well as important sector ministries and departments. These sector ministries are identified because of their potential contribution to achieving the SDGs and typically include the Ministries of Health and Education. With a root cause analysis, auditors go beyond symptoms and develop meaningful audit recommendations.

The results of the audit are summarised in simple dashboards facilitating easy communication of institutional performance to the audited entities as well as actors in the wider accountability ecosystem – particularly parliament, civil society, and the media. SAIs are encouraged to integrate the PFM Reporting Framework into their annual audit plans to enable the tracking of PFM performance over time.

Consistent and continuous reporting is encouraged as it allows SAIs to provide meaningful recommendations to government and parliament to facilitate a systemic response to identified root causes in the PFM system which impede the SDGs. Through SAIs' consistent application of the PFM Reporting Framework, the tool can meet its full potential in terms of promoting holistic and sustainable PFM reforms.

PFM is the interlinked series of systems, laws, rules, processes and procedures by which government manages financial public resources. The five key PFM processes are:

- Macro-economic Policy, fiscal policy, and strategic budgeting
- Budget preparation
- Budget approval
- Financial management and service delivery
- Accounting, reporting, and oversight.

From a thematic perspective, the key focus of the tool is to engage SAIs to deliberately perform audits on attaining SDG targets at ministerial and national levels. This focus is achieved in two ways. First, within context, the tool has specific questions that provoke audit procedures from the auditors, which address the attainment of the SDGs. The tool has 22 questions on SDG implementation, allocated between core and non-core ministries as follows:

- Eight questions for the Ministry of Finance
- Five questions for the Revenue Authority
- Three questions for Parliament
- Six questions for all non-core ministries, departments and government agencies.

The tool allows a SAI to select which key ministries (contributing to attainment of SDGs) to perform PFM audits on, in line with country plans and expectations. Identified gaps in the key ministries tend to manifest across the other ministries. Hence the focus on assisting governments to prevent or detect very early and then strengthen the detection of malfeasances and put recommendations in place so that countries can respond to the challenges. There is also a need to establish if countries are responding to the audit findings, and identify weaknesses and root causes so that countries can respond accordingly. Thus, annual country reviews make it important to check if countries are addressing these root causes.

# 02 METHODOLOGICAL CONSIDERATIONS

This section presents the methodological approach to assess the PFM Framework tool as applied in the selected countries. This phase involved nine countries – Zimbabwe, Zambia, Angola, Mozambique, Kenya, Botswana, Ghana, Cape Verde, and Rwanda. The central idea was to have a transversal analysis of two levels of data sets: (1) PFM cycle processes, and (2) Institutional level. At the institutional level, all SAIs have audited the MoF, RA and Parliament.

## 2.1 Technical Approach and Methodology

Data were sourced from the AFROSAI-E Secretariat, with respect to PFM audits completed during the evaluation period. These data were assessed for completeness and consistency across the different countries. Five (5) of the nine (9) reporting countries had duly completed the PFM detailed tool. To address the information shortcomings, an abridged PFM Questionnaire was then developed and circulated to the countries in the study whose detailed PFM audits were still outstanding.

First and second level analysis was conducted on the collected data and was cross-checked, where necessary, with the detailed PFM audits once they became available. This analysis informed the core of the inaugural report. In addition, a meeting was held with the AFROSAI-E team to review the report and ensure alignment with the other initiatives run by AFROSAI-E. The final report was then shared with country experts via email round-robin, to validate its contents before finalisation. Table 1 (below) provides a high level thematic of the research stages and key outputs.

**Table 1: Methodology**

| | |
|---|---|
| STAGE 1 | **Evaluate existing data for completeness and consistency** |
| STAGE 2 | **Identify gaps in data across countries**<br>Deliverable = gap analysis |
| STAGE 3 | **Design a data-collection tool to address identified gaps in available data**<br>Deliverable = questionnaire |
| STAGE 4 | **Distribute survey tool to affected countries**<br>Deliverable = questionnaire responses |
| STAGE 5 | **Perform data analytics on existing data and new data from survey instrument**<br>Deliverable = data analysis report |
| STAGE 6 | **Embed data analytics into the report**<br>Deliverable = draft report |
| STAGE 7 | **Conduct virtual mini validation of draft report**<br>Deliverable = review sessions with SMEs in selected countries to review report via a) email round robin, and b) a virtual focus group |
| STAGE 8 | **Finalise report** |

# 03

# PFM TRANSVERSAL ASSESSMENT OF PERFORMANCE OUTCOME & RISKS

## 3.1 Overview

This section provides a detailed transversal analysis of two levels of data sets: (1) PFM cycle processes, and (2) Institutional level. At a minimum, at the institutional level, the expectation is that the SAIs have audited the Ministry of Finance or its equivalent, the Revenue Authority, and Parliament.

The report will also highlight any other ministries audited by the SAIs, with the findings included in the transversal report. However, this will vary across countries.

The rankings stretch from zero (0) to four (4). Across the PFM processes and the subprocesses, a zero ranking reflects overall non-adherence with the PFM process as reflected by policy inconsistencies, inadequate data, lack of alignment with relevant legislation, and lack of cooperation, among other things. On the other end of the ranking, four (4) reflects inter alia regularly consistent reporting across the PFM processes and cycles, well aligned budgetary processes, and SDGs that are adequately mapped onto the national development strategies and monitored and measured.

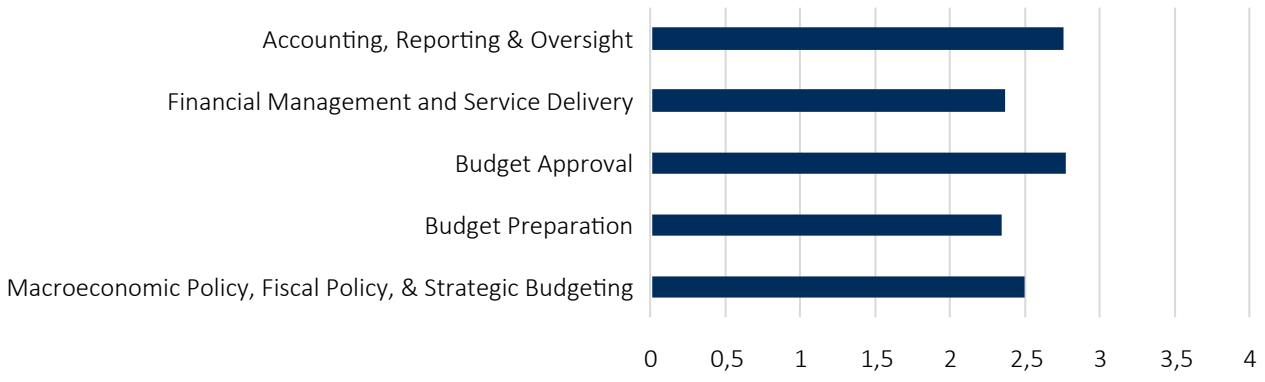
## 3.2 Government Performance by PFM Processes

Government performance by PFM processes looks at the overall performance of the five key PFM processes: macro-economic policy, fiscal policy, and strategic budgeting; budget preparation; budget approval; financial management and service delivery; and accounting, reporting and oversight (see Figure 1, below).

Governments in the region are doing well in adhering to the five key PFM processes, as shown in Figure 1. However, there can be much improvement across all the key PFM processes. Strides have been made in terms of budget approvals (ranked first) and accounting, reporting and oversight (ranked second). Lagging in terms of ranking is financial management and service delivery (ranked fifth). Subprocesses under financial management and service delivery that need further enhancement include monitoring of service provision, tax management, and policy as well as internal controls and auditing.

Governments in the region tend to focus many resources and efforts on planning well and ensuring the relevant budgetary approvals are done appropriately. That is, complete and comprehensive budgets are submitted to Parliament with the relevant supplements, and these are duly debated. Parliament and relevant committees fully review and debate audit reports and issue their own reports on findings for follow-up

**Figure 1: Government Performance by PFM Process**




to government. However, procurement systems still need to be enhanced to ensure they are functioning transparently and competitively, including due processes for appealing. Similarly, internal controls through financial instructions and procedures, have sometimes not been updated, and where these have been updated and communicated by the Ministry of Finance or its equivalent to the MDAs, they are rarely monitored. This allows leakages of public funds.

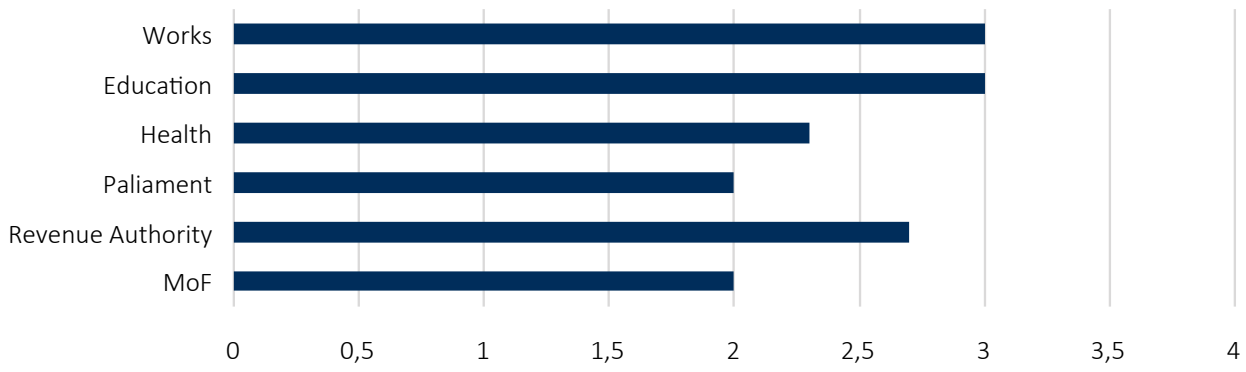
## 3.3 Performance by Key PFM Institutions

Most respondents could provide performance information on the key PFM institutions: Revenue Authority, Parliament, and the Ministry of Finance. Concerning other MDAs, the most reported on were Health, Education, and Works, reflecting, in part of the strategic and development intents of the different jurisdictions.

In terms of ranking (Figure 2), the Revenue Authorities (ranked first) had an encouraging rating of 2.7, indicating improvements in revenue management systems in the region. However, deep diving into Parliament and the Ministry of Finance reflects significant pressures – partly related to capacity constraints at those institutions. Levels of adherence to the PFM processes across the core institutions as well as the MDA are consistent with the skills levels across the PFM institutions, with a noticeable decrease from the core PFM institutions to the MDAs. This is because of a concentration of skills and competencies at SAI and, in some cases, the Finance Ministry level. This suggests an urgent need to consider further capacitation at Parliament and MDA levels.

Similarly, in at least three of the responding countries, several other Ministries, Departments and Agencies underperformed with respect to performance across the PFM processes. While the robustness of PFM processes at SAI level is commendable, the apparent weaknesses at MDA levels limit the efficacy and efficiency of the overall PFM cycle. This suggests that a bottom-up approach focused on enhancing capacity and the PFM processes at MDA level may yield improved value for money.

**Figure 2: Performance by Key PFM Institutions**



## 3.4 Performance by Key PFM Institutions in Integrating SDGs into PFM Processes

The ability of governments to efficiently collect revenue and spend it accountably and transparently manner is important for nations seeking to expand their economic growth and increase available resources to pursue national objectives – including those related to the SDGs. The SDGs touch upon all sectors of society, including education, health and clean energy, but their success ultimately comes down to effective PFM. Countries that efficiently raise tax revenue enjoy more resources to pursue national objectives. A cross-cutting International Monetary Fund (IMF) analysis suggests that countries which achieve a tax to GDP ratio of 15% reach a 'tipping point' at which economic growth becomes stronger and states can sustainably fund basic services such as schools, health care and transportation services. When these national priorities are advanced, so are the SDGs.

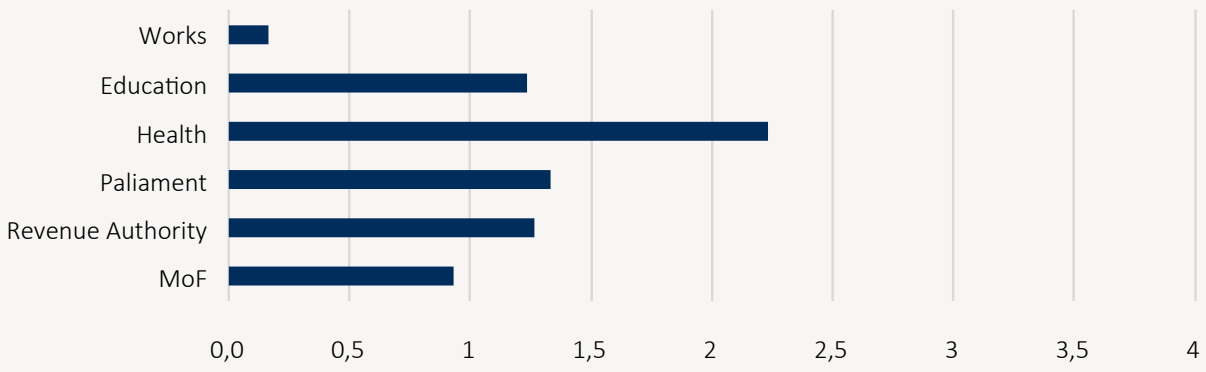
The observations regarding integrating SDGs into the PFM processes for the three core functions are relatively weak across the countries in the study, largely because of the opacity of reporting. While there was budget alignment with the SDGs at national level through the Ministries of Finance, this did not necessarily filter down to the MDAs.

The 2030 Agenda, often referred to as the SDGs, consists of 17 Goals, 169 Targets, and 232 Indicators. With regard to targets, they are aspirational and global, with each government having to set its own national targets guided by the global level of ambition but also considering national circumstances. Governments are expected to take ownership and create national frameworks for the achievement of the goals.

At a macro-level, SDGs were usually considered in the preparation of the budget at the Ministry of Finance level, and budget alignment with the SDGs was done by programmes (not by sector), as shown in Figure 3. As a result, significant deficiencies at the sector level were flagged, specifically that compatibility was weak due to the inexistence of sectoral strategies aligned with the SDGs. It was also apparent that while SDGs are reflected at national level, limited evidence suggested that regular monitoring and review of performance against SDG targets was being conducted.

Regarding the region's ability to meet the SDGs, caution and possibly circumspection is needed regarding the ability of the countries in the survey to meet the 2030 targets. While the intent to monitor and measure SDG targets is captured at national government level, with very few exceptions, this intent does not always cascade down to the MDAs. This is reflected in the opacity of reporting on SDGs at MDA level, which unless urgently addressed will result in the region missing the SDG targets. This is because, in our view, if you cannot measure it, you cannot correctly and objectively report it. This highlights a problem of implementation of the SDGs at MDA level.

**Figure 3: SDG Integration by PFM Institutions**



The SDGs should be domesticated, and responsibilities allocated while ensuring that domesticated SDG targets are included in the budget planning process at national and ministerial levels. In addition, regarding the main SDGs at the level of selected institutions, at the sector level (MDA) it is impossible to measure SDGs as sectors have not yet defined specific targets associated with SDG targets.

What is different about the SDGs is the potential transformation of policy and budgeting. The SDG footprint is much broader and deeper, allowing governments to recast policy and priorities based on what is important now and in the future. Concepts such as well-being help governments fund economic developments that are highly prized by citizens. This policy transformation has some interesting characteristics:

- **Evidence-based** rather than political dogma
- **Outcome-based** rather than input-based (like the above, moves the political debate away from spending to results)
- **Innovation room** can be provided in budgets to reveal inexpensive ways to overperform.

## 3.5 Transversal PFM Risk areas: PFM Cycle vs Ministries

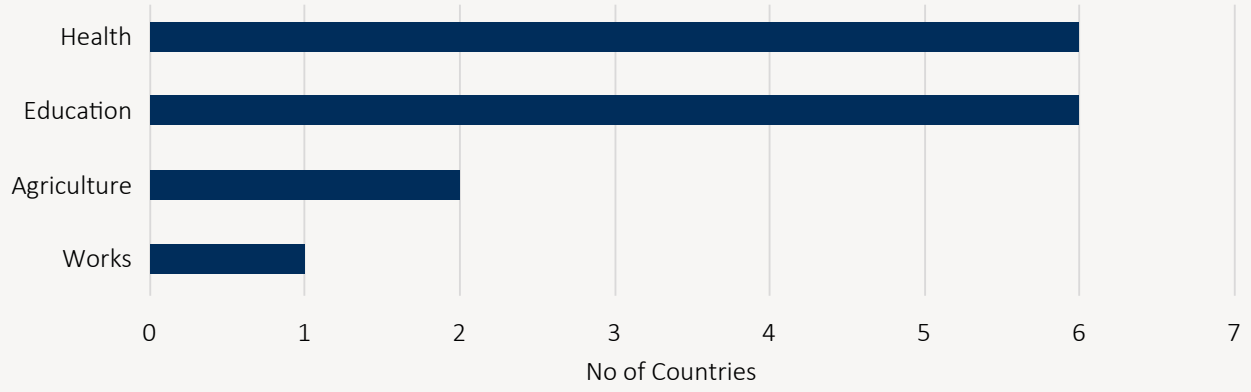
The main observation from the surveyed countries concerning the transversal PFM Risk areas is that while there has been progress across most of the PFM processes, there is still significant scope for improvement across the different ministries at a consolidated level. However, areas of enhancement and capacity focus should encapsulate completeness of monitoring and supervision, as well as policy automation in Financial Management and Service Delivery. An example is the need to map all donor funds received onto the information management system.

Concerning reporting MDAs, consistent across all countries was the inclusion of ministries/agencies focused on key social development areas: health and education. Other MDAs not reported on below, and based on country nuances, included justice, transport and housing.

Except for the Ministry of Finance in two countries (Figure 4), ministries that exhibited challenges with adhering to the PFM processes included education and health. This has a material impact on the ability of the different countries to implement their overall strategies as these are key implementing agencies. It can thus be hypothesised that this results from capacity constraints in other MDAs, with most capacity interventions focused on the core PFM institutions.

The MDAs directly implement the SDGs, and weaknesses in reporting, monitoring and measurement at this level will severely constrain the ability of countries to provide evidence-based data that they have met the SDG targets. Reporting on the intended targets at national level is one thing. However, if countries are to ensure that national reporting is consistent with actual, demonstratable impact at citizenry level, there should be more emphasis on enhancing implementation at MDA level. This presents an opportunity for down-streaming capacity interventions to include the other MDAs.

**Figure 4: MDA Responses Per Country**



## 3.6 Dominant Root Causes of Underperformance by Institutions

Dominant root cause analysis is a problem-solving method aimed at identifying the root causes of problems or events and suggests that problems are best solved by attempting to correct or eliminate root causes – as opposed to merely addressing the immediately obvious symptoms. The PFM tool is designed on the 5 whys model of root cause analysis, which is also corroborated by evidence-based conclusions. The primary goal is to determine the root cause of a defect or a problem by successively asking the question "Why?" The number '5' derives from the anecdotal observation that five iterations of asking 'why' are usually sufficient to reveal the root cause.

Here we focus on the main, dominant root cause of underperformance by the three core institutions: the revenue authority, ministry of finance, and parliament across the PFM Process (Table 2).

Across the three institutional structures, Governance and Oversight, and Policy and Legal Framework are the main constraints facing the audited institutions across the PFM cycle. This emphasises that countries must ensure that government policies are not only in line with the SDGs, but also that they are regularly reviewed. For instance, regarding the Revenue Authorities, weaknesses in information systems and communications directly affect the ability of the revenue authority to effectively collect revenue by ensuring tax codes are linked to macroeconomic developments. Information systems help to increase efficiencies of governments, reduce manual interfaces, enhance transparency, help provide a clear audit trail, and thus reduce fraud and corruption.

At Ministry of Finance level, malfeasances highlighted related to governance and oversight as well as the policy and legal framework. Elsewhere in the report, the role of governance structures at MoF level in providing guidance and oversight to the MDAs is referred to. This also includes the ability to ensure that there is adequate coordination across the units in the finance cluster, such as economic planning, statistics, and the revenue authority. Coordination failure will have an adverse effect on macroeconomic modelling – which informs budget forecasts, for example.

Furthermore, weaknesses in budget preparation, approvals and financial management and service delivery directly affect the revenue authorities' ability to measure and monitor revenue receipts. Anecdotally, weaknesses in Parliament relate to organisation and governance, which directly hinders parliament's oversight role

In addition, these policies around financial management become the bedrock for setting up and ensuring a robust process of monitoring and evaluating the country's PFM process. Further improvements in the other subprocesses are a function of strengthened and relevant governance processes and oversight mechanisms. This is not to say that performance monitoring is not being done effectively. Rather, some deficiencies in capacity, notably human and financial resources, were found. The solution to this is linked to strengthening governance and oversight.

**Table 2: Dominant Root Analysis Across Institutions**

| PFM PROCESS | INSTITUTION | | |
|---|---|---|---|
| | **Revenue Authority** | **Ministry of Finance** | **Parliament** |
| **Macroeconomic Policy, Fiscal Policy & Strategic Budgeting** | Information systems + Communications | Governance and Oversight | Not applicable* |
| **Budget Preparation** | Governance & Oversight | Governance + Policy | Not applicable |
| **Budget Approval** | Governance + Policy | Other + Communication + Policy | Organisation + Governance |
| **Financial Management and Service Delivery** | Governance + Policy | Governance + Communications | Not applicable |
| **Accounting, Reporting & Oversight** | Information Systems + Policy | Policy & Legal Framework | Governance + Policy |

*The specific PFM process is generally not applicable to this institution

# 04

# THEMATIC DISCUSSION ON EMERGING AREAS OF FOCUS FOR SAIS IN THE REGION

This section is a high-level discussion of pertinent and emergent areas of focus for SAIs going forward. The focus is on two issues. First, the implications of COVID-19 for PFM processes – to raise awareness and build momentum for a more focused approach on PFM for COVID-19. Secondly, the thematic on climate finance provides reflection points for green PFM, emphasising the need for an approach combining various entry points within, across and beyond the budget cycle. This includes components such as fiscal transparency and external oversight and coordination.

## 4.1 The COVID-19 Pandemic and the Public Financial Management Process

Government budgets in the region have been severely strained because of rising expenditure on public health infrastructure and services and lower tax and other revenue collections from shrinking economies resulting from lockdowns. This has led to fiscal deficit pressures, worries of realisations of contingent liabilities, stressed foreign exchange reserves and revenue shortfalls – just as they needed to increase spending on health, create fiscal stimulus packages, and support vulnerable populations. This drove the need for countries to combat the pandemic's supply- and demand-side impacts, local and global fallout, and lengthy uncertainty.

In addition, COVID-19 has severely strained service delivery processes. There is now a greater need to ensure that PFM systems are configured as enablers for effective service delivery. As noted, in this report, sectors such as education and health will need customised PFM systems for deeper insights into service delivery bottlenecks. Aligned with this is the effect of COVID-19 on the ability of regional countries to meet their SDGs. Consequently, the PFM Tool will make information available that accelerates the pace of progress towards the SDGs.

One of the legacies of this period will be the longer-term financial effects of the interventions by governments around the world. The unparalleled nature and scale of the fiscal measures undertaken in response to COVID-19 reinforce the need for strong PFM to maximise their immediate effectiveness. Strong public accountability for the resources used in fighting the pandemic, through high-quality financial reporting, will also be needed to make their overall impact on public sector finances fully transparent. How public budgets are allocated and managed is as important as the overall funding dedicated to the COVID-19 pandemic response[3].

3 H. Barroy, D. Wang, C. Pescetto & J. Kutzin. 2020. How to budget for COVID-19 response? *A rapid scan of budgetary mechanisms in highly affected countries. Geneva: World Health Organization*; S. Gurazada, J.K. Kristensen, M.C. Sjoblom, M. Piatti & K. Farooq. 2020. *Getting government Financial Management Systems COVID-19 ready*. The World Bank. 20 March.

In adapting the Post-disaster PFM Review Evaluation Framework (World Bank, 2019)[4] to discuss PFM systems in the region, Table 2 (above) reviews themes that countries in the region should consider when evaluating the responses after the pandemic.

Countries in the region should use the opportunity presented by COVID-19 and the attendant responses to inspect the adequacy of their PFM laws to deal with crises. This includes provisions for crisis response, emergency procurement, and fiscal transparency. However, weak political environments and the ability of actors to implement these provisions will continue to be challenging. Similarly, corruption questions the efficacy of accountability measures. The establishment of framework agreements with pre-approved suppliers, validation of goods and services, publication of expense reports, and COVID-19-specific audits should continue to be implemented until the pandemic is over.

**Table 3: Framework for Discussing the Response of PFM Systems to COVID-19**

| Legal and Institutional Foundations | Budget Formulation & Funding | Ensuring Budget Implementation | Financial Management Controls |
|---|---|---|---|
| Did legislation and procedures about specific budgetary steps in the context of crises, outline when these steps should be taken, and who is responsible? If not, what was done?<br><br>Were there institutional mechanisms in place to execute the financing of crises by the legal and regulatory framework? If not, what was done? | Was there any planning for the crisis?<br><br>What funding sources did governments use for crisis response?<br><br>What were the ways to supplement and/or reallocate approved appropriations across and within the budgets of government MDAs in response to the crisis?<br><br>Did the budget frameworks allow flexibility to redeploy expenditure across budget lines? | How did government systems adapt to ensure business continuity? Was there flexibility in the system?<br><br>How was the emergency procurement managed?<br><br>How was cash managed by the government to ensure business continuity? | Were there sufficient expenditure controls and supervision? If not, what was done?<br><br>Were practices instituted for tracking interim and ex-post verification of financial transactions if they did not exist?<br><br>Was reporting and accounting done promptly?<br><br>Was there adequate record keeping for proper monitoring and audit? This includes legislative oversight, SAIs, and external audits. |

4 World Bank. (2019). Disaster response: A public financial management review toolkit. https://www.gfdrr.org/sites/default/files/publication/disaster-response-a-public-financial-management-review-toolkit.pdf

## 4.2 Climate Change and the PFM Response

In response to the growing urgency to fight climate change, the global policy objective to mainstream climate change into public finances has witnessed innovations such as Green Budgeting and budget tagging for the climate. Also termed 'green PFM', it adapts existing PFM practices to support climate-sensitive policies. With the cross-cutting nature of climate change and wider environmental concerns, green PFM can be a key enabler of an integrated government strategy to combat climate change.

The urgent nature of the threats, their potential impact on the macroeconomic and macro-fiscal outlooks and the scope of the required policy changes, make policies to fight climate change and increase resilience one of the biggest challenges of our times. The recovery from the COVID-19 pandemic could represent an important opportunity in the global response to climate change. While the sharp economic slowdown during the pandemic is expected to have had only a small, temporary positive effect on greenhouse gas (GHG) emissions, how countries tackle the post-COVID-19 recovery— through infrastructure investment in particular – will shape the environment and the climate in the longer run (IMF 2020a).

The interplay of climate finance with domestically raised public funds mirrors the longer experience of channelling official development assistance into national systems. Public finance for climate change can use either government or non-government systems. A key question facing both providers and recipients of climate finance is under what circumstances should funds go through government systems and when should extra-budgetary arrangements be used?

The challenges facing PFM systems are well known, and these will apply to resourcing climate change actions. However, the nature of climate change heightens some of these challenges. There is limited guidance (for example, through budget circulars) on how to incorporate climate change considerations into national budget planning. This implies that greater involvement by ministries of finance is necessary if climate change policies are to be well reflected in the national budget.

Relevant PFM reforms include extending the perspective of the public finances beyond the annual budget cycle, by developing a medium-term expenditure framework. This provides greater scope for climate change to be recognised as a new policy priority that needs additional funding. Climate change also places a heightened premium on the reliability of funding, especially for public service delivery (for example, through local government), as many climate change programs are investment-orientated.

Climate change has no strong institutional base in the government administration of most countries. Thus budget tracking using the administrative classification of Ministries will not allow climate change spending to be readily identified and its performance assessed. The tracking of climate change expenditures therefore depends, in part, on programme-based budgeting reforms with the identification of spending by outputs and strategic objectives. Even with such reforms, the ability to identify climate change-relevant actions is constrained by imprecision over what to include. A national consensus needs to be reached on what constitutes climate finance.

Two much discussed and prominent themes related to climate finance and PFM are national climate funds and direct access to multilateral public funds. National climate funds are a pragmatic attempt to 'fast track' the delivery of climate finance by using an extra-budgetary fund – where national PFM systems are weak. The ability to have direct access to multilateral public funds provides opportunities to invest in strengthening national capacities and ownership over the financial resources available to help countries respond to climate change-related development challenges. This raises questions that PFM processes in the region must consider:

**a.** How well do public expenditure reviews in the region identify climate finance and what are the main challenges that this type of analysis must contend with?

**b.** What does it take to shift programmatic forms of funding that can support the recurrent costs of public institutions and their response to climate change?

**c.** What are the key barriers to improving the accountability of climate change-related public expenditure?

A response to some of these critical questions will help countries in the region to mainstream climate change into the budget process and to inform resource allocation.

# 05 RECOMMENDATIONS AND CONCLUSIONS

## 5.1 Reporting

Diagnostic assessments and monitoring of PFM systems have been common – often through public expenditure, financial accountability assessments and public expenditure reviews. Identifying and measuring short-term progress in PFM reform through the design and monitoring framework offers an important indication of whether the outcomes expected by the programme's completion are likely to be achieved. A results framework allowing for the success of the programme to be judged over the longer-term, with interim outcomes confirming that the long-term outcomes are likely to be met, will improve performance measurability. This will require relevant and measurable performance indicators, such as on fiscal costs and the quality of the service delivery, which can measure whether the programme led to efficient service delivery.

## 5.2 PFM Processes

Most of the countries exhibited scope to enhance budget execution by focusing on PFM good practices if backed by political will. The efficacy of audits and legislative scrutiny can also be improved. Regardless of the circumstances that dilute or circumvent standard control procedures to expedite emergency spending, country authorities must ensure that the audit trail is maintained and reasons for non-compliance with standard procedures recorded. Any extraordinary PFM procedures implemented to manage the COVID-19 pandemic must have sunset clauses that allow reversion to normal controls when the region exits the pandemic. Without robust PFM, including mechanisms to hold governments accountable, an increased need to spend may increase the risk of corruption.

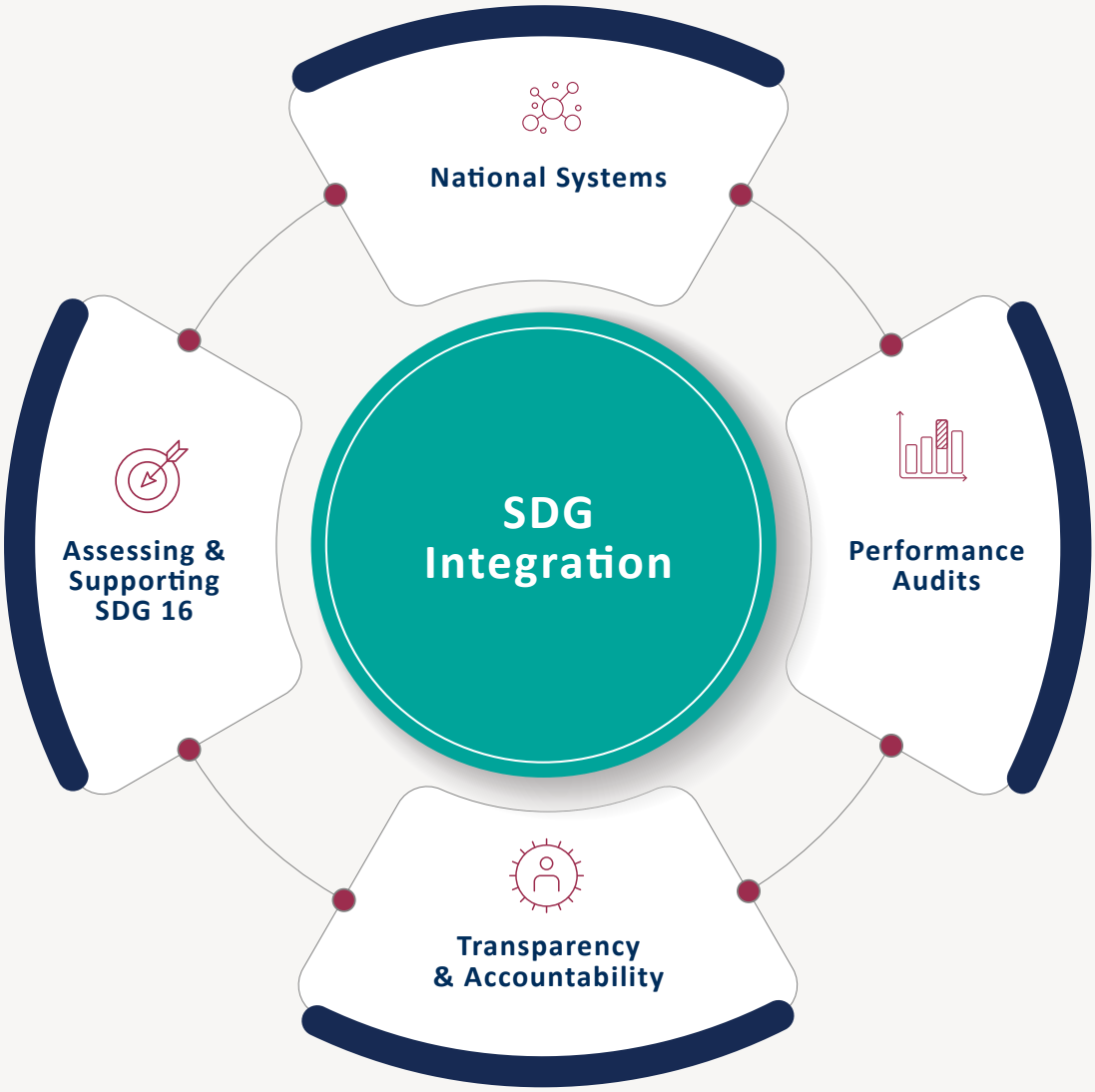
Fiscal strains during the crisis have often revealed underlying structural vulnerabilities, including those in the PFM architecture, that must be addressed for the immediate crisis response and sustained, long-term recovery. Countries with strong PFM systems have been more effective in targeting resources, re-orienting expenditures, and ensuring greater accountability in the use of resources.

## 5.3 SDG Integration

In 2015, Heads of State and Government adopted the Resolution Transforming Our World: Agenda 2030 for Sustainable Development, which included 17 goals, further broken down into 169 targets. According to then UN Secretary-General Ban Ki-Moon, "The 17 SDGs are our shared vision of humanity and a social contract between the world's leaders and the people. SDGs function as a list of things to do on behalf of people and the planet, as a plan for success".

SAIs can integrate the SDGs in four different ways (see Figure 5). SDGs require public services and infrastructure which take up a significant amount of resources. Therefore, a sound PFM system is fundamental for implementing SDGs.

**Figure 5: SDG Integration**



# ANNEXES: COUNTRY BACKGROUND INFORMATION

## Angola

### Country Profile

As of 2020, Angola had an estimated population of 32 million. With an estimated per capita GDP current price of US$2,200, Angola depends heavily on oil, although there are ongoing efforts to further diversify the economy.

### Economic Situation

Angola's economy has been hit hard by a triple, COVID-19-induced external shock. The shock led to economic and health crises, compounded by the decline in oil prices because of Angola's dependence on oil exports. Real GDP growth over the last two years has been negative, with inflation close to 17% and trending upwards.[5] Restricted oil production and lower oil prices are expected to continue to weigh on oil exports, putting pressure on economic activity, the current account, international reserves, and the exchange rate, while also contributing to an elevated debt burden.

In response, the authorities adopted decisive measures to lessen the impact of the shock, and they remain strongly committed to the programme, including the fight against corruption. On the fiscal front, the National Assembly adopted a conservative supplementary budget, which includes non-oil revenue measures and compression of non-essential expenditure, while creating space for essential spending on health and the social safety net. In monetary terms, the central bank adopted several measures to ease liquidity and credit constraints to help the private sector cope with the crises.

### Main Taxes

As a percentage of GDP (2018), oil revenues comprised 14% and non-oil revenues 6,3%.

### Institutional Framework

The Administração Geral Tributária (AGT), the General Tax Administration, is the principal revenue authority. Its mission is: propose and execute government tax policy and ensure full compliance; administer taxes, customs duties and other taxes; and study, promote, coordinate, execute and evaluate tax policy programmes, measures and actions related to the organisation, management and improvement of the tax system. It is a semi-autonomous authority under the Ministry of Finance.

Recent PFM reforms include the draft Fiscal Responsibility Law (FRL) which defines the fiscal policy framework, including a fiscal rule. In line with the recommendations from the Public Investment Management Assessment completed in December 2019, the authorities will publish initial project appraisal reports for all projects above Kz 10 billion (about US$17 million) undertaken from January 2021 onward. The authorities have continued to improve the efficiency and transparency of the public procurement process. The Ministry of Finance is working on improving the portal where information on public procurement processes is made available.

5 IMF (2020).

# Botswana

## Country Profile

Botswana has an estimated population of just under 2,5 million. Botswana has an estimated per capita GDP current price of US$7,989 (2017).

## Economic Situation

Botswana's economy hinges on the diamond industry, tourism, and 'contact services'. Thus reduced demand and mobility due to COVID-19 adversely effected the economy. Domestic real growth is projected at -7.7% in 2020, with unemployment trending upwards at 24.5% in 2020, due to the lockdowns and other restrictions and reduced economic activity.6 Inflation fell to 1.9% in 2020, from 2.8% in 2019, as lower import prices, especially oil prices, more than offset higher prices for domestically produced goods and services.

Botswana entered the COVID-19 crisis with larger buffers than most countries, although significantly less than before. The country was contending with structural challenges, persistent negative external shocks and delays in adjustment that had caused a significant weakening of international reserves coverage and the fiscal position, amid high unemployment.

## Main Taxes

The main central government revenue sources are mineral revenue, customs and excise revenue, non-mineral income tax, VAT, BOB revenue, other revenue, and grants.

## Institutional Framework

For tax revenue administration, the Botswana Unified Revenue Services (BURS) was established to perform tax assessment and collection on behalf of the government. It also takes appropriate measures to counteract tax evasion, and to greatly improve taxpayer service.

The PFM Act was reviewed in 2011. The review separated the PFM policy from the Public Audit Act. Several agencies and/or units are responsible for ensuring that controls are adhered to and that appropriate actions are taken when overriding of controls is initiated. These are the Internal Audit Unit, the Auditor General, the Directorate of Corruption and Economic Crime, and the Parliamentary Oversight Committee (PAC).

Revenues are protected by the legal frameworks. All revenues are collected and posted to the Consolidated Fund unless expressed otherwise in the legal framework. Parliament has the legal authority to approve the drawdown of funds from the Consolidated Fund account.

# Cape (Cabo) Verde

## Country Profile

Located 500 km off the west coast of Africa, Cabo Verde is a 10-island archipelago. The population is about 483,628 (2021). Only 10% of the territory is classified as arable land and mineral resources are limited. The fragmentation of territory creates significant connectivity issues and challenges for service delivery, including issues relating to energy, water, education and health. Cabo Verde has seen significant economic progress since 1990, driven by the rapid development of tourism (20% of GDP), coupled with considerable social development because of strong social policies since the 1970s.

6 Ministry of Finance and Economic Development, February 2021.

### Economic Situation

Cabo Verde's macroeconomic situation has improved significantly in recent years, and the outlook is positive despite downside risks. Economic growth has been robust and is projected at 5% for 2019, while inflation is expected to remain low. The fiscal deficit has declined from 4.6% of GDP in 2015 to 2.8% of GDP in 2018, and is projected at 2.2% for 2019. Fiscal risks generated by loss-making state-owned enterprises (SOEs) are expected to subside, reflecting the impact of reforms put in place in 2018 and early 2019: the privatisation of the national airline, and additional SOE restructuring measures planned for 2019-20. The external position is projected to strengthen, with gross international reserves remaining above 5 months of prospective imports of goods and services. Cabo Verde's risk of external and overall debt distress is assessed as high.

Before the COVID-19 pandemic, Cabo Verde experienced robust economic growth driven by a thriving tourism sector and strong structural reforms. Between 2016 and 2019, growth averaged 4.7% (3.4% in per capita terms) supported by favourable global conditions coupled with strong structural reforms. Driven by the shutdown in the tourism sector, GDP contracted by 14.8% in 2020 (15.7% in per-capita terms) – one of the largest reductions in Africa. The country relies heavily on tourism, which represents 25% of GDP and it drives around 40% of overall economic activity.

### Main Taxes

The main revenue sources include VAT, income tax, non-tax, excise and customs duties.

### Institutional Framework

Not publicly available in English

## Ghana

### Country Profile

Ghana has a population of about 29.6 million (2018).

### Economic Situation

The pandemic severely affected economic activity. Growth slowed to 0.4% in 2020 from 6.5% in 2019, food prices spiked, and poverty increased. The fiscal deficit including energy and financial sector costs worsened to 15.2% of GDP, with a further 2.1% of GDP in additional spending financed through the accumulation of domestic arrears. Public debt rose to 79% of GDP. The current account deficit widened slightly to 3.1% of GDP as the decline in oil exports was partially offset by higher gold prices, resilient remittances, and weaker imports.

Ghana's rapid growth was halted by the COVID-19 pandemic, the March 2020 lockdown, and a sharp decline in commodity exports. The economy had grown at an average of 7% in 2017-19, before experiencing a sharp contraction in the second and third quarters of 2020. The economic slowdown had a considerable impact on households.

The overall fiscal deficit doubled to 15.2% in 2020. Public debt increased to 81.1% of GDP in 2020, placing Ghana at significant risk of debt distress. Growth firmed up further in the first and second quarters of 2021 despite a sharp contraction in mining and the pandemic's second wave.

### Main Taxes

The key central government revenues include import duties, import VAT, export duties, petroleum taxes and import excise taxes, personal income taxes, corporation taxes, stamp duties, gift taxes, capital gains taxes, rent taxes, mineral royalties, communications service taxes, as well as the domestic VAT and its counterpart the National Health Insurance Levy (NHIL).

### Institutional Framework

The Ghana Revenue Authority is a corporate body established to replace the Customs, Excise and Preventive Service; Internal Revenue Service; Value Added Tax Service; and the Revenue Agencies Governing Board Secretariat for the administration of taxes and customs duties. This represents a change in identity for the revenue agencies and combines the administration of taxes and customs duties in Ghana into an integrated and modernised revenue authority to achieve efficiency and effectiveness. The PFM-specific legislation is:

1. The Public Finance Management Act (PFMA) 2016.
2. The MDA Retentions Act, 2007 (Act 735).
3. The Earmarked Funds Capping and Realignment Act, April 2017.
4. Tax administrative specific legislation: Ghana Revenue Authority Act, 2009 (Act 791); Taxpayer Identification Numbering System Act, 2002 (Act 632); Internal Revenue (Registration of Business) Act, 2005; Internal Revenue Act, 2000 (Act 592) and amendments; Internal Revenue Regulations (Legislative Instrument [LI] 1675); the Value-Added Tax , 1998 (Act 546); Value-Added Tax Regulations, 1998 (LI 1646); the Revenue Administration Act, 2016; the Petroleum Revenue Management Act, 2011; the Excise Stamp Act, 2013; the Electronic Point of Sales Device (EPOS) Act; the Automatic Exchange of Information Act, March 2018; the Public Procurement Act (663), 2003, as amended by Act 914 of 2016; and the Energy Sector Levy Act, 2016.

## Kenya

### Country Profile

Kenya's natural landscape includes a coastal plain with sandy beaches, extensive semi-arid plateaux, fertile highlands and the dramatic Rift Valley. Kenya has a population of just under 49 million.

### Economic Situation

Kenya's economy was hard hit by COVID-19, severely affecting incomes and jobs. There was decreased domestic activity because of containment measures and behavioural responses and trade and travel disruption (affecting key foreign currency earners such as tourism and cut flowers). Real GDP contracted by 0.4% in H1 2020, compared to growth of 5.4% in H1 of 2019. This reflects a worse-than-anticipated Q2 GDP outturn (-5.7% y/y), mainly because of a sharp reduction of services sector output – especially education (-56.2% y/y). As a result, the economy is projected to contract by 1.0–1.5% in 2020.7

### Main Taxes

The main revenue sources include import duty, excise duty, PAYE, VAT, other taxes, investment revenue, and traffic revenue.

### Institutional Framework

The National Treasury is in charge of the main PFM functions: budgeting, budget execution, most internal controls, accounting, and reporting. The sector ministries submit their draft budgets to NT, which compiles the national government budget and Medium Term Expenditure Framework for the next year. The sector ministries execute their approved budgets and compile their budget performance reports and annual accounts under the guidance of the National Treasury.

The Kenyan Revenue Authority is responsible for collecting revenue on behalf of the government, focusing on assessment, collection, administration and enforcement of laws relating to revenue. Legislation related to PFM includes:

7 Kenya-Economic-Update-Navigating-the-Pandemic, World Bank (2020).

- The Public Finance Management Act (PFMA), 2012.
- The Public Procurement and Asset Disposal Act (PPADA), 24 December 2015.
- The Public Audit Act, December 2015.
- Revenue administration legislation: the Personal Income Tax Act (September 2014); the VAT Act, 2013; the Excise Tax Act, 2013; and the Tax Procedures Act (December 2015).

## Mozambique

### Country Profile

About two-thirds of Mozambique's population of more than 31 million (2020) live and work in rural areas. The country is strategically located. Four of the six countries it borders are landlocked and depend on Mozambique as a conduit to global markets.

### Economic Situation

The economy registered its first contraction in 2020 in nearly three decades, but growth is expected to rebound, reaching about 4% by 2022. According to the World Bank,8 the country's Real GDP is estimated to have declined by 1.3% in 2020, compared to a pre-COVID-19 estimate of 4.3%, as aggregate demand fell and lockdown measures necessary to contain the virus disrupted supply chains.

### Main Taxes

Revenue consists of taxes, social contributions, grants receivable, and other revenue.

### Institutional Framework

The Autoridade Tributária de Moçambique (AT), or Mozambican Tax Authority, is a department under the direct control of the Ministry of Finance.

## Rwanda

### Country Profile

Rwanda has an estimated population of 12.5 million (2018).

### Economic Situation

Rwanda continues to grapple with fallout from the COVID-19 pandemic resulting in subdued global demand and lower export prices. This significantly weakened trade, tourism receipts, remittances, and foreign direct investment (FDI) in 2020. Real GDP contracted by 4.4% year-on-year in the first half of 2020, but there was recovery following the end of the full lockdown in the second half of the year. Real GDP growth is expected to be slightly negative at -0.2% in 2020 and is projected to rebound to 5.7% in 2021 – albeit below the potential. Headline inflation declined to 7.2% y/y in

October 2021, driven by a decrease in public transport fares and moderation of food inflation.

### Main Taxes

The main revenue sources include VAT, income tax, non-tax, excise, and customs duties.

8 World Bank (2021). Mozambique Economic Update: Growth Expected to Rebound by 2022

### Institutional Framework

Rwanda aspires to Middle Income Country status by 2035 and High-Income Country status by 2050, through a series of seven-year National Strategies for Transformation (NST1). These are underpinned by sectoral strategies focused on achieving SDGs. The NST1 came after two five-year Economic Development and Poverty Reduction Strategies – EDPRS (2008-12) and EDPRS-2 (2013-18) – under which Rwanda experienced robust economic and social performance.

The Ministry of Finance and Economic Planning (MINECOFIN) leads the national development planning and delivery process by coordinating the national planning and budgeting functions to ensure sector and district plans are aligned to NST1 priorities. Some of the legislative instruments are highlighted below:

- The Organic Law on State Finances and Property (OBL), 2013.
- Ministerial Order on the OBL (Financial Regulations).
- Law on Public Procurement.

## Zambia

### Country Profile

Zambia is a large, landlocked, resource-rich country with sparsely populated land in central Southern Africa. It shares its border with eight countries that serve as an expanded market for its goods. Its population, much of it urban, is estimated at 17.9 million and is growing rapidly at 2.8% per year.

### Economic Situation

The COVID-19 pandemic contracted an economy that was already weakened by recent persistent droughts, falling copper prices, and unsustainable fiscal policies. Economic activity through the third quarter of 2020 contracted by 1.7%, as declines in industry and services outweighed growth in agriculture. Mining and services suffered from lower global demand and social distancing measures earlier in the year, respectively. Inflation was high throughout 2020, averaging 15.7%, and reached 22.2% in February 2021. A gradual recovery is expected, with GDP growth projected at 1.8% in 2021, with an average of 2.8% over 2021-23.

### Main Taxes

Main revenue sources are corporate income tax, personal income tax, VAT, excise duties, and other taxes.

### Institutional Framework

Public financial management reforms are presently concentrated at central government level in Zambia – in the Ministry of Finance. However, they are spread through line ministries, accountability agencies (such as the Office of the Auditor-General), and the National Assembly. The existing PFM-related laws and regulations are the:

- Public Finance Act 2004 and Financial Regulations 2006.
- Public Procurement Act (PPA) 2008 and regulations.
- National Payments System Act 2007.
- Loans and Guarantees (Authorization) Act Cap 366.
- Public Audit Act 1980.

# Zimbabwe

## Country Profile

Zimbabwe is a landlocked country in southern Africa. It has an estimated population of 13 million. Economic activity is underpinned by agriculture and mining.

## Economic Situation

The economy contracted in 2019 and inflation spiked sharply, so increasing poverty. In 2020, GDP is estimated to have contracted by 8% for the second year in a row, as COVID-19 halted economic recovery.

## Main Taxes

Collected taxes include customs duties, value-added taxes, excise duties, income taxes, pay-as-you-earn taxes, mining royalties, capital gains taxes, and others.

## Institutional Framework

The Zimbabwe Revenue Authority, under the Revenue Authority Act and other subsidiary legislation, is responsible for assessing, collecting and accounting for revenue on behalf of Zimbabwe through the Ministry of Finance. The existing PFM-related laws and regulations are the:

- PFM Act 2009.
- Audit Office Act 2009.
- Public Procurement and Disposal of Public Assets Act 2016.
- Debt Management Act 2015.
- Appropriation Act (annual).
- Treasury Instructions.
- Income Tax Act.
- Value Added Tax Act.
- Customs and Excise Act.
- Urban Councils Act and the Rural District Councils Act.
- Furthermore, state enterprises and parastatals are governed by their establishing Acts or the Companies Act – whichever is applicable.

## CONTACT INFO

+27 (0)10 286 0104

info@afrosai-e.org.za

## FIND US

3rd Floor, Pegasus 2 Building
Menlyn Maine
C/O January Masilela Av and Amarand Av
Waterkloof Glen Ext 2
Pretoria
South Africa
0181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