ALSF SOVEREIGN DEBT KNOWLEDGE PRODUCT AND CAPACITY BUILDING PROJECT: FISCAL POLICY AND MANAGEMENT DEBT GUIDE

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TABLE OF CONTENTS

	Acronyms	5
	Executive summary	6
I.	**Introduction**	8
	Fiscal management framework	8
	Fiscal management in Africa	10
	Political economy, institutional arrangements, and legal frameworks	10
	Emerging good practices	12
II.	**Government expenditure**	17
	Budget policy, evolution and tracking	17
	Budget as a policy instrument	17
	Evolution of budgeting methodologies	17
	Medium term expenditure framework (mtef)	18
	Budget execution and reporting	19
	Cash management	19
	Payroll management	20
	Procurement management	21
	Public investment management	21
	Managing fiscal risk	22
	Scrutiny and Accountability Systems	22
III.	**Government revenue**	24
	Domestic resource mobilization (DRM)	24
	The broad scope of DRM	24
	Tax design, policy, forecasting and administration	25
	Overseas development assistance (ODA)	27
	Sdg financing	28
	International tax issues	29
	Debt management	30
	Subnational public finances and intergovernmental relations	33

IV.	**Assessment tools**	**35**
	Revenue administration	**35**
	Revenue administration fiscal information tool	**35**
	Tax administration diagnostic assessment tool (tadat)	**35**
	Revenue administration gap analysis program (ra-gap)	**35**
	Fiscal analysis and management	**35**
	Public expenditure and accountability assessment (PEAA)	**35**
	Fiscal analysis of resource industries (FARI)	**36**
	Fiscal transparency evaluations (fte)	**36**
	Public-private partnership fiscal risk assessment model (p-fram)	**36**
	Public investment management assessment (pima)	**36**
	Glossary	**38**
V.	**References and further reading**	**40**

Acronyms	Meaning Relevant
AI	Artificial Intelligence
DAC	Development Assistance Committee
DEMPA	Debt Management Performance Assessment
DFA	Development Finance Assessment
DRC	Democratic Republic of Congo
DRM	Domestic Resource Mobilization
DSA	Debt Sustainability Analysis
DSS	Debt Sustainability Strategy
EU	European Union
FARI	Fiscal Analysis of Resource Industries
FDI	Foreign Direct Investment
FMIS	Financial Management Information System
FTE	Fiscal Transparency Evaluation
GDP	Gross Domestic Product
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
INFF	Integrated Financing Framework
INFS	Integrated National Financing Strategy
IPSAS	International Public Sector Accounting Standards
ISORA	International Survey on Revenue Administration
LAC	Latin America and the Caribbean
LIC DSF	Low-Income Country Debt Sustainability Framework
MNEs	Multi-National Enterprises
MTEF	Medium-Term Expenditure Framework
MTRS	Medium-Term Revenue Strategy
ODA	Overseas Development Assistance
OECD	Organization for Economic Cooperation and Development
P-FRAM	Public-Private Partnership Fiscal Risk Assessment Model
PEA	Political Economy Analysis
PEAA	Public Expenditure and Accountability Assessment
PEFA	Public Expenditure and Financial Accountability
PDIA	Problem driven, iterative adaptive model
PFM	Public Financial Management
PIMA	Public Investment Management Assessment
PPPs	Private Public Partnerships
RA-GAP	Revenue Administration Gap Analysis Program
ROC	Republic of Congo
SAI	Supreme Audit Institutions
SDGs	Sustainable Development Goals
TADAT	Tax Administration Diagnostic Assessment Tool
TEs	Tax Expenditures

Executive Summary

ALSF Sovereign Debt Knowledge Product and Capacity Building Project:

Fiscal Policy and Management Debt Guide

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For the Africa Legal Support Facility (ALSF)

Effective fiscal management is essential in achieving macroeconomic goals, financial stability, and successful implementation of fiscal policy. Fiscal management involves deciding on taxation, borrowing, expenditure allocations, and debt management. Public Financial Management (PFM), fiscal policy objectives, and macroeconomic outcomes are all interlinked. PFM encompasses activities like procurement, auditing, and financial reporting.

In Africa, fiscal management practices vary due to weak institutional capacity, political obstacles, limited resources, high debt levels and political will. However, reforms are being pursued. Political economy, institutional arrangements, and legal frameworks shape fiscal management systems. Public sector reform has employed problem-driven and iterative approaches to address the underlying causes of issues, comprehend the context and institutions, and consider the incentives and dynamics of stakeholders.

Fiscal rules and the legal framework are crucial in promoting fiscal discipline and macroeconomic stability. African countries have adopted fiscal rules related to deficits, public debt, balanced budgets, expenditure control, and public investment. However, enforcing these rules and establishing independent fiscal watchdogs remain challenges. Emerging good practices in fiscal management include using digital tools and platforms to improve efficiency, transparency, and accountability.

Budgets are crucial government policy instruments, but they often face challenges due to the disconnect between resource allocation decisions and public expectations. Budget systems should align with policy decision-making cycles, focus on long-term perspectives, and emphasize results and policy delivery. Performance-based approaches like program budgeting promote efficiency and effectiveness in public spending. Gender-responsive and climate-responsive budgeting has been introduced in African countries to address gender equality and climate change considerations.

Medium-Term Expenditure Frameworks (MTEFs) are widely used in Africa to align strategic priorities with available resources over a medium-term period. They facilitate fiscal discipline, transparency, stability, foreign investment, and economic growth.

Budget execution and reporting involve the actual spending of the government's budget and the associated administrative responsibilities. Proper execution procedures are essential for efficient resource utilization, and cash management plays a crucial role in maintaining liquidity for timely

payments. Payroll management and procurement management are significant aspects of budget execution, with payroll costs and public procurement requiring careful controls and transparency. Additionally, public investment management and the management of fiscal risks are important considerations to ensure efficient use of resources and mitigate potential variability in revenues and expenditures.

Domestic Resource Mobilization (DRM) is crucial for governments to raise funds and meet the needs of their people. African countries face challenges in mobilizing resources for the Sustainable Development Goals (SDGs). Tax reforms and transparent systems are necessary to increase government revenue. Africa has a lower tax-to-GDP ratio than other regions, indicating the need for tax reforms and addressing costly and ineffective tax expenditures. Tax expenditures (TEs) in Africa are often costly and ineffective, contributing to missed opportunities for redirecting incentives. Remittances have remained strong, but Overseas Development Assistance (ODA) is decreasing, making DRM the most viable option for Africa. Significant reforms are needed to increase government revenue through taxation and other non-debt sources while ensuring fair and transparent systems.

A Medium-Term Revenue Strategy (MTRS), digitalization, and innovative financing mechanisms such as public-private partnerships and climate finance are important for strengthening tax policy, expanding the tax base, and bridging the resource gap.

Revenue forecasting involves estimating the revenue a government is expected to collect in a financial year. It relies on historical data, and macroeconomic forecasts considering various factors such as tax policy, economic growth rate, and inflation rate. Revenue forecasting methods have evolved, with the advent of Artificial Intelligence (AI) and machine learning being applied in some countries to model and predict future revenue based on historical datasets.

Revenue administration refers to the work done by specific government agencies in enforcing tax laws and collecting tax revenue. The organizational structure of these agencies is crucial for their success. Function-based organizations are often considered the best option as they support reform and modernization programs. Organizational arrangements for revenue administrative bodies vary, ranging from a single directorate at the Ministry of Finance to integrated revenue authorities with functional integration of customs and tax.

The European Commission has provided guidance on desirable features for national revenue authorities, including autonomy, clear responsibilities, adequate resources, and accountability. Effective revenue administration relies on strong governance, coordination, and stakeholder collaboration, ensuring that these bodies can efficiently and impartially enforce tax laws and collect revenue to fund public services.For a more detailed assessment of governance and transparency matters, please see the ALSF Debt
Guide on Governance and Transparency.

In summary, effective fiscal management and PFM are essential for achieving sustainable development, accountability, transparency, and addressing economic challenges in Africa. Budgets should align with policy cycles, emphasize results, and consider gender equality and climate change. MTEFs facilitate strategic planning and resource allocation. Proper execution procedures, cash management, payroll management, procurement management, public investment management, and fiscal risk management ensure the successful implementation of fiscal and macroeconomic objectives. DRM, tax reforms, revenue forecasting, and effective revenue administration are crucial for mobilizing resources and funding public services.

In the opening section of this guide, we define fiscal management and its political economy. In the second section, we examine the government spending component of fiscal management. Section three covers revenue management. Lastly, we present a range of diagnostic tools and performance assessment methods to evaluate areas such as transparency, accountability, tax administration, investment and public private partnerships.

I. INTRODUCTION

1.1 FISCAL MANAGEMENT FRAMEWORK:

The management of public resources – where the public sector comprises the central government, local governments, and public corporations – is one of the most important functions of government. It is critically important, therefore, to have a clear understanding of the various terms, frameworks, and good practices that are commonly used.

Fiscal policy is a macroeconomic tool that involves the use of fiscal instruments to influence the economy's overall level of output, employment, and prices. Public finance is the study of how governments raise and spend money to finance public goods and services, while public financial management is the set of processes and systems used by governments to manage their financial resources effectively.

This guide will focus on fiscal management, which refers specifically to the revenue and expenditure decisions made by a government to achieve its macroeconomic goals. Fiscal management involves decisions on taxation, borrowing, expenditure allocations, and debt management, among other things, over a given period, usually defined as a fiscal year (that can be the calendar year or another 12-month period).

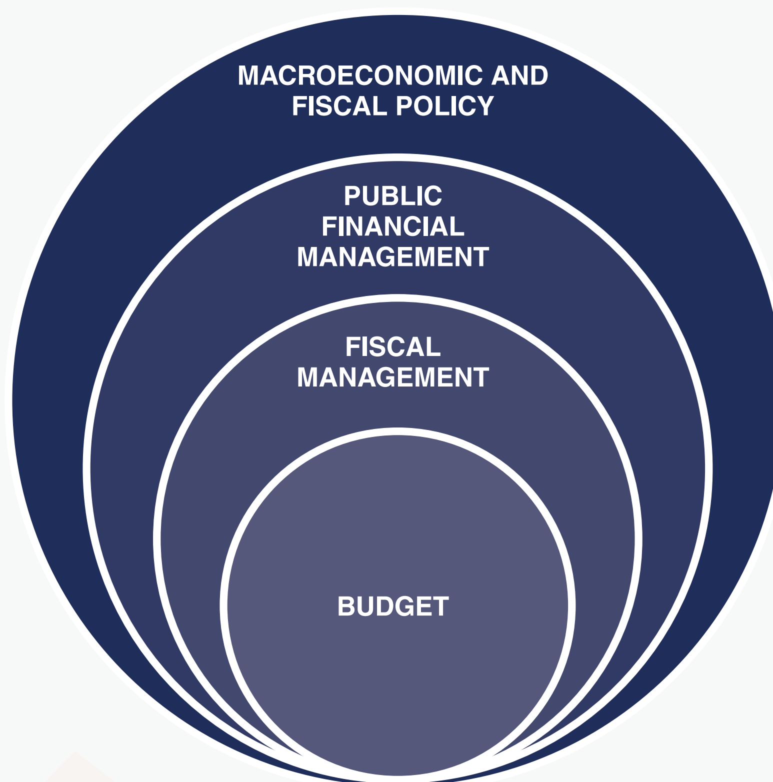
FISCAL MANAGEMENT REFERS SPECIFICALLY TO THE REVENUE AND EXPENDITURE DECISIONS MADE BY A GOVERNMENT TO ACHIEVE ITS MACROECONOMIC GOALS.

Effective fiscal management requires making informed decisions about allocating resources to maximize their effectiveness and efficiency. Good fiscal management can help to ensure financial stability, reduce risk, and promote long-term financial success.

Fiscal management is a component of a broader function of government: Public Financial Management (PFM)[1]. PFM encompasses a wide range of activities beyond the revenue and expenditure decisions related to fiscal management, such as procurement, auditing, and financial reporting. Overall, PFM is an essential aspect of public governance and the effective use of public resources. It is crucial in ensuring accountability, transparency, and sustainable development of economies and societies.

1 The International Monetary Fund (IMF) defines public financial management as "the set of laws, rules, systems, and processes used by sovereign nations (and sub-national governments), to mobilize revenue, allocate public funds, undertake public spending, account for funds, and audit results" (Source: IMF, "Public Financial Management"). The World Bank defines public financial management as "the systems, processes, and institutions that govern the generation, allocation, and utilization of public resources" (Source: World Bank, "Public Financial Management"). The Organization for Economic Co-operation and Development (OECD) defines public financial management as "the way in which public resources are collected, allocated, spent, and accounted for, and the institutions responsible for these processes" (Source: OECD, "Public Financial Management").

Figure 1: Fiscal Management Framework



Source: Potomac Group

PFM is often concerned with achieving fiscal discipline and efficient government spending, but it is important to note that PFM and fiscal policy are not interchangeable terms. PFM focuses more on managing government expenditures rather than taxation (taxation being central to fiscal policy). While fiscal policy is about the choice of instruments used to achieve its objectives, PFM is more about the practical arrangements that must be put in place and the capacity that has to be developed to ensure that fiscal instruments are used effectively. Therefore, PFM plays a crucial role in making fiscal policy work effectively.

Macro-fiscal analysis and PFM interact within the macroeconomic and fiscal policy context. Macro-fiscal topics include the macroeconomic consequences of fiscal deficits, debt sustainability, fiscal targeting and adjustment, countercyclical fiscal policy and approaches to promoting fiscal discipline. A common practice in fiscal policy is to use fiscal aggregates as targets. These aggregates are: expenditure, revenue, the fiscal balance, debt, to address market failures, inequality and output variations. Taxation provides financial resources to pay for government spending. The design of spending and taxation policies reflects their use as fiscal instruments (examples of other fiscal instruments are to interventions like privatization and fiscal decentralization). However, effective macro-fiscal targeting and successful deployment of fiscal policy instruments also require good fiscal management instruments.

The link between PFM, fiscal management instruments, fiscal policy objectives, and macroeconomic outcomes is crucial. Inadequate PFM arrangements and capacity can compromise even the most sophisticated fiscal policy and management framework. Therefore, PFM practitioners must understand this link. It is important to note that PFM is also constrained by and must adapt to macroeconomic developments.

Table 1 lists some fiscal management instruments, their corresponding fiscal policy objectives, and a few of their PFM requirements. Various fiscal management instruments, their corresponding fiscal policy objectives, and the PFM requirements must work well together. Fiscal policy asks questions on what to do, such as what tax policy to change or should a country reduce its fiscal deficit. PFM is concerned with how to conduct the fiscal policy, and therefore focuses on questions such as how to collect value-added taxes more efficiently, or how to make public investment more efficient. By integrating PFM practices, governments can enhance revenue collection, budget allocation, and expenditure management, leading to improved fiscal discipline, accountability, and the ability to achieve desired economic outcomes.

Table 1: Links between fiscal policy and Public Financial Management

Fiscal Policy Objectives	Fiscal Management Instruments	PFM requirements
Aggregate fiscal discipline and macroeconomic stability	Medium-term fiscal framework	Revenue forecasting capacity; comprehensive budget; and internal controls
	Fiscal rules	Accounting and reporting standards; and effective monitoring
	Fiscal transparency	Annual fiscal policy statement; citizen's guide to the budget; and timely fiscal reporting
	Fiscal risk control	External audit; and disclosure of non-debt liabilities
Spending efficiency and sustainable growth	Medium-term budget framework	Top-down and bottom-up budgeting process; and unified current and capital budget
	Public investment planning	Project appraisal capacity; public-private partnership guidelines; and asset management strategy
		Top-down and bottom-up budgeting process; and unified current and capital budget

Source: International Handbook of Public Financial Management, 2013

1.2 FISCAL MANAGEMENT IN AFRICA:

Fiscal management in Africa varies across countries and regions. Some African countries have strong fiscal management practices, while others face significant challenges. The political economy of the reforms in fiscal management in Africa is complex and multifaceted, involving various political, economic, and social factors.

On the one hand, there is often a strong political will to implement fiscal management reforms in Africa, driven by concerns about economic stability, development, and poverty reduction. Governments recognize that effective fiscal management is critical for achieving these goals. They may therefore be willing to undertake reforms even in the face of opposition or resistance from vested interests. There have been efforts in recent years to improve fiscal management in Africa. These have included initiatives to strengthen financial management systems, improve transparency and accountability, and enhance revenue collection and expenditure control. For example, the African Union established the African Peer Review Mechanism in 2003 to promote good governance practices, including fiscal management, among member countries – with mixed results. Many African countries have also implemented reforms aimed at improving their fiscal management practices and reducing corruption.

However, there are also significant political obstacles to fiscal management reforms in Africa. These can include resistance from the powerful elite who benefit from existing systems of corruption or patronage, as well as opposition from groups or political parties who may view reforms as threatening their interests or agendas. The political cycle also creates a turnover of some civil servants with technical capacity.

One of the major challenges for many African countries in implementing fiscal management reforms is the often-weak institutional capacity. This can include inadequate financial management systems, weak budgeting processes, and limited capacity for revenue collection and expenditure control.

Moreover, broader economic and social factors, such as limited resources, and ongoing conflicts or instability in some fragile states can constrain the effectiveness of fiscal management efforts.

In addition, some African countries have struggled with high levels of debt, which can limit their ability to invest in key areas such as infrastructure and social services. This can also make it difficult to manage fiscal resources effectively and sustainably.

Overall, while there are still challenges to be addressed, there are positive signs of progress in fiscal management in Africa. The success of fiscal management reforms in Africa depends on a range of political and economic factors, including the strength of political institutions and political will, the degree of transparency and accountability in government, the nature of domestic and international economic pressures, and the ability of civil society and other stakeholders to push for meaningful reforms.

1.3 POLITICAL ECONOMY, INSTITUTIONAL ARRANGEMENTS AND LEGAL FRAMEWORKS:

The term "political economy" is widely used in policy debates on fiscal management systems and their reform. Political economy emphasizes the importance of political factors and their interrelationship with economic phenomena. In budgeting, politics and economics are inherently intertwined as budgetary decisions are contingent on political factors.

From the late 1990s onwards, the donor community has widely acknowledged the significance of PFM as a developmental issue in low- and middle-income countries, including African states, owing to several factors. Firstly, stronger links between public expenditure and poverty reduction efforts became necessary. Secondly, as prospects for substantial funding increases from donors were limited, both donors and recipients acknowledged the importance of more efficient and effective use of aid. Thirdly, as donor agencies became more

aware of the concept of aid fungibility, there arose a growing need to monitor the PFM of developing countries, so that aid funds could generate additional development outcomes beyond general budget support. Finally, with increasing interest in using country systems for aid delivery spurred by the Paris Declaration on Aid Effectiveness in March 2005[2], the importance of reliable PFM systems in developing countries has also grown.

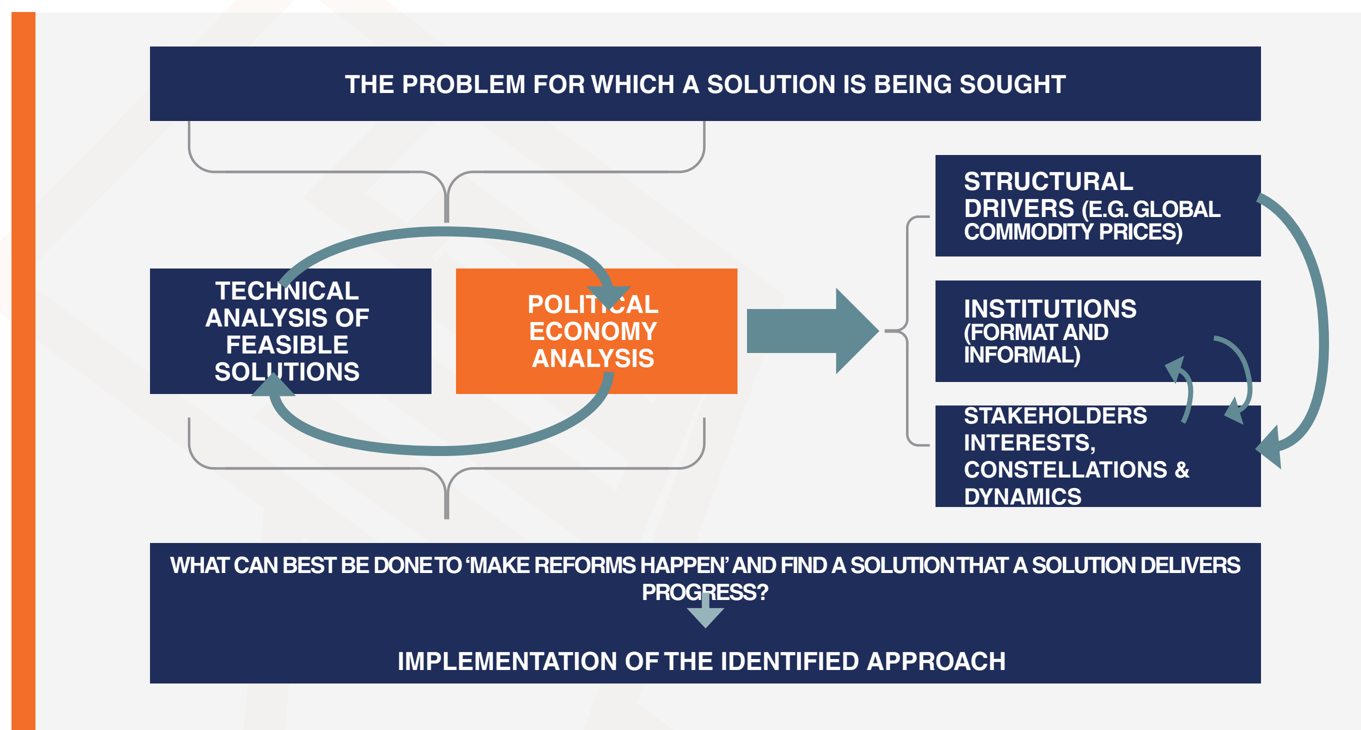
When slippages in PFM are considered a potential risk to the implementation of a donor project, one approach could be to focus on identifying potential risks and implementing risk control measures. However, it is crucial to understand that PFM-related issues are often just the surface level of much deeper problems. These issues are intertwined with each other, and it is therefore advisable to examine the underlying causes that can be systemic before concentrating on specific issues. Even if the PFM-related problems have been identified, it is important to evaluate whether they are systemic issues.

The assumption underlying PFM reforms in the 2000s was that if, for example, the technical design of a budget process was correct, the system would function effectively. However, attempts to transplant industrial country systems to developing economies by Bretton Woods institutions and others were typically slower and less successful than anticipated. It is necessary to scale down reform sequences to what is feasible within the local context, rather than adopting grandiose and complex "action plans" comprising numerous reform objectives and actions. The role of politics and politicians in the process of change is significant, and it is increasingly recognized that de facto changes in the behavior of decision-makers and officials responsible for executing the budget, collecting taxes, or issuing government securities may be challenging to achieve, compared to de jure changes in laws and regulations, which are relatively easier to pass.

Today, the significance of political economy factors in determining the progress of PFM reform is better understood. Building local capacity, finding leaders and champions of reform, building a consensus for reform among all stakeholders in the budget process, and actively managing the process of change are issues of equal or greater importance than the technical aspects of PFM system design. In this regard, Matt Andrews proposes a new approach, the "problem-driven, iterative adaptive" (PDIA) model.

The PDIA approach to public sector reform in general, and not limited to PFM, emphasizes the importance of identifying and solving specific problems within a system, rather than attempting to implement pre-designed solutions. The PDIA approach recognizes the complexity and context-specific nature of public sector reform and aims to build local capacity and ownership of the reform process. It is important as well to note that informal and patronage-based systems are also pervasive in African countries, in contrast to Western countries. As shown in **Figure 2**, the approach involves working closely with stakeholders to diagnose problems, experimenting with potential solutions flexibly and iteratively, and continuously adapting the approach based on ongoing learning and feedback.

Figure 2: The problem-driven framework



Source: Fritz, V., Levy, B., and Ort, R. (Eds.). (2014). Problem-driven political economy analysis: The World Bank's experience. World Bank Publications

"Doing Development Differently" and "Thinking and working politically" are various terms used for the integration of

2 *https://www.oecd.org/dac/effectiveness/parisdeclarationandaccraagendaforaction.htm*

Political Economy Analysis (PEA) in reform design. PEA is used to promote sensitive reforms in various areas, including power tariffs, agriculture subsidies, tax exemptions, social protection, and healthcare expenditure. However, there have been cases where a lack of PEA has compromised the design and implementation of reforms, leading to unintended consequences. Integrating PEA into reform design can help channel political energy towards development-compatible actions and maximize the impact of development funds. The challenge is that reform is a process that can take decades and that policy debates have moved faster than implementation.

In the past 20 years, toolkits have been developed to assess the strengths and weaknesses of PFM systems and decrease the transaction costs that arise from multiple donor agencies. The primary tools that have emerged include the Public Expenditure and Financial Accountability (PEFA) Program, introduced in 2005, and the Debt Management Performance Assessment (eEMPA), jointly developed by the World Bank and the IMF.

The legal framework for fiscal management in Africa includes tax laws, budget system laws, and local government finance laws, among others. Budget system laws provide rules for the annual budget and medium-term fiscal policy objectives. A well-designed budget system law specifies which budgetary processes are important, who is responsible for them, and when key budgetary steps should be taken.

Fiscal rules can be implemented to limit discretion and ensure consistency in fiscal policy and management. The purpose of these rules is to enhance consistency in policies, transparency, and accountability.

These rules are typically binding and can be either numerical or procedural. Numerical rules set specific targets or limits for fiscal indicators such as the budget deficit, public debt, or spending levels or revenue rules to prevent excessive tax burdens, while procedural rules establish guidelines for budget preparation, approval, and implementation processes.

In Africa, several countries have adopted fiscal rules in recent years as a way of promoting fiscal discipline and macroeconomic stability, preventing excessive borrowing, and ensuring the long-term sustainability of public finances. These fiscal rules are detailed in a fiscal responsibility law, or public finance management act. They can also be a set of fiscal rules within a monetary union like the West African Economic and Monetary Unio). Examples of the key fiscal rules of African countries include:

1. Fiscal deficit limit at no more than 3% or 5% of Gross Domestic Product (GDP) on an annual basis. This rule is intended to prevent excessive borrowing and ensure that member states do not accumulate unsustainable levels of debt.

2. Public debt limit at no more than 70% of GDP.

3. Balanced Budget Rule in the medium term where revenue and expenditure should balance out over a period of several years, ensuring the sustainability of public finances over the long term.

4. Expenditure control to ensure that it does not exceed their revenue.

5. Public Investment rule, such as an allocation of a minimum of 20% of their annual budget to public investment. This rule is intended to promote economic growth and development within the region by increasing investment in infrastructure and other key sectors.

To ensure their effectiveness, these rules need to be based on a robust legal foundation. It is also essential to have reliable and timely fiscal statistics. Implementing fiscal rules necessitates the establishment of independent fiscal watchdogs responsible for monitoring compliance and enforcing corrective measures for deviations.

The absence of an independent body to oversee adherence to fiscal rules is a concern, as is the lack of meaningful sanctions, which primarily depend on reputation and can only be effective with market discipline and significant political competition. The enforcement of these fiscal regulations is carried out by either the parliament, the commission of the monetary union, or fiscal councils. The resources allocated to fiscal councils are susceptible to political discretion, resulting in a cycle of inadequate budgetary safeguards.

1.4 EMERGING GOOD PRACTICES:

Recent advancements in(PF) systems indicate improvements in performance. Governments have introduced digital tools and platforms to enhance efficiency, transparency, and accountability in PFM. These include e-procurement, e-payment systems, online budget portals, and the broader Integrated Financial Management Information System (IFMIS). Utilizing these tools streamlines PFM processes, curbs corruption, and enhances public access to information.

Automation, particularly using IFMIS, significantly enhances fiscal decision monitoring and accountability throughout the PFM cycle. However, its success hinges on political commitment to transparency and accountability. Adopting automation varies across the continent, initially propelled by support from Bretton Woods Institutions. This support includes technical assistance, capacity-building, and reinforcing legal and regulatory frameworks, improving budget planning and execution, enhancing public oversight, and leveraging technology in PFM systems.

Automation comes in various forms, ranging from basic systems focusing on specific PFM cycle elements like budgeting to comprehensive systems covering the entire cycle. Countries like Rwanda, opting for customized solutions, retain the flexibility needed to advance into a paperless government-wide decision-making system.

African countries have invested significantly in digital solutions for fiscal management over the years. **Table 2** and **Figure 3** present a comprehensive snapshot of the progress and status of digital government transformation efforts across Africa in 2023. The Financial Management Information System (FMIS) and debt management have substantial implementation in 51 countries. The tax, customs, procurement, payroll, and

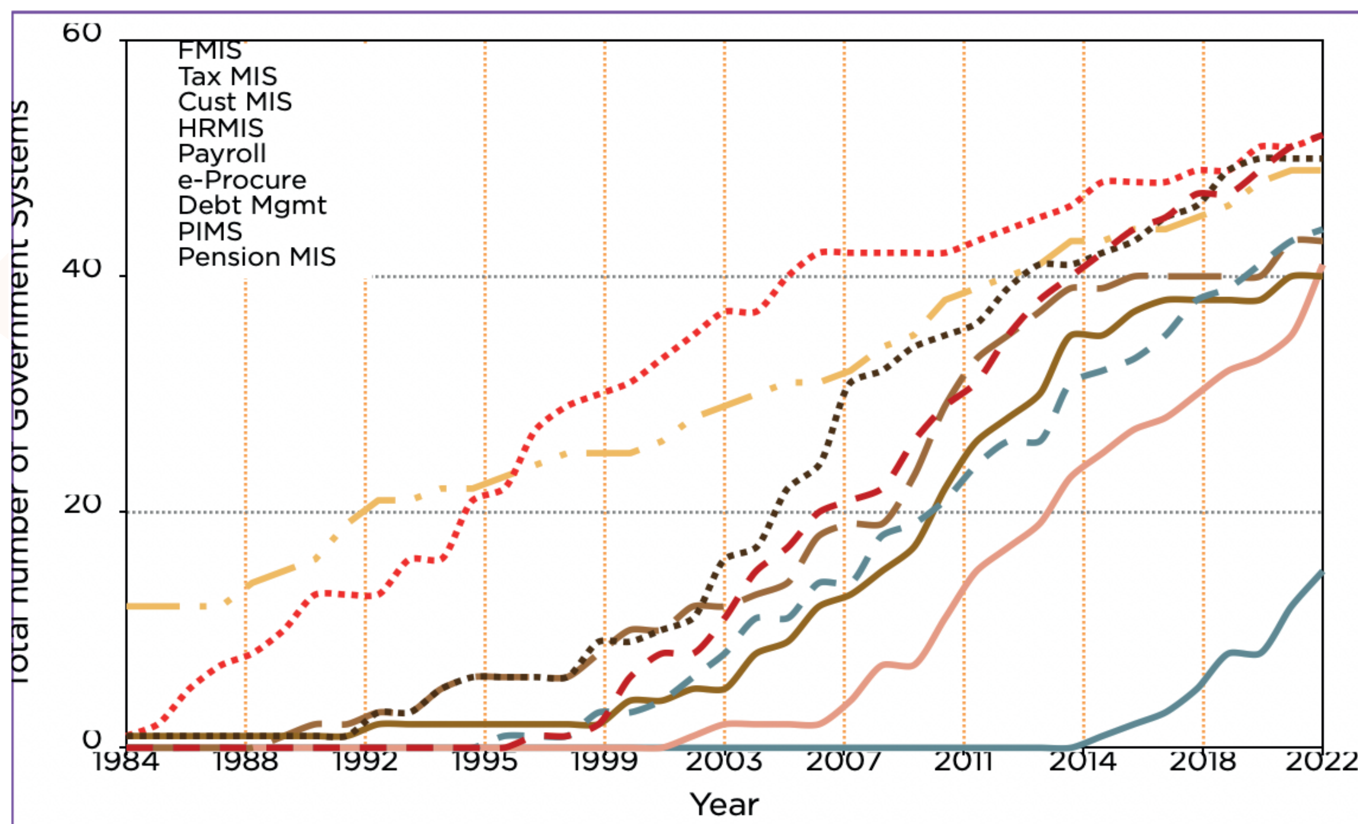
pension initiatives show notable progress, with 42 countries already having these systems in place. Treasury Single Account has been implemented in 22 countries across the continent. Although public investment and its returns are crucial, the adoption rate of the Public Investment Management System is relatively low, with only 20% of African countries like Angola, Benin, Cameroon, and Ghana having it in operation.

Table 2: Number of African countries having implemented key GovTech systems as of 2023

Selected indicator	# implemented	# in process of implementation	Comments
Financial Management Information System (FMIS)	51 (94%)	1	Not implemented by Equatorial Guinea and Eritrea.
Tax Management Information System	42 (78%)	4	Countries in process of implementation are Djibouti, Guinea, Guinea-Buissau and Somalia. Countries that do not have it include Comoros, ROC, Eritrea, Sudan and South Sudan.
e-Procurement Portal	41 (76%)	2	Implemented by countries such as Algeria, Angola, Benin, Botswana. Not implemented by 11 countries, including Central African Republic, Equatorial Guinea, Eritrea and Malawi.
Treasury Single Account	22 (41%)	21	Not implemented by 11 countries, including Chad, Comoros, DRC, ROC, and Gabon.
Public Investment Management System	11 (20%)	4	Implemented by Angola, Benin, Cabo Verde, Cameroon, Ghana, Mali, Mauritius, Morocco, Mozambique, Uganda and Zimbabwe.

Source: World Bank Group GovTech Maturity Index Data (2023)

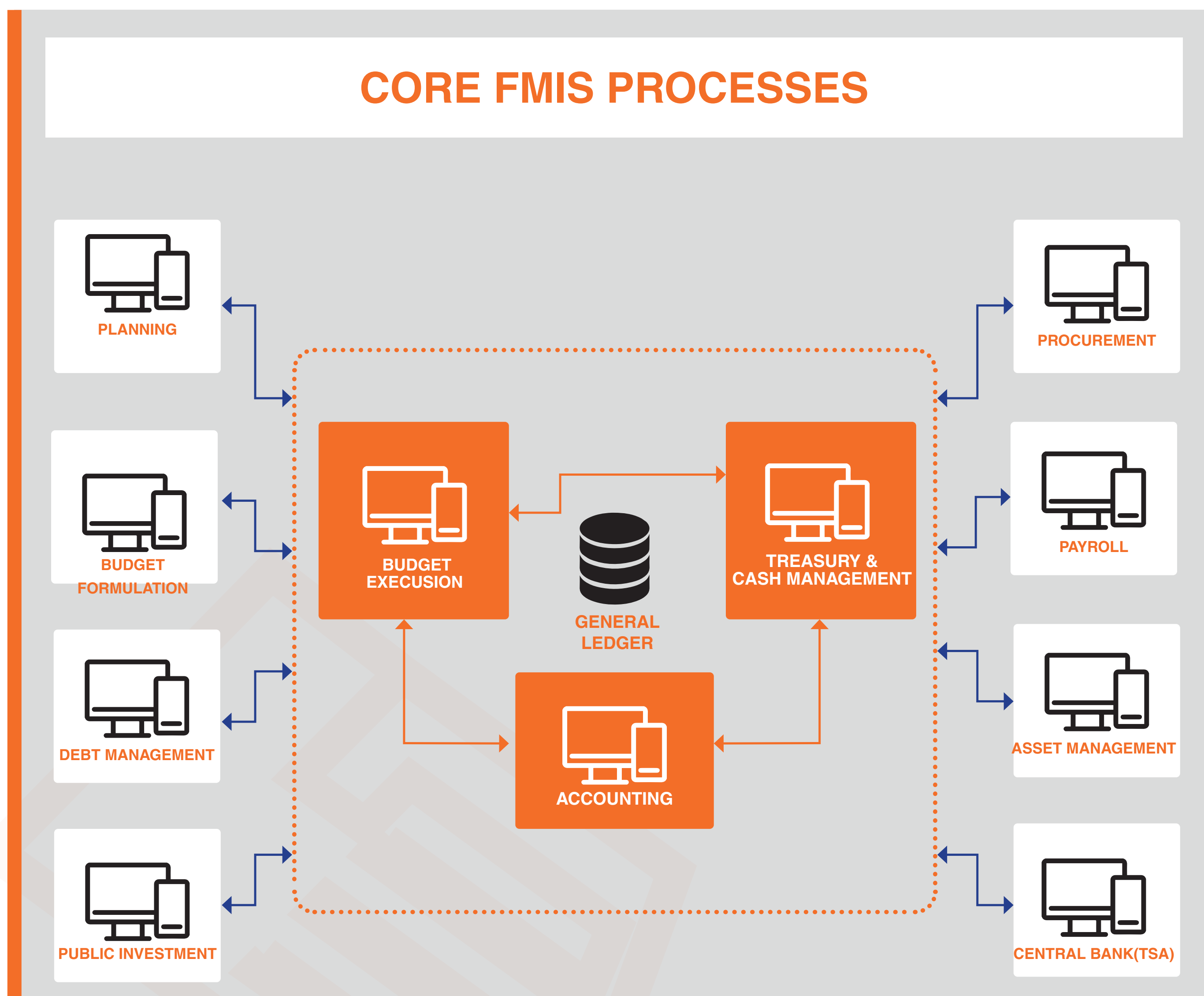
Figure 3: Government Information Systems in Africa (1984-2022)



GovTech units have been established close to the center of government (President's or Prime Minister's Office) to promote a whole-of-government approach, improve the coordination of GovTech interventions, and develop cost-

effective, sustainable solutions. As shown in **Figure 4**, the core functionalities of an FMIS are for accounting, budget execution, treasury, and cash management. Most countries currently aim to transition towards an IFMIS. In an IFMIS, various PFM systems can seamlessly communicate and share data through a common central database, enhancing core functions and efficiency.

Figure 4: Architecture of an Integrated Financial Management Information System



Source: IMF (2019)

The benefits of digital solutions are defined as savings to the operating costs of the ministries of finance, savings from a reduction in the misuse or misappropriation of public resources and a reduction in the transaction costs carried by households and the private sector resulting from corruption. Digital solutions in fiscal management can bring about rapid and significant benefits for governments, including enhancing economic predictions, seamlessly integrating digital payments with PFM systems, and embracing data-driven analysis and decision-making[3].

3 Rivero del Paso, et al. (2023)

Box 1: Case Studies:
Digitalization journey of Madagascar and Tanzania

Madagascar:

Between 2006 and 2008, Madagascar's Ministry of Finance implemented an information system to streamline the processing of salaries and pensions, developed in partnership with the National Bureau of Statistics. Following this, they also implemented a system to manage budget execution effectively. The funding for these initiatives was provided through the Governance and Institutional Development Project from development partners under the Program for Reforms for Administrative Efficiency, coordinated through the unit created under the office of the President of Madagascar.

The government of Madagascar's approach to digitalization is highly fragmented and siloed. A 2013 analysis concluded that 13 sub-systems of the financial management system cohabitated within the Ministry of Finance. These included information systems for personnel management, salary and pension management, procurement, payment systems, and tax and customs administration.

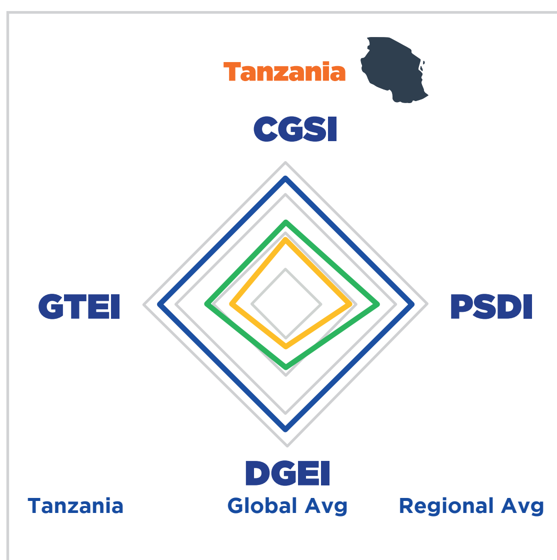
Each ministry and even some departments have their own Information Technology Services Directorate and independently design and implement their programs. While laudable for their entrepreneurial approach to tackling internal problems, the multiple and sometimes parallel initiatives need to maintain sight of essential aspects such as meeting service delivery needs, capitalizing on system interoperability benefits, and achieving economies of scale. In addition to the evident organizational challenge marked by a lack of authority due to fragmentation, there are challenges of information retention among actors.

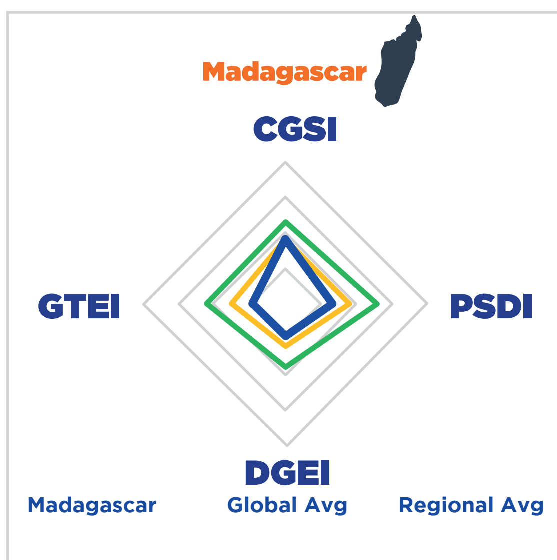
In 2019, Madagascar developed a fresh strategy to guide the nation's digital development governance. This initiative resulted in the formation of the Digital Governance Unit, now supervised jointly by the President's office, the Ministry of Economy and Finance, and the Ministry of Digital Transformation. The Digital Governance Unit's main responsibilities include organizing and coordinating diverse digital projects, managing a comprehensive plan for the state's information system, and ensuring that the skills of government personnel align with the country's digital development objectives. Madagascar's GovTech Maturity Index shows that the country must enhance various components, including technical aspects, service delivery, citizen-centric design, openness, strategy, institution, and skills.

Tanzania:

Tanzania has taken significant strides in modernizing its financial management. As **Figure 5** illustrates, Tanzania surpasses the global average in its GovTech Maturity Index.

The IFMIS was first introduced in Tanzania as part of the Public Finance Reform Program Phase One in 1998. While IFMIS adoption in Tanzania has been part of broader public finance management reform programs, challenges related to integration, coordination, slow networks, coexistence of manual and automated systems, and system proliferation have impeded its full effectiveness in Tanzania and several other developing countries.





Source: extracted from the World Bank, 2023 •CGSI: The Core Government Systems Index captures the key aspects of a whole-of-government approach, including government cloud, interoperability framework, and other platforms. • PSDI: The Public Service Delivery Index measures the maturity of online public service portals, focusing on citizen-centric design and universal accessibility. • DCEI: The Digital Citizen Engagement Index measures aspects of public participation platforms, citizen feedback mechanisms, open data, and open government portals. • GTEI: The GovTech Enablers Index captures strategy, institutions, laws and regulations, digital skills, and innovation policies and programs, to foster GovTech.

The Tanzanian IFMIS, catering to both the central government and local authorities, was built upon EPICOR, an Enterprise Resource Planning, initially designed for private sector use. This system has been adopted by various African countries, with necessary customizations to align with the unique requirements of public finance management structures. Tanzania is acknowledged for its success in implementing IFMIS, largely attributed to factors like political commitment, ICT readiness, phased implementation, legal adjustments, effective project management, and adequate resource allocation. However, persistent challenges include interoperability issues, parallel usage of manual and automated systems, lack of IFMIS policies, and absence of standardized practices.

Efforts are underway to address these challenges, notably through the sixth phase of the Public Financial Management Reform Program, a collaborative effort with development partners. This phase primarily focuses on enhancing budget credibility, cash management, and procurement processes to ensure fiscal discipline and efficient service delivery. Multiple financial management systems have been introduced, such as the Central Budget Management Information System, payment system MUSE (Mfumo wa Ulipaji Serikalini), and budgeting BAMA (Bajeti na Matumizi), and Facility Financial Accounting and Reporting System, significantly improving budget and expenditure management.

However, integrating and harmonizing FMISs still needs to be improved, hindering accurate revenue capture, expenditure, and arrears reporting. Ongoing reforms target integrating disparate accountability systems to bolster IT security and management, ultimately enhancing transparency and accountability in reporting, and managing government resources.

II. GOVERNMENT EXPENDITURE

2.1 BUDGET POLICY, EVOLUTION AND TRACKING:

2.1.1 Budget as a Policy Instrument:

The budget is an important policy document for the government. The budget represents the government's financial plan for delivering its chosen policies. Experience has shown that budgets cannot be divorced from politics. There is often tension between those making resource allocation decisions, and the population that pays taxes and benefits from government spending. Well-designed and well-operated budget systems can help alleviate problems arising from the disconnect between the costs of policies and their benefits. The ideal situation is complete alignment between the policy decision-making cycle and the budget cycle, where each stage depends on an underlying policy cycle of formulation, agreement, implementation, and review.

The main players in the budget process are the executive and legislative branches. The legislative branch consists of politicians such as parliamentarians, who represent the population's views. The executive branch is usually the line ministries with specific sectoral policies, the Ministry of Finance and the President's Office. Policy objectives and priority expenditure areas can be fragmented or mismatched with available funding. The process of budgeting using inputs that do not necessarily reflect the outputs or outcomes in terms of service delivery can present an issue for a budget to deliver information that is relevant to policy. Dual budgeting that separates recurrent and capital budgets results in an incomplete picture of the resource costs of any policy, leading to underperformance or misallocations, such as cases are where schools have teachers without desks, books, and supplies.

There are several ways to correct the drawbacks often found in developing countries' budget systems to make the budget more policy relevant, including bringing a longer-term policy perspective with a multi-year orientation and making the budget focus on results and policy delivery through decentralized management. The budget should emphasize compliance relatively less compared to the search for efficiency and effectiveness in meeting policy objectives.

2.1.2 Evolution of Budgeting Methodologies:

Performance-based budgeting aims to link public sector funding to results, use performance information to improve the efficiency and effectiveness of public spending, and focus less on internal processes. Program budgeting is one of the most common forms of performance budgeting and is a move away from line-item budgeting (**Table 3**). While not exhaustive, **Table 4** shows there are twelve African countries that have adopted performance-based budgeting.

For basic performance-based budgeting to be successful, every spending agency must be obligated to explicitly define the outcomes their services or outputs, aim to provide to the community, and offer key performance indicators to measure the effectiveness and efficiency of their services to themMinistry offFinance and important political decision-makers during the budget preparation process.

Box 2: Trending policy considerations in the 21st century:

In the framework for sustainable development that combines environmental and social concerns with economic growth, like the doughnut economics principles, the fiscal policy can focus on the following principles:

1. **Investing in Social and Environmental Infrastructure. The fiscal policy using Doughnut Economics emphasizes the need for investments in social and environmental infrastructure, such as education, healthcare, and renewable energy. This requires government spending on public goods and services that support the social and environmental dimensions of the Doughnut.**
2. **Taxation for Sustainability. Incentivize sustainable behavior and discourage unsustainable practices by including carbon taxes to reduce greenhouse gas emissions, taxes on non-renewable resources to promote renewable energy sources, and taxes on waste to encourage recycling and reduce pollution.**
3. **Redistribute Wealth and Income. To reduce inequality and promote social justice, fiscal policy includes progressive taxation and social welfare policies that support the most vulnerable members of society.**
4. **Promote Circular Economy. In order to reduce waste and promote the reuse of resources. This includes incentives for recycling, waste reduction, and the use of renewable**

Table 3: Features of budgeting methodologies

Features	Line Item	Program	Performance
Contents	Expenditures by objects, input oriented (e.g.: salaries, supplies, medicines,)	Expenditures for a cluster of activities supporting a common objective (e.g.: health services: laboratory, outpatient care, operating room…)	Presenting a results-based chain to achieve a specific objective (E.g., of key performance indicator: under 5 mortality rates or % of births attended by skilled health staff)
Format	Operating and capital inputs purchased	Expenditures by activity and program	Data on inputs, outputs, impacts, and reach by each objective
General Use	Control	Planning and impact	Management efficiency and flexibility over inputs but with accountability for service delivery output performance

Funds are allocated in the budget to programs that represent groups of outputs. This reduces line-item spending for inputs such as office supplies, travel, and utilities. The use of performance budgeting needs to align with the budget classification system and the accounting system on FMIS.

African countries such as Eswatini, Rwanda and Uganda have introduced gender-responsive budgeting and climate-responsive budgeting, which involve integrating gender and climate change considerations into the budget. Gender- and climate-responsive budget mainstreaming entails comprehensive reforms to methods and practices throughout the entire budget cycle to guarantee the inclusion of both gender and climate change, also known as 'double-mainstreaming', so that the budget is more effective at helping to meet gender equality goals and to address climate adaptation and mitigation.

Table 4: Budgeting Methodologies in African Countries

Region	Line-item	Performance-based	Gender-responsive
Northern Africa	Sudan	Morocco, Tunisia	Morocco
Southern Africa	Lesotho	n.a.	Botswana, Eswatini, South Africa
East Africa	Djibouti, South Sudan	Ethiopia, Madagascar, Malawi, Mauritius, Rwanda, Seychelles	Ethiopia, Mauritius, Mozambique, Rwanda, Tanzania, Uganda, Zambia, Zimbabwe
West Africa	Burkina Faso, Liberia, Mauritania, Senegal	Liberia, Niger, Nigeria	Benin, Gambia, Mali, Niger, Nigeria, Senegal
Middle Africa	Chad, Congo, Dem. Rep., São Tomé and Principe	Gabon	Cameroon
	11	12	19

Sources: IMF, PEFA

Notes:

1. The data is not exhaustive and hence there might be more countries adopting multiple methodologies.
2. The IMF Report claims Uganda and Rwanda as having notable success in performance-based budgeting.
3. Among the countries that have adopted gender-responsive budgeting methodology, information on strategy performance is often not available although they have been adopting it since early 2000s.
4. Ghana has recently adopted SDG budgeting. See here.
5. Rwanda has recently adopted green budgeting. See here.

2.1.3 Medium Term Expenditure Framework (MTEF):

A Medium-Term Expenditure Framework (MTEF) is a budgetary tool used by many African countries to help plan and manage their public finances over a medium-term horizon, typically 3 to 5 years. It is a planning and budgeting process that enables governments to link their strategic priorities with the available resources to achieve those priorities.

The MTEF process typically involves setting expenditure ceilings for each sector or program, based on the government's overall fiscal framework and revenue projections.

The MTEF is an important tool for improving fiscal discipline and transparency in Africa, as it requires governments to be more accountable for their spending decisions and to provide more detailed information on their budgetary plans. It also helps to promote stability and predictability in public finances, which can be particularly important for attracting foreign investment and promoting economic growth.

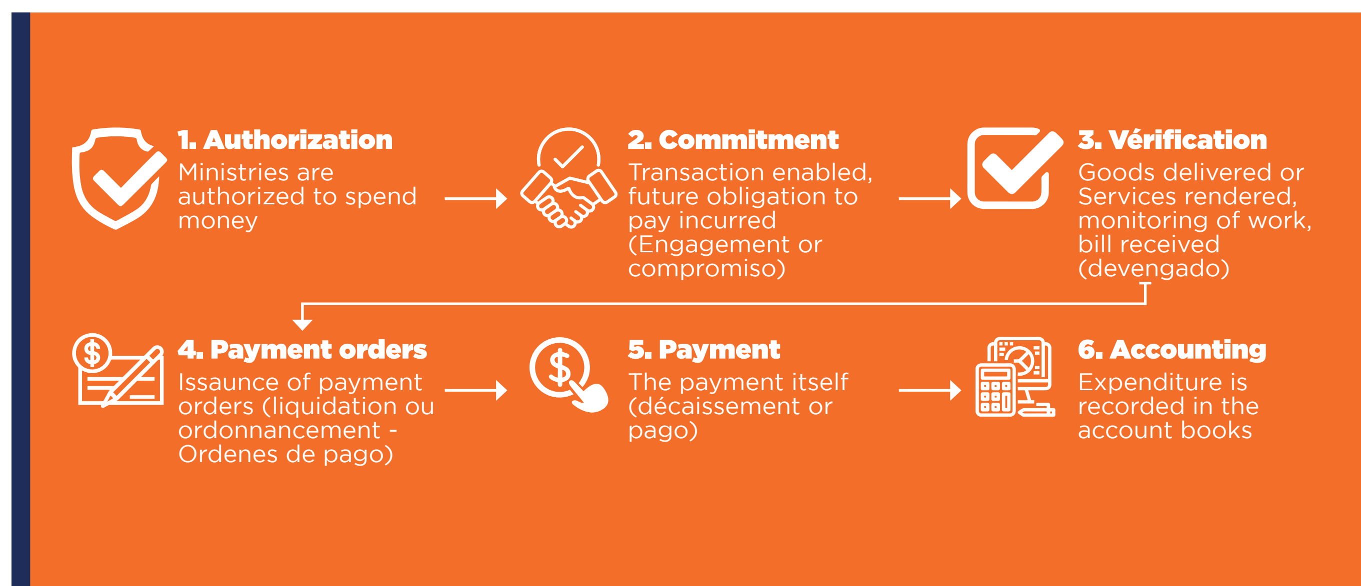
A successful MTEF relies on cautious macroeconomic and fiscal forecasts. The Ministry of Finance is the lead agency that prepares the budget, but the cabinet and parliament have a role in providing budget instructions.

2.2 BUDGET EXECUTION AND REPORTING:

Budget execution is the actual spending of the government's budget and the distribution of the associated administrative responsibilities. Budget execution procedures are to ensure compliance with the budget as authorized by the legislature, the control of expenditure, and adaptation to the evolution of economic conditions. The spending process after legislative appropriation of expenditures usually consists of six stages as shown in **Figure 6**.

These stages are critical for good budget systems that maintain data on commitments and payments to ensure efficient and effective use of government resources. Some commitments can be within the fiscal year or the annual tranche of multi-year investment contracts.

Figure 6: The budget execution cycle



Source: Potter, B. H., & Diamond, A. J. (2004)

Most developing countries use a **cash-based accounting** regime recognizing expenditure when it is paid (or income received). Accrual-based accounting recognizes expenditure when goods and services are delivered or sold, even if payments have not been made. While more complex, accrual-based accounting creates greater harmony between fiscal and national accounts. Governments are moving towards accrual-based or the International Public Sector Accounting Standards (IPSAS) Accrual accounting to pay more attention to accounting for their assets, setting depreciation policies, and obtaining better information on the costs of providing services.

The key issues are whether the outturn of the expenditure side of the budget is likely to be within the budget figure; whether any changes in expenditure priorities (as against past patterns) are being implemented in specific areas as planned; and whether any problems are being encountered in budget execution, such as the buildup of payment arrears, and the use of exceptional procedures.

Payment arrears can occur on any expenditure item, not just payments to the private sector. Arrears occur when a bill for services rendered has been received but not paid after the acceptable grace period, typically 30 to 60 days. Accounting systems may not accurately track arrears, and it can be difficult to establish the extent of arrears unless the country has gone full IPSAS Accrual. Arrears are not the difference between committed expenditures and payments made, as not all committed expenditures lead to the delivery of services, and the interval between commitment and payment varies. A realistic estimate of arrears can be obtained by subtracting payment orders cashed from payment orders prepared for issue,bBills received and due for payment must also be included if payment orders have not been prepared.

To ensure smooth implementation and supervision of the budget, the budget execution requires a procurement plan and a commitment plan by each line ministry, and a cash plan by the Ministry of Finance, which is part of the budget management.

Monitoring of budget transactions requires monitoring of cash flows and monthly budget reports organized according to the budget classification used. There are usually midterm reviews to review the budget implementation issues.

2.2.1 Cash Management:

Cash management ensures that the government has the liquidity to execute its payments. Effective cash planning and management are essential for governments to maintain budgeted expenditure, avoid unanticipated borrowing, and identify the need for remedial fiscal action. The cash management unit should adopt monthly cash plans based on the projected volume of cash inflows and limits on cash outflows and should be revised on a rolling basis in light of actual revenues and expenditures. Cash management has not been given enough priority compared to other areas of public financial

management reforms in developing countries. However, it is recommended that developing countries consolidate all their resources, usually held in the central bank or scattered in commercial banks, either in aSsingleTtreasuryAaccount)or in accounts that can be consolidated every night to prevent unnecessary borrowing. Difficulties may arise in consolidating funds, such as funds established by separate legislation, the timing of disbursements of committed donor money and the related procurement procedures, and a lack of transparency between monetary and fiscal instruments.

In the case of a temporary cash shortfall, the government can use a stabilization fund, postpone payments, or use an automatic overdraft facility with clear rules to govern its use. The government also needs an annual borrowing strategy in close coordination with the central bank and in line with monetary policy.

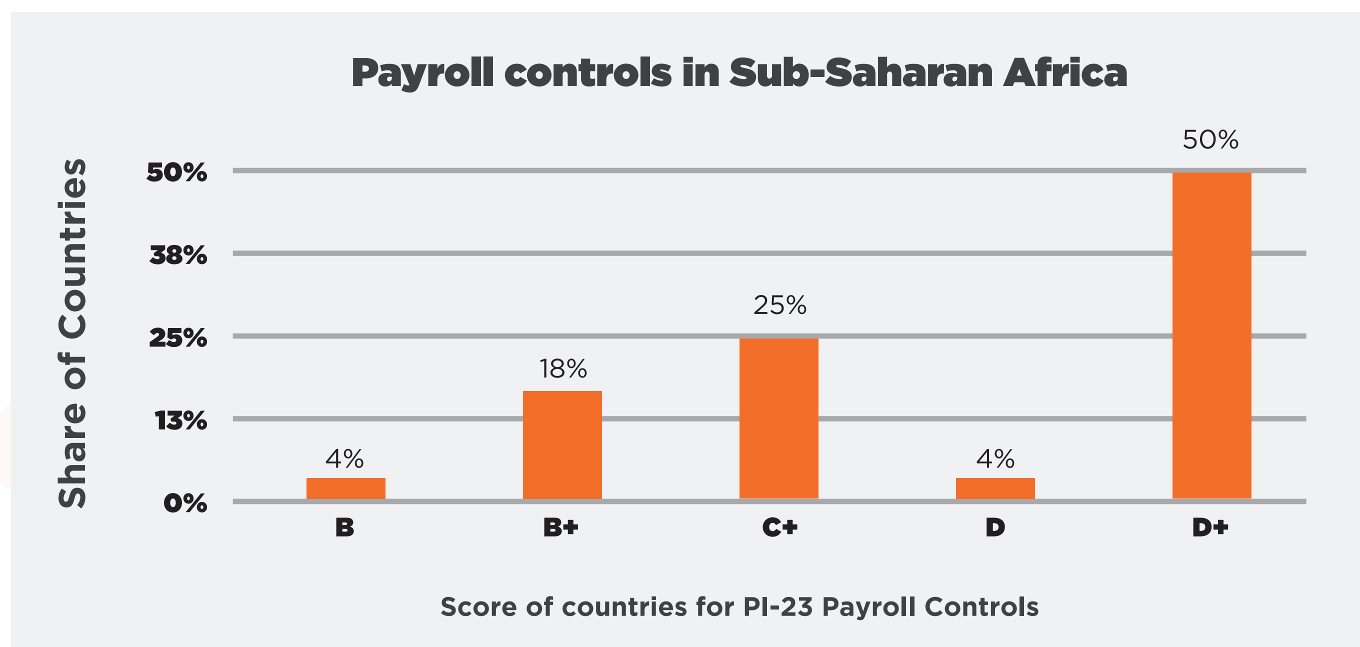
2.2.2 Payroll management:

The wage bill is usually one of the biggest items of government expenditure and a major contributor to budget deficits. Public sector payroll costs include the salaries and benefits paid to government employees, such as civil servants, teachers, police officers, and healthcare workers.

Weak payroll controls can result in an unintended expansion of payroll costs, lower allocative efficiency, and demotivation of staff. In recent years, many African countries have implemented reforms to control public sector payroll costs, including reducing the number of employees, implementing performance-based pay systems, and increasing transparency in salary and benefit structures. Despite these efforts, public sector payroll costs remain a significant challenge for many African countries.

The Public Expenditure and Financial Accountability (PEFA) Framework evaluates the payroll management of permanent and non-permanent civil servants in 23 Sub-Saharan African countries using their indicator PI-23. The indicator assesses four dimensions: integration of payroll and personnel record,; management of payroll change,; internal payroll contro,; and payroll audit. The results showed that over 50% of the countries scored a D or lower, indicating poor performance in all four dimensions, **Figure 7**. Countries that routinely score an 'A' on this indicator, such as Rwanda, are those with strong automation and political will.

Figure 7: Scores of 23 African countries on Payroll Management in PEFA (2019-2021)



Source: Authors' calculation based on data from 23 Sub-Saharan African countries collected from PEFA assessments between 2019 and 2021

The case of the(DR) illustrates the issue on payroll management in African countries. Moshonas et al. (2022) discuss the challenges faced by the Ministry of Public Service in managing civil servant recruitment and payroll in DRC. The state's power has eroded due to interference from various actors, such as politicians, senior bureaucrats, trade unions, religious networks, and donor pressure to keep a lid on official recruitment. The Ministry of Public Service has lost its central regulatory authority as its position became increasingly contested, and recruitment procedures are widely violated. Ghost workers (individuals on the payroll who do not exist/or show up at work) are also a significant challenge, suggesting that up to 30% of workers on public payrolls do not effectively work as civil servants.

Reforms include a strengthening of the legislative framework. The review of the fiscal cost of the public sector payroll must find a balance between the line ministries seeking to enhance service delivery, the finance ministry trying to reduce public

spending, and the involvement of local interest groups and trade unions promoting the interest of the employees. Countries have introduced regular censuses of civil servants, and digitalization using FMIS or a dedicated IT system for a sector, such as Integrated Human Resources Information System for health, to achieve effective and efficient management on a low-cost basis.

2.2.3 Procurement Management:

Public procuremen, is the process by which governments acquire goods, works, and services from the marketplace. Public entities in Africa spend a lot on public procurement, but budget constraints make it necessary to establish efficient procedures and systems that ensure value for money. The government's involvement in procurement is significant in most countries, amounting to 15-20% of GDP. However, there is a risk of abuse and patronage in awarding contracts, and governments must address these concerns through appropriate regulations.

This requires transparent, accountable, and professionally managed procurement systems that inspire business confidence and consistently deliver the best value for money. Although, during the first generation of reforms, most African countries enacted legislation to better manage public procurement, political commitment to enforcement and compliance is still lacking. Eradicating institutionalized corruption from public procurement requires behavioral change, and providing public access to procurement information can promote transparency and fight corruption.

In addition, to fully benefit from procurement reform, it is crucial to undertake it within a broader strategy that includes the modernization of financial management systems, public administration, civil service, civil society oversight, and public access to information. To achieve this, there is a need for cultural and attitudinal changes, which should be strongly led from the top to overcome legacies that hinder better performance. In developing countries, improving the overall performance of the procurement system and creating a dashboard of indicators to monitor outputs and outcomes mainly requires: (a) furthering structural aspects of the reforms and enhancing capacity development; (b) focusing on strengthening system performance rather than additional technical improvements; and (c) promoting a more significant role for civil society in overseeing procurement policies and operations.

E-government initiatives can help increase transparency and accountability in procurement. Procurement reforms in Africa have embraced technology, through e-procurement and other digital platforms, to streamline the process and enhance transparency and accountability, revolutionizing the procurement landscape and building a more efficient, effective, and accountable public sector procurement system.

2.2.4 Public Investment Management

While private investment is essential, targeted and massive public investment efforts are necessary to meet infrastructure needs and address climate change. African nations spend an average of 17% of GDP on the procurement of public goods, works and service contracts. (World Bank, 2022). However, IMF analysis shows that 3 % of public investment value on average is lost due to inefficiencies, and better infrastructure governance can reduce inefficiencies by half. There are several ways to make public investment more efficient:

1. Conduct thorough cost-benefit analyses. Before investing in any project, it'is important to conduct a comprehensive cost-benefit analysis to evaluate the potential economic, social, and environmental impacts of the investment. This will help to identify the most cost-effective projects and ensure that public resources are used efficiently.

2. Improve project selection processes. The selection of projects for public investment should be based on clear criteria and standards prioritizing projects with the greatest economic, social, and environmental benefits. This can be achieved through transparent and participatory decision-making processes that involve stakeholders and local communities.

3. Increase transparency and accountability. Public investment decisions should be transparent, and the public should have access to information about the decision-making process, project selection criteria, and project outcomes. Additionally, government officials and public servants responsible for managing public investments should be held accountable for their decisions and actions.

4. Use performance-based budgeting. Performance-based budgeting can help ensure public investments are targeted at achieving specific goals and objectives. This involves setting clear targets and indicators for each project and monitoring progress towards these goals.

5. Encourage private sector participation. The private sector can play an important role in financing and implementing public investments. Public-private partnerships (PPPs) can be used to leverage private sector expertise and resources to deliver public infrastructure and services more efficiently.

6. Develop long-term investment plans. Long-term investment plans can help to ensure that public investments are aligned with long-term economic and social objectives. These plans should be regularly updated and adjusted to reflect changing circumstances and priorities.

By implementing these measures, governments can improve the efficiency of public investment and maximize the benefits for society.

The IMF's Climate Public Investment Management Assessment (Climate-PIMA) framework helps member countries strengthen infrastructure policies and governance and assess infrastructure governance from a climate change perspective. The Climate PIMA supports IMF member countries in making their infrastructure low carbon and climate resilient through mainstreaming climate change considerations in public investment management's key components. Coordination across different sectors and levels of government is also essential for climate-relevant public investments.

2.2.5 Managing Fiscal Risk:

Fiscal risk, as defined by the IMF, is the exposure of the central government to events that could cause short- to medium-term variability in the overall level of revenues, spending, the fiscal balance, and the value of assets and liabilities. There have been international initiatives to improve information on fiscal risks and the effectiveness of fiscal risk management, including adopting accrual accounting and disclosing contingent liabilities in year-end financial statements. There has also been increased attention paid to analyzing and mitigating fiscal risks using stress testing and scenario analysis. **Table 3** lists the explicit and implicit liabilities that can affect the fiscal risk of the central government.

Table 5: Fiscal Risk Matrix for Liabilities—Central Government

	Direct liabilities	Indirect liabilities
Explicit liabilities (Legal obligation—no choice)	• Foreign and domestic sovereign debt • Budget expenditures—both in the current fiscal year and those legally binding over the long term (civil servant salaries and pensions)	▪ Guarantees for borrowing and obligations of sub-national governments and state-owned enterprises ▪ Guarantees for trade and exchange rate risks ▪ Guarantees for private investments (PPPs) ▪ State insurance schemes (deposit insurance, private pension funds, crop insurance, flood insurance, war-risk insurance) ▪ Unexpected compensation in legal cases related to disparate claims ▪ Reconstruction of public assets
Implicit liabilities (Expectations—political decision)	• Future public pensions, if not required by law • Social security schemes, if not required by law • Future health care financing, if not required by law • Future recurrent cost of public investments	▪ Defaults of sub-national governments and state-owned enterprises on nonguaranteed debt and other obligations ▪ Liability clean-up in entities being privatized ▪ Bank failures (support beyond state insurance) ▪ Failures of nonguaranteed pension funds, or other social security funds ▪ Environmental recovery, natural disaster relief

Source: Polackova-Brixi, Hana and Alan Schick (1998), Government at Risk, World Bank.

2.3 SCRUTINY AND ACCOUNTABILITY SYSTEMS:

Budgetary and fiscal outcomes are significantly impacted by sound PFM systems:

Firstly, fiscal discipline is strengthened by the reliability of aggregate revenue and expenditure outturns, as well as the reasonable level of composition variances on both revenues and expenditures. In turn, this is also strengthened by the low levels of in-year budget reallocations, done within clear guidelines and strict limits, as well as a robust and verifiable macroeconomic framework which supports revenue projections. This speaks to a strong general internal control framework – laws, regulations and political will. Fiscal discipline is further strengthened if there is a 'low level' of revenue and expenditure outside financial reports – ranging from 'cash to full IPSAS Accrual' reporting systems. Sound public investment, payroll management systems and debt management help to improve overall fiscal discipline.

Secondly, sound PFM systems support efficient and effective strategic resource allocations. This requires a good budget classification, transparency and comprehensiveness of the budget – ensuring that resources are tracked throughout the budget's formulation, execution, and reporting cycle.

Thirdly, efficient service delivery requires sound medium-term expenditure estimates for the predictability of budget allocations. Also, good coverage and functionality of PFM digital systems, existence of a framework to develop and sustain skills, equal treatment in terms of investments and

the capability of sub-national PFM systems, strong value-for-money practices underpinning investment decisions, and strong governance of government business entities contribute to budgetary and fiscal outcomes. Finally, this requires strong accountability (internal and external audits) and oversight (legislative scrutiny) mechanisms.

Effective scrutiny and accountability require strong and effective internal audit, external audit and legislative oversight – highlighted below:

- **Internal Audit.** An effective internal audit system helps provide timely and adequate feedback to a PFM system on the performance of the internal control systems – and is critical for budgetary and fiscal outcomes. A strong internal audit function is a 'systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. It is an independent, objective assurance and consulting function that adds value and improves a country's PFM system. It assures the adequacy and effectiveness of internal controls, including: the reliability and integrity of financial and operational information; the effectiveness and efficiency of operations and programs; the safeguarding of assets; and compliance with laws and regulations – in line with international auditing standards issued by the Institute of Internal Auditors. Good practices include an appropriate structure, independence, a sufficient mandate, information access rights, power to report, use of a professional audit methodology, adequate skills and appropriate benchmarking.
- **External Audit.** External audit is provided through Supreme Audit Institutions (SAI) to support transparent and accountable use of public funds. The efficiency of SAIs differs across the continent, depending on factors like their level of independence, political support, legal foundation (constitutional mandate), institutional capacity, compliance with International Organization of Supreme Audit Institutions standards and benchmarks, reporting framework and timelines, as well as the extent, coverage, and comprehensiveness of external audits conducted. In evaluating adherence to audit standards, the primary source should be independent quality assurance review reports.
- **Legislative Scrutiny.**Effective legislative oversight keeps a check on the executive to ensure legal reporting requirements are met, scrutinizes the SAI audit reports over the execution of the approved budget, conducts enquiries on SAI recommendations to ensure the executive remains accountable. Good practices include a legal basis in the constitutional arrangements, an empowered legislative committee such as the public accounts committee in some countries, a supervisory role over the SAI, and a mandate to cause a timely response to audit findings and recommendations.

III. GOVERNMENT REVENUE

3.1 DOMESTIC RESOURCE MOBILIZATION (DRM):

3.1.1 The Broad Scope of DRM:

Domestic Resource Mobilization (DRM) is the process through which governments raise funds to meet their citizens' needs (development and public spending) primarily through taxation and non-tax sources – and has four components: public; private; debt; and non-debt flows. The 2002 Monterrey Conference on Financing for Development identified DRM as the first of six leading actions. The Addis Ababa Action Agenda on Financing for Development in 2015 reaffirmed the urgent need to increase DRM to finance the SDGs and the Africa Agenda 2063. However, mobilizing the massive resources required to achieve the SDGs has been difficult, especially for developing nations, which has been further complicated by the long-term impact of the COVID-19 pandemic and other recent global challenges.

Remittances have remained strong despite global challenges, growing at 5% to reach USD 629 billion in 2022 for low- and middle-income countries, including USD 53 billion for Sub-Saharan Africa. Meanwhile, ODA is decreasing rapidly, and resources are increasingly directed towards climate finance, which Africa still has difficulty accessing. Consequently, DRM is the most viable option for Africa to obtain the resources it needs to meet its development goals, particularly the SDGs. To achieve this, significant reforms are necessary to increase government revenue through taxation and other non-debt sources, allowing for flexibility in managing development priorities while minimizing the risk of debt distress.

The comparative tax structure of Africa, Latin America and the Caribbean (LAC), and OECD countries in 2022 offers valuable insights into the potential for DRM. The average tax-to-GDP ratio for 31 African countries was 16% in 2020, while that of the LAC was 21.9%, and the OECD countries were 33.5%. In Africa, the average individual taxes amount to 17.47%, while it is 9.58% for LAC and 23.91% for the OECD. Regarding corporate taxes, Africa stands at 19.22%, LAC at 15.52%, and the OECD at 8.85%. Social insurance taxes are 7.23% in Africa, 17.14% in LAC, and 27% in the OECD. The low property tax of 1.6% in Africa reflects weak land registry systems, while it is 3.6% for LAC and 5.48% for the OECD. Africa fares well regarding Value Added Tax (VAT) with an average of 22.21%, comparable to LAC's 22.24%, while the OECD is at 11.96%. For consumption taxes other than VAT, Africa is 29.73%, LAC is 27.82%, and the OECD is 20.57%[4]. Consumption taxes are largely higher in African countries because they are a more reliable way to generate revenue in economies dominated by a large informal sector; and are often considered easier to administer and collect.

Effective DRM requires an efficient taxation system that is fair, transparent, and accountable, designed to increase voluntary compliance and social capital[5].

Tax Expenditures (TEs) refer to tax incentives given to businesses and individuals, which can be costly and ineffective. In Africa, 64% of countries do not provide any information on their TEs, and on average, TEs make up 2.8% of GDP and 17.8% of total tax revenue[6]. TEs are also a global challenge, as many countries struggle to quantify them. They are often opaque and lack transparency, making determining their objectives and recipients difficult. Despite this, incentives are crucial to attracting Foreign Direct Investment (FDI) and industrializing the continent. Incentives offered in Africa include preferential corporate income tax rates, tax holidays, customs duty exemptions, VAT refunds, accelerated depreciation allowances, and immigration incentives. However, these incentives are often established without baseline studies and periodic empirical studies to determine their value and impact. This leads to missed opportunities to redirect incentives to where they are needed most. Additionally, TEs can erode the tax revenue base by contributing to sectors falling into a "tax discount." The World Bank has found that tax incentives are a poor instrument for compensating for negative factors in a country's investment climate[7]. Therefore, TEs reform is critical to a robust DRM strategy. It is important to focus incentives on select economic areas with stronger multiplier effect to help transform the economy, expand the revenue base, reduce the informal sector, and deepen the digitization of revenue authorities and the entire PFM Systems.

The MTRS is an important part of a strong DRM strategy, as is a focus on strengthening tax policy and execution through Tax Policy Units and Tax Revenue Authorities. Its goal is to simplify the tax system, reduce compliance costs, distribute the tax burden fairly, increase tax productivity, and expand the tax base to finance the country's development agenda. The roles of tax policy formulation and tax implementation should be separated, with the former under the Ministry of Finance or Planning and the latter under an empowered Revenue Authority, both subject to periodic peer review and benchmarking.

The MTRS should define a long-term path to support fiscal consolidation, increase the tax-GDP ratio, increase voluntary compliance, and reduce the cost of tax collection towards an equitable and efficient, business-friendly, low-rate, and broad-based tax regime. It can also help re-purpose incentives to where they are most needed and mitigate revenue leakages. African countries that have not digitized their tax collection efforts should take advantage of the opportunity to do so, and those that have should deepen their e-tax reforms using 4th industrial revolution tools such as AI.

4 OECD's Revenue Statistics;
5 Mobilizing Domestic Resource in Africa for Inclusive Growth, Amadou Boly, Martin Wafula Nandelenga, and Jacob Oduor, AEB | Volume 11 | Issue 3
6 Global Tax Expenditure Database (GTED), https://gted.net;
7 "Using Tax incentives to attract Foreign Direct Investment", Public Policy for Private Sector, Jacques Morisset, Lead Economist, Foreign Investment Advisory Service—a joint facility of the International Finance Corporation and the World Bank;(2003-2)

DRM needs to be firmly anchored in each country's development context and aligned with national development plans. Innovative financing mechanisms are also required from non-traditional sources, including PPPs, readiness for climate finance and the carbon market, and the private sector to bridge the remaining resource gap.

To achieve the SDGs and Agenda 2063 in African countries, there needs to be a focus on DRM that matches the funding gaps in each country. This means creating DRM strategies to increase the 'tax-to-GDP' ratio to levels comparable to those in LAC or OECD countries. Achieving this requires tackling the large informal economy in Africa and diversifying tax collection for resource-rich countries that rely heavily on oil-export taxes. As the continent develops, there needs to be a shift from trade to non-trade tax bases such as income, property, and value-added taxes, along with investments in compliance and enforcement mechanisms, to increase the tax base and optimize resource mobilization.

3.1.2 Tax Design, Policy, Forecasting and Administration:

A. Tax Design:

Tax design is critical for a successful DRM. It is about the processes established to create a tax system that is fair, efficient and effective for tax citizens. It involves the decisions that must be made on what items to tax and at how much as well as the system of collection. According to (Mirrlees et al., 2011, pp. 21– 45) in the book Tax by Design, a tax system should have the following objectives for a given distributional outcome: (a) the negative effects of a tax system on welfare and economic efficiency should be minimized; (b) a system that costs less to operate would be preferable; (c) the tax system should be fair, in terms of procedure, avoidance of discrimination, fairness with respect to legitimate expectations and treatment of the taxpayer; (d) it should be transparent and understandable by the taxpayer; and (e) it should be, neutral and stable (predictable). People will respect and accept a tax system that is seen to be fair in terms of tax determination at all levels. In terms of legitimate expectations, tax changes that impose unexpected losses are generally seen as unfair – taxpayers should be treated the same way to achieve horizontal equity.

According to the 'theory of Optimal Taxation', there is a tradeoff in terms of 'efficiency losses' to be struck between the government's desire for redistribution and the need to raise revenue. The theory clarifies the policy objectives and identifies the constraints under which it operates – where a tax system that achieves the best objectives while satisfying the constraints is deemed optimum. Equally, simplicity, neutrality and stability are critical in tax design. For instance, a system that taxes consumption achieves neutrality over choices that people make about what to consume. In the taxation of similar income, neutrality is achieved over which form the income is received. In some instances, neutrality is not the way to go especially if the activity has negative consequences – such as when there is violation of the environment, where those activities should be taxed more. There is also a case for leniency in the taxation of research and development, savings and pensions. Greater neutrality will lead to simplicity and fairness because a simple tax system is relatively transparent and imposes low administrative costs. When simplicity and neutrality are absent from a tax system, it will lead to tax avoidance. Any worthwhile tax system should be stable – when a tax system changes often, it inserts significant compliance costs on individual taxpayers. If a tax system is not stable, negative consequences increase on firms in terms of investments, and on individuals' investments and savings. Therefore, a stable tax system is desirable.

Tax design around a largely 'commodity tax system' in developing countries remains a challenge[8], and the prevalence of a large informal sector renders broad-based tax systems such as VAT ineffective. For firms that export goods to other countries, a tax imposition at the border upon exit is more effective than VAT. Equally, a 'withholding tax' would be more effective and an easier form of taxation for the informal sector.

There are some key principles in the design of tax systems [9]in the global economy, where there is some difficulty in taxing international companies that constantly transfer operations to locations where they are taxed less. Equally, benefits are lost if such companies that outsource production to low tax jurisdictions decide to repatriate the profits to their home country, and those profits are taxed. The response to these challenges around 'source-based taxation and residence-based taxation', is the formula apportionment – where the tax base is applied across jurisdictions. Irrespective of where the multinational company is located, the tax base is allocated across countries according to a pre-agreed formula. This system has been proposed by the European Union to approximate taxes across member countries.

Many developing countries tend to lose tax from Multinational Enterprises (MNEs), especially in the extractive sector, (Gordon and Hendriks, 2015) through transfer pricing[10] - where the MNE sets an advantageous price for the division through which it is going to make more profit. To respond to this challenge, countries have to set up clear transfer pricing rules anchored on 'arms' length transactions.

Designing the tax system in emergency situations requires a different set of rules.[11] The priority in emergencies should be in the assessment of available administrative strength for that jurisdiction and then a focus on effective revenue collection points that are easier to monitor, including: international boarder points; large companies; mining and extraction sites; and wages in formal and civil sectors.

8 Broadway and Sato, 2009: Optimal Tax Design and Enforcement with an Informal Sector:
9 Gordon and Hendriks, 2015, pp.14-19 in their paper "A Review of Critical Issues on Tax Design and Tax Administration in a Global Economy and Developing Countries"
10 This happens when company A has two divisions in 2 countries, division 1 produces the product and division 2 consumes it. Both divisions are in 2 different countries, if the produce in country 1 is sold to division 2 in another jurisdiction at a higher price, then division 1 makes more profit and division 2 will make less profit. The price under which the product is transferred between divisions of the same company is called transfer pricing;
11 How to Design Tax Policy in Fragile States by the (IMF,2019, pp.6)

B. Tax Policy:

Tax policy can be defined as the rules, regulations and principles set up by a jurisdiction for the sole purpose of collecting taxes, (OECD,2015). Tax policy involves the **why** and **how** societies carry out taxation (Christians,2018). To study tax policy well, the existential and philosophical foundation of the "why" and "how" must be addressed – including both the microeconomic and macroeconomic aspects. The whys according to (Christian,2018) are state building, internal management and negotiated expansion. The "hows" are equity, efficiency and administrative capacity. On the other hand (OECD,2014) states the "hows" as neutrality, efficiency, certainty and simplicity, effectiveness and fairness, and flexibility – and we define these principles below:

1. **Neutrality:** Taxation should be neutral, fair and impartial between forms of business activities. If a tax is neutral then it will contribute to efficiency and ensure that optimal distribution of means of production is gained, (OECD,2014). Neutrality also means when tax is raised, discrimination should be minimized against any economic choice. In a nutshell, the principles of taxation between all forms of businesses should be the same.

2. **Efficiency:** Tax collection should be efficient, (OECD,2014) – ensuring that compliance costs to the taxpayer are as minimal as possible. For a business to be compliant, the most minimal amount of money should be spent. The same is true on the side of the government, it should not spend much in terms of administration. Furthermore, the tax should not distort economic outcomes (Christian,2018) - perfect efficiency is achieved when no one can be made better off without making the other worse off.

3. **Effectiveness and fairness:** The effectiveness and fairness of taxation can be defined in terms of those that are supposed to pay the tax should do so at the right time, (OECD,2014). Then double taxation and unintentional non-taxation should also be eliminated. The idea of tax evasion and avoidance should also be minimized. Additionally, practical enforcement by policy makers should be applied so that the tax system is efficient. Considering fairness, it can be viewed in terms of horizontal and vertical equity, (Bird and Zolt, 2007, pp. 78-79). Horizontal equity requires those that are in the same circumstances to pay the same amount of taxes while vertical equity is defined in terms of those that are in different economic circumstances paying different taxes.

4. **Flexibility:** This is defined as the tax system having the ability to change with time in response to changes in the technological and commercial environment, (OECD,2014). The structural features of the system should be durable enough in changing policy yet flexible enough to allow the government to catch up with these changes in the environment. A recent development to watch will be the uptake and impact of the blockchain technology on tax systems, (Lyutova and Fialkovskaya, 2021).

A number of factors are shaping the trends in the international tax system:

1. **Globalization:** The increase in ease of movement of goods and services between international borders, especially countries that are in the same geographical region, such as the EU, has created some challenges in terms of taxation in each individual jurisdiction, (IMF,2007, pp.4). The issues in tax design and the impact of technology (growth of transnational digital MNEs) have created new challenges around the international allocation of taxation rights, taxation of e-commerce, and more. Efforts continue to safeguard tax bases, and for companies, pay due tax in jurisdictions where they earn.

2. **Employment:** There has been another trend in terms of labor demand and supply. Taxes on this activity have been reduced or removed especially in the EU and OECD countries, (IMF,2007, pp.6). This trend is prevalent where there is increased competition between low-wage and developed economies – and has to structural changes and has caused a reduction in aggregate tax wages on labor – prompting the introduction of labor market reforms to increase flexibility.

3. **Herd Behavior:** Jurisdictions have made changes to their policies since some of the reforms adopted are being used elsewhere and therefore it is a fashionable thing to do in the economics world, (IMF,2007, pp.5) – especially, where some of these reforms are deemed to have been successful elsewhere. Some of the examples of this include global income taxes in the 1980s-90s, green taxes in the 90s, and flat taxes in the 2000s.

4. **Initiatives to strengthen regional economic policy coordination:** As there have been lots of regional economic integrations globally for example Central America Customs Union, EU etc. One of the key functions of these groupings is to stimulate economic growth and development, (IMF,2007, pp.6). Countries in these groups often tried to harmonize their tax policies. The World Bank estimates that the Africa Continental Free Trade Area, a flagship of the Africa Agenda 2063, will increase Africa's income by USD 450 billion and intra-African exports by 81% by 2035. The UN Economic Commission for Africa forecasts that the collective African economy will reach the USD 29 trillion mark by 2050 if the short-term tradeoffs are overcome in time.

5. **The strong push for increased, geographically spread, natural resource exploration:** Recently there have been a great deal of discoveries in countries such as Uganda, Ghana and Mauritania in the oil and gas sector. These countries must now develop a way to share income with other international exploration countries since most exploration is done in collaboration with the MNEs. This change has led to a reform in the taxation policy (IMF,2007, pp.6).

C. Revenue Forecasting:

Revenue forecasting is the process of estimating the amount of revenue expected to be collected in a given financial year. This includes an analysis of historical data; and economic and other policies that impact revenue collection, including tax policy, economic growth rate, inflation rate and more. We highlight some of these processes below.

Macroeconomic Forecast. Macroeconomic forecasts are conducted by mandated institutions in the country, typically the Ministry of Finance or Ministry of Economy, (Kyobe and Danninger, 2005, pp. 8-10). Macroeconomic forecasts play an important role in showing the state of the economy. They could also reflect the balance between political and technical considerations. Also, countries will modify their macroeconomic forecasts to minimize or respond to fiscal slippages, as the case was with the impact of the COVID19 pandemic. Even when the executive is responsible, there are strong collaborations with other economic institutions (Buettner and Kauder, 2010, pp.322), typically with at least 4 or 5 people performing this task in developing countries (Kyobe and Danninger, 2005, pp. 10). In the Netherlands, independent research institutes are responsible. Countries like Belgium, Ireland, Italy, Japan and New Zealand use the Ministry of Finance to do this task solely.

How is revenue forecasted and when is it done? In some developing countries a government circular is used as the initiator for revenue forecast. While other countries have a formally well documented budgetary process, (Kyobe and Danninger, 2005, pp. 10). The advantage with the latter is that the whole process is well-guided and tends to be much more accurate, a process most favored by high-income countries. The range of time between when the budget is read, and forecasting is between one to six months. The less the time the more error prone the process is, therefore the OECD recommends between 6 to 8 months before the budget is read. Most high-income countries tend to take more time leading to the reading of the budget.

Methods of Revenue Forecasting. In the past revenue forecasting was done using purely statistical methods, however, recently there has been an advent of AI and it has almost been applied to all industries. Though the field is really moving fast with new innovations coming up every now and then governments have tended to be slow to join the revolution. Countries that are catching up with technology are beginning to use machine learning to do revenue forecasting, (Chung, Williams and Do, 2022). Depending on the historical dataset used, machine learning methods can be used to model and predict future revenue. There is a whole host of algorithms that can be employed in this accord.

D. Revenue Administration:

Revenue administration is defined as the work done by specific government agencies in the enforcement of tax law (Vehorn and Ahmad, 1997). According to (OECD,2022), tax administration is tasked with the collection of tax revenue to fund public service. One of the key aspects for a successful tax administration agency is its organizational structure. Function-based organizations are the best available option because they support both reform and modernization programs (Kidd, 2010).

Organizational arrangements and trends of revenue administrative bodies.

Revenue administrative bodies are tasked with the collection of revenue and administration of the tax systems in a fair and impartial way. They are mandated with the enforcement of tax laws, and the more enlightened have a range of digital infrastructure running core business processes for efficient and effective tax collection. It is imperative for these revenue authorities to be provided sufficient authority and autonomy by law, to deliver on their mandates efficiently and effectively. (Junquera-Varela et al, 2019).

There is agreement on the way a tax system should be organized and operate so that there is efficiency and effectiveness in the administration. The European Commission has developed a blueprint to provide guidance on the desirable features of national revenue authorities so that they are strengthened in their operations. There is guidance for internal revenue and another for customs (Junquera-Varela et al, 2019). The blueprint includes the following points [12](European Communities, 2007): (i) is there guaranteed and adequate level of autonomy? (ii) is there a clear description of responsibilities for the bodies at the center, regional and local level? (iii) are its obligations clearly translated into its mission, vision and objectives? (iv) does the revenue authority have its own structures and powers for effective and efficient operation? (v) is it provided with adequate resources? (vi) does the body consist of a stable legal structure? (vii) is it accountable for its operations and is subject to control and assessment?

3.2 OVERSEAS DEVELOPMENT ASSISTANCE (ODA):

Overseas Development Assistance (ODA) remains a critical pillar for Africa's financing landscape, especially concessional loans and grants. Since 1961, the Development Assistance Committee (DAC) has been tracking resource flows to developing countries, particularly through ODA[13], which is critical for African countries. However, ODA has declined relative to the quantum of resources available to developing countries. While ODA rose to an all-time high of USD 204 billion in 2022, it was still well below the OECD target of 0.7% of donor countries' combined gross national income.

ODA effectiveness can be achieved through ownership and alignment with national development goals, a clear division of labor, positioning ODA as a catalytic financing source, and a framework for mutual accountability. ODA should catalyze quality investments into infrastructure, human capital development, health, and private sector development to ensure effectiveness. These interventions should eventually lead to self-reliance and sustainable results aligned with a country's national development goals and strategies.

DAC donors are increasingly channeling ODA through the private sector and climate finance, and African policymakers must be ready to pivot. The Developing Partners Assessment Framework is an important tool for mutual accountability in tracking and reporting on Development Partners' performance against mutually agreed indicators. Good practices for ODA effectiveness include mapping flows, trends, shifts, and patterns through an ODA Mobilization Strategy and utilizing a clear division of labor for synergies and efficiencies.

12 Fiscal Blueprints A path to a robust, modern and efficient tax administration;
13 Official development assistance (ODA) is defined as government aid that promotes and specifically targets the economic development and welfare of developing countries. ODA data is collected, verified and made publicly available by the OECD.

3.3 SDG FINANCING:

The Integrated Financing Framework (INFF) is a global framework that was established in Addis Ababa in 2015 to finance the 2030 agenda and the 17 SDGs. The lack of a financing mechanism was identified as a weakness of the Millennium Development Goals. The INFF provides a comprehensive and cohesive framework to mobilize domestic and global resources to finance national development outcomes based on national sustainable development plans and strategies.

Over 123 countries have undertaken various forms of the INFF process, with some countries taking the more comprehensive Assessment and Diagnostic path and elaborating comprehensive Integrated National Financing Strategy (INFS), while others have taken the partial route of a Development Finance Assessment (DFA) and developed a partial INFS focused on specific priority financing needs.

The INFF process helps countries to raise financing for sustainable development aligned with priorities, build consensus on policy priorities, establish coherence and coordination of risk-informed financing policies, and identify opportunities to access technical assistance and capacity building.

The INFF fosters creative finance mobilization, creates synergies, and increases the impact on development outcomes. To support the INFF processes across countries, an Inter-agency Task Force on Financing for Development was established to develop a series of guidance documents to help countries develop and implement their INFFs.

As shown in **Figure 5**, the INFF consists of four building blocks: Diagnostics and Assessment, Financing Strategy, Monitoring and Review, and Governance and Coordination. Each building block reinforces the development of subsequent building blocks. The INFF process builds on existing national structures, processes, and mechanisms. The process and outcomes of the INFF differ from country to country, reflecting the unique context of each country.

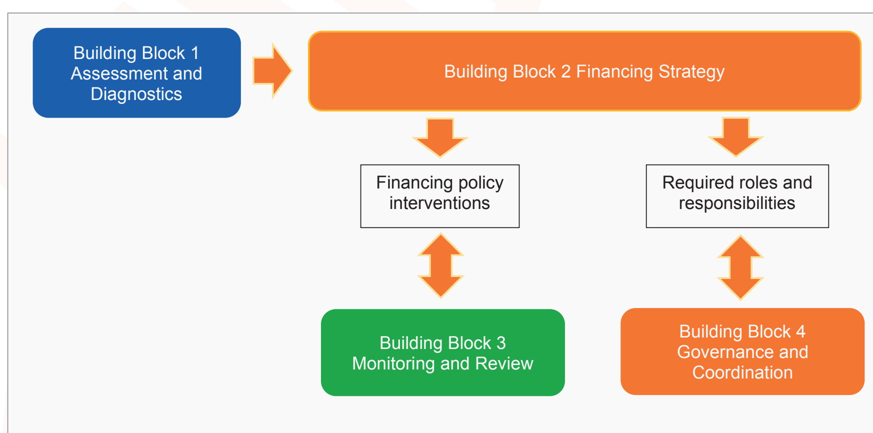
Diagnostics and Assessment (D&A). This involves conducting a comprehensive review of national policy and institutional arrangements related to sustainable development financing. It assesses the financing landscape, medium-term financing needs, and key financial and non-financial risks. The recommendations from the D&A form the basis for developing the INFS, which sets the financing trajectory for achieving the SDGs.

Integrated National Financing Strategy (INFS). The INFS builds upon the recommendations from the D&A to provide a blueprint for financing national development outcomes and SDGs. It aims to minimize fragmentation and create a cohesive framework for financing development. The INFS outlines actions to mobilize and align domestic public financing, private finance, investment, and development cooperation, and establish an enabling environment for sustainable development financing.

Monitoring and Review (M&R). M&R is a crucial element of the INFF process. It helps track the delivery and use of financial and other resources, ensuring accountability and facilitating policy dialogue. It involves monitoring progress in financing flows and policy areas, strengthening coherence among existing tracking systems, assessing the impact of the financing strategy, and establishing transparency and accountability mechanisms. The quality of M&R relies on a robust data management system.

Governance and Coordination (G&C). Successful implementation of the INFF process requires strong governance, political support, and stakeholder collaboration. It involves establishing institutional mechanisms, coordination tools, and broad-based support at the highest level of government. The aim is to ensure a demand-driven, country-owned, and country-led process that informs policymakers about stakeholders' needs and priorities.

Figure 8: INFF Building Blocks



Source: INFF Guidelines, www.inff.org

The INFF process brings together key government and private sector stakeholders to establish a more integrated approach to better align and mobilize national development priorities. The key elements of the four INFF Building Blocks (BB) include:

- BB1 - Diagnostic and Assessment (D&A). The Diagnostic and Assessment (BB1) report sets out the analytical baseline and constitutes the main product of the first building block of the INFF process. It provides a comprehensive review of the national policy and institutional arrangements in place for sustainable development financing; an overview of the development financing landscape; an evaluation of medium-term financing needs to national development priorities and domesticated SDG targets; and an assessment of key financial and non-financial risks and binding constraints, particularly in relation to external shocks that weigh on the socio-economic context. The D&A recommendations (policies, strategies, governance and oversight structures, institutional capacities and systems) provide the basis for the elaboration of the "Integrated National Financing Strategy (BB2: INFS)", the ultimate outcome of the INFF process. This in-depth assessment provides an alternative to a standalone DFA, builds synergies and irons out information asymmetries, and sets a financing trajectory for the 2030 SDGs. Given the technical and volumetric nature of the A&D report, good practice requires two (2) sub-processes to be undertaken before the INFS: (a) a Ministerial Brief that further distils the executive summary in the A&D report; and (b) the INFF Dialogues – an elaborate stakeholder consultation process that helps validate the findings and recommendations.

- BB2 – Integrated National Financing Strategy (INFS). The INFS builds on the A&D recommendations to lay a blueprint on how national development outcomes and SDGs are financed. It seeks to minimize the fragmentation and silo nature of most national financing policies into a cohesive and sustainable framework to finance development outcomes. It also provides an overview of a range of tools offered by the international community to support national efforts in a nationally-led process. The INFS sets out a set of sequenced actions to finance national development strategies and goals aligned with national priorities. It helps match needs to specific resource flows while addressing policy critical constraints to sustainable development – bringing together financing policies, instruments and regulatory frameworks. The components for the INFS include: the mobilization and alignment with national priorities of domestic public financing; private finance and investment; development cooperation; and establishing an enabling environment and non-financial implementation needs.

- BB3 – Monitoring and Review (M&R). M&R is a critical element of an effective INFF process. It helps governments track the delivery and use of financial and other resources, drawing lessons into policy design and execution – laying a foundation for increased accountability and a strong basis for stakeholder policy dialogue. The INFF M&R consists of three (3) layers: (a) monitoring progress in different financing flows and policy areas; (b) strengthening coherence among already existing tracking and monitoring systems and closing gaps in the architecture; and (c) assessing whether the financing strategy itself is succeeding in increasing overall coherence and alignment of financing and related policies. These layers are further distributed into four components: (i) monitoring progress in different financing flows and policy areas; (ii) strengthening coherence among already existing tracking and monitoring systems and closing gaps in the architecture; (iii) understanding the impact and added value of the financing strategy itself; and (iv) transparency and accountability mechanisms. Establishing a robust and credible data management system (data availability and review mechanisms) will dictate the quality of the INFF monitoring and review process.

- BB4 – Governance and Coordination (G&C). Any successful policy design and execution heavily hinges on the national capacity and political will as well as effective stakeholder collaboration. A successful INFF process is demand-driven, has strong political support and is country owned and led. The INFF process requires governance and coordination at the highest level of government, and throughout the entire process - from assessments and diagnostics to policy formulation, implementation, and monitoring and review. This includes 'top-down' institutional mechanisms; and coordination and coherence tools. This is intended to elicit a 'broad-based support' and better inform policymakers of stakeholders' needs and priorities.

3.4 INTERNATIONAL TAX ISSUES:

In June 2021, the G7 countries reached a significant tax agreement in London, to establish a more inclusive and accountable international tax architecture and impose credible sanctions for non-compliance, including tax havens (London Agreement). The key elements of the London Agreement were to set a global minimum corporate tax rate of at least 15% and reallocate taxing rights for the largest and most profitable MNEs. Under this London Agreement, 20% of their profits above a 10% margin would be awarded to market jurisdictions where sales are made.

The London Agreement built upon the work of the OECD in coordinating global tax governance after the global financial crisis. This was later endorsed by the G20/OECD agreement in July 2021, which aimed to create a more transparent and fair international tax system by adopting and implementing tax transparency and Base Erosion and Profit Shifting standards BEPS Agreement). The BEPS Agreement has received further endorsement from over 130 G20/OECD Inclusive Framework member jurisdictions, representing 90% of the worldwide GDP. The BEPS Agreement aims to combat tax avoidance strategies used by MNEs that exploit gaps in national tax laws to shift profits to low-tax jurisdictions. This has been particularly detrimental to African countries as they heavily rely on corporate income tax for their tax revenue receipts. This BEPS Agreement aims to ensure that MNEs pay their fair share of taxes worldwide, bringing more certainty and stability to the global tax system.

The BEPS Agreement consists of two pillars. Pillar 1 focuses on MNEs paying their fair share of taxes, while Pillar 2 establishes a global minimum corporate income tax rate of at least 15%.

By addressing base erosion and profit shifting, where MNEs exploit gaps in national tax rules to avoid taxes, the BEPS Agreement aims to reduce annual revenue losses estimated at USD 100-240 billion globally, particularly detrimental to African countries.

The BEPS Agreement includes around 15 measures that aim to address tax avoidance, improve the coherence of international tax rules, and ensure a more transparent global tax environment. Analyses of corporate filings by companies like Google and Johnson & Johnson suggest that these measures could lead to significant increases in taxes payable by these companies. This is particularly relevant in the digital economy, where global giants like Google, Amazon, Facebook, Apple, and Microsoft have been accused of minimizing their tax exposure by channeling profits to low-tax jurisdictions.

The BEPS Agreement came into force in 2023, enabling countries to generate additional tax revenues to mitigate the fiscal challenges resulting from various global crises, including the COVID-19 pandemic.

3.5 DEBT MANAGEMENT:

Public debt emerges from governments' need to bridge budget deficits and meet socio-economic spending needs. Debt, if not managed well, can result in macroeconomic instability and negate socio-economic development needs. Debt management refers to the strategies and policies put in place by countries to ensure that financing needs are met at the lowest possible cost and at a prudent degree of risk.

The external debt instruments, denominated in foreign currency, include multilateral concessional loans, bilateral loans, commercial bank loans and sovereign bonds at market rates. Domestic instruments include treasury bills, bonds, and commercial loans or retail instruments with private investors.

In 2005 the World Bank developed the DEMPA tool to help countries manage their debt effectively and sustainably, particularly in the aftermath of the global debt crisis in the 1980s and 1990s. DEMPA evaluates a country's debt management performance across four key areas: (a) legal and regulatory framework, (b) strategy and coordination, (c) debt issuance and management, and (d) debt reporting and transparency.

In addition, the Low-Income Country Debt Sustainability Framework (LIC DSF) was introduced to support low-income countries in achieving their development goals while minimizing their risk of debt distress. The LIC DSF analyzes scenarios and applies stress tests to determine their debt-carrying capacity and risk of debt distress. The template also provides risk signals and ratings for external and overall public debt distress.

Since debt crises are costly for all parties involved, a full debt sustainability analysis (DSA) is required at least once a year for both IMF surveillance and lending, and the World Bank requires an annual DSA for determining the IDA credit-grant allocation.

A regular DSA helps establish a country's capacity to borrow responsibly and maintain a low-risk debt portfolio, while also ensuring that all current and future payment obligations can be met without defaulting or needing exceptional financial assistance.

A Debt Sustainability Strategy (DSS) aids in managing a country's borrowing capacity, minimizing risks, optimizing debt levels, and accommodating the national budget and crisis response. Supported by a strong political will, a DSS will prioritize concessional terms, manage currency denomination, and lower the effective cost of funds.

Public debt is deemed sustainable when the government can meet all its current and future payment obligations without requiring exceptional financial assistance or defaulting. The Bretton Woods Institutions, including the IMF and World Bank, use the DSF to guide borrowing decisions and determine lending terms, and the DSA is used to calculate debt limits and assess risk ratings for debt distress.

The DSA assessments are performed through standard templates and consists of two major components:

- The projected debt burden for the specific country in the next 10 years and its vulnerability to economic and policy shocks – recorded (under normal circumstances) based on assumptions and stress tests.
- The assessment of risk of external and overall debt distress based on the indicative debt burden thresholds and benchmarks, the country's macroeconomic framework and country-specific information.

The Debt Sustainability Framework (DSF) has been improved in recent years to better reflect global and country-specific factors and enhance the accuracy of predicting debt distress. The reforms introduced in the 2017 review have reduced false alarms that would wrongly predict debt signals, and reduced missed crises by improving the statistical accuracy of predicting debt distress. They also offer better guidance for making fair decisions. These improvements have focused on baseline macroeconomic projections and recalibrating standardized stress tests to better reflect actual shocks while adding tailored scenarios to evaluate risks stemming from natural disasters, volatile export prices, market-financing shocks, and contingent liability exposures.

As of the end of December 2022, 32% of the 37 African countries with published data were rated 'moderate,' 46% were 'high,' and 22% were in 'debt distress.' **Table 4** below summarizes the debt sustainability status in 37 African low-income nations, IDA Countries Subject to the LIC DSF.

Table 6: Debt Sustainability Analysis (DSA) Ratings Dec 2022

#	Country	External Debt Distress Risk	Overall Debt Distress Risk	Publication	Low	Moderate	High	Distress	Total
01	Benin	Moderate	Moderate	Dec-22	-	1	-	-	1
02	Burundi	High	High	Jul-22	-	-	1	-	1
03	Cabo Verde	Moderate	High	Jun-22	-	-	1	-	1
04	Cameroon	High	High	Jul-22	-	-	1	-	1
05	Central African Republic	High	High	Jan-21	-	-	1	-	1
06	Chad	High	High	Dec-22	-	-	1	-	1
07	Comoros	High	High	Sep-21	-	-	1	-	1
08	Congo, Dem. Rep.	Moderate	Moderate	Jun-22	-	1	-	-	1
09	Congo, Rep.	In distress	In distress	Jun-22	-	-	-	1	1
10	Côte d'Ivoire	Moderate	Moderate	Jun-22	-	1	-	-	1
11	Djibouti	High	High	May-20	-	-	1	-	1
12	Ethiopia	High	High	Apr-20	-	-	1	-	1
13	Gambia, The	High	High	Dec-22	-	-	1	-	1
14	Ghana	High	High	Jul-21	-	-	1	-	1
15	Guinea	Moderate	Moderate	Dec-22	-	1	-	-	1
16	Guinea-Bissau	High	High	Jun-22	-	-	1	-	1
17	Kenya	High	High	Dec-22	-	-	1	-	1
18	Lesotho	Moderate	Moderate	Jun-22	-	1	-	-	1
19	Liberia	Moderate	High	Aug-22	-	-	1	-	1
20	Madagascar	Moderate	Moderate	Mar-22	-	1	-	-	1
21	Malawi	In distress	In distress	Nov-22	-	-	-	1	1
22	Mali	Moderate	Moderate	Feb-21	-	1	-	-	1
23	Mauritania	High	High	Sep-20	-	-	1	-	1
24	Mozambique	In distress	In distress	Apr-20	-	-	-	1	1
25	Niger	Moderate	Moderate	Dec-22	-	1	-	-	1
26	Rwanda	Moderate	Moderate	Dec-22	-	1	-	-	1
27	Sao Tome and Principe	In distress	In distress	Aug-22	-	-	-	1	1
28	Senegal	Moderate	Moderate	Jun-22	-	1	-	-	1
29	Sierra Leone	High	High	Jun-22	-	-	1	-	1
30	Somalia	In distress	In distress	Jun-22	-	-	-	1	1
31	South Sudan	High	High	Jul-22	-	-	1	-	1
32	Sudan	In distress	In distress	Jun-21	-	-	-	1	1
33	Tanzania	Moderate	Moderate	Jul-22	-	1	-	-	1
34	Togo	Moderate	High	Apr-20	-	-	1	-	1
35	Uganda	Moderate	Moderate	Mar-22	-	1	-	-	1
36	Zambia	In distress	In distress	Aug-22	-	-	-	1	1
37	Zimbabwe	In distress	In distress	Mar-22	-	-	-	1	1
	Total				**-**	**12**	**17**	**8**	**37**
	Percentage (%)				0%	32%	46%	22%	100%

Source: Debt & Fiscal Risks Toolkit, World Bank Website

The objective of DSF is to support LICs achieve development goals and minimize their risk of debt distress that is costly to debtors, creditors and the global financial system. A full DSA should be produced at least annually– and a requirement for the IMF surveillance (Article IV) and lending (IMF program) and the World Bank IDA credit-grant allocation. The LIC DSF applies to countries with 'substantially long-maturity debt with terms that are below market terms (concessional debt), or to countries that are eligible for the World Bank's IDA grants.' LIC DSA countries may graduate to Market-Access Countries (MAC DSA) 'when its per capita income level exceeds certain threshold for a specified period or when it has the capacity to access international markets on a durable and substantial basis.' The two LIC DSF components are: an external DSA and a public DSA[14], with each generating a mechanical risk signal from the comparison between the relevant debt indicators and the thresholds as well as 'judgment'. Considerations include: short term factors and marginal breaches; liquidity of financial

14 The public DSA covers total public sector debt, composed of both external and domestic debt. The mechanical overall risk of total public debt is derived from the mechanical external risk signal plus the total public sector debt (both external and domestic) signal. The final overall risk of public debt distress can be also different from mechanical signals through judgement.

assets; long-term considerations; conflicts; currency unions; availability of insurance-type arrangements; confidence in the macroeconomic baseline projections and other country-specific considerations. The LIC DSF coverage excludes private domestic debt and introduces a composite indicator of debt-carrying capacity; validates the realism of the underlying assumptions; produces multiple stress scenarios tailored to country-specific risks; and offers enhanced guidance on judgement to determine the risk rating of debt distress.'[15]

The LIC DSF is a widely used framework for public and external DSAs to assess debt vulnerabilities; is typically produced at least once a year to help guide borrowing and lending decisions and assess the risk of debt distress; is applicable to countries that can borrow concessionally – and can borrow with public debt maturities spanning several decades and on borrowing terms that are better than the average market terms; each DSA is based on a coherent set of economic policy assumptions over a long projection period that are subjected to many stress tests; and the final risk of debt distress rating is based on how a set of indicators compares to thresholds that were based on each country's debt-carrying capacity and factors in additional judgement based on country-specific circumstances. **Table 5** summarizes the external and overall debt burden indicators related to both solvency and liquidity.

Table 7: Debt Burden Indicators

External Debt Burden Indicators		
Solvency	PV of Public and Private Government (PPG) External Debt to GDP	PV of PPG External Debt to Exports
Liquidity	PV of an external DSA and a public DSA External Debt Service to Revenue	PV of PPG External Debt Service to Exports
Overall Debt Burden Indicators		
Solvency	PV of PPG Total PPG Debt to GDP	PV of PPG Total PPG Debt to Rev-enues
Liquidity	PV of PPG Total PPG Debt Service to Revenue	

Source: Debt & Fiscal Risks Toolkit, World Bank Website

3.6 SUBNATIONAL PUBLIC FINANCES AND INTERGOVERNMENTAL RELATIONS:

To promote economic efficiency, there should be a division in policy among central and local governments according to the specific service. The "subsidiarity principle" or "correspondence principle" argues that local governments should handle most public expenditure functions, except those better suited for higher levels of government due to

economies of scale or jurisdictional spillovers. For example, national defense and monetary policy should be handled at higher levels of government. While some public services, such as local roads, street lighting, and waste management, can be efficiently provided by local governments, others like public education and healthcare require a mix of central and local providers to account for factors like economies of scale, equity, and demand heterogeneity.

Fiscal decentralization transfers financial responsibility to local

governments: quasi-autonomous units that usually have clear and legally recognized geographical boundaries, elect their own mayors and councils, to some extent raise their own revenues, and have independent authority to make investment decisions.

Political decentralization gives citizens or their elected representatives more power in public decision-making. Administrative decentralization redistributes authority, responsibility, and financial resources for providing public services among different levels of government. Successful decentralization requires a comprehensive approach that considers the specific context of each country. Other intermediate moves away from complete centralized fiscal management are de-concentration, delegation, and devolution.

Successful decentralization requires administrative capacity, accountability mechanisms, and clear fiscal responsibilities and resources. Allocation of resources from central to local government can be done through a formula by considering the specific characteristics of the jurisdiction such as population size, and poverty level. Intergovernmental fiscal transfers involve several crucial elements that require consideration to ensure the effective and equitable distribution of resources. These elements include ensuring adequate financing for local governments to provide quality services, addressing fiscal inequities in horizontal allocations, considering fiscal decentralization to lower levels of government and facilities, providing reasonable fiscal autonomy to local governments

15 *Debt & Fiscal Risks Toolkit, World Bank Website;*

while achieving national service delivery objectives, strengthening institutional arrangements for managing transfers, and developing evidence-based local government fiscal policies through data analysis. Addressing these elements will require careful decision-making and possibly legal amendments to strengthen institutional arrangements.

IV. ASSESSMENT TOOLS

4.1 REVENUE ADMINISTRATION:

4.1.1 Revenue Administration Fiscal Information Tool:

The International Survey on Revenue Administration (ISORA) is a tool that collects data from national or federal tax administrations. It was established to gather periodic tax administration data, with the aim of improving data management, performance measurement, and reporting by tax administrations. This data can be used to understand historical performance, identify trends, flag policy and administrative inefficiencies, and facilitate research.

Participation in the survey is voluntary and conducted online through the Revenue Administration Fiscal Information Tool, which is hosted on an online data collection platform. The surveys are based on agreed definitions by international organizations such as the Inter-American Center of Tax Administrations, the IMF, the Intra-European Organization of Tax Administration and the OECD.

The ISORA portal contains information about the survey, questionnaires, publications, and presentations, and provides a visual view of the countries that participate each year. The Revenue Administration Fiscal Information Tool[16] is the questionnaire used in the survey, and registration is done through the respective ministries of finance of the individual home country. The tool is widely used and can be accessed through the ISORA website, where previous year's questionnaires are also available.

4.1.2 Tax Administration Diagnostic Assessment Tool (TADAT):

TADAT[17] is a tool designed to objectively evaluate the performance of a country's tax administration system. It covers nine key performance areas across all possible tax administration functions, based on 32 high-level indicators that are built on 1 to 5 dimensions, for a total of 55 measured dimensions. The tool can identify strengths and weaknesses in the tax administration system, provide comparative information to stakeholders, help set up reform agendas, coordinate external support, and monitor reform progress. TADAT focuses on key taxes, including Corporate Income Tax, Personal Income Tax, Value Added Tax, and Pay as You Earn, and can also include social security contributions. To use TADAT effectively, personnel must be trained using the standard Assessor Guide.

4.1.3 Revenue Administration Gap Analysis Program (RA-GAP):

RA-GAP is a program initiated by the IMF to help countries assess their revenue losses. It enables countries to conduct tax-gap analyses and detect changes in taxpayer behavior. The gap analysis estimates the amount of revenue lost over time. The program provides a tool called RA-GAP, along with technical notes that outline the theoretical concepts for estimating the Personal Income Tax gap. The tool offers various methods and remedies to assist in its utilization.

4.2 FISCAL ANALYSIS AND MANAGEMENT:

4.2.1 Public Expenditure and Accountability Assessment (PEAA):

The PEAA was established in 2001 by international organizations, including the European Commission, the IMF, the World Bank, and the governments of France, Norway, Switzerland and United Kingdom. The main purpose of PEAA is to harmonize the assessment of PFM across participating organizations and countries. It evaluates the strengths and weaknesses of PFM through quantitative indicators, measuring performance in 94 dimensions across 31 key components of PFM indicators grouped into seven areas or pillars.

PEAA aims to achieve several goals, including strengthening a country's PFM systems, facilitating capacity development actions and reforms, promoting country ownership, reducing transaction costs, harmonizing donor efforts, monitoring PFM progress over time, addressing development concerns, and improving the impact of reforms.

The PEAA process involves planning, fieldwork, and reporting. During planning, the government engages in the assessment process and takes ownership of it. Fieldwork involves collecting evidence and gathering information to score assessment dimensions and indicators, which are then used to build the PEAA document. The findings are reported to policymakers in the government and development partners. The recommendations provided by PEAA guide PFM reforms.

PEAA assessments are typically conducted every five years to provide a baseline for credible Public Financial Management Reform. In addition, PEAA has introduced a gender and climate PEAA, allowing countries to pioneer assessments that consider gender and climate-related factors.

Some common recommendations from PEAA for African countries have included improving budget comprehensiveness, enhancing revenue administration, strengthening internal control and external audit, enhancing public procurement systems, and improving financial reporting and transparency. These recommendations aim to improve public financial management systems and promote good governance, which can lead to better service delivery and economic development.

16 https://data.rafit.org
17 https://www.tadat.org/overview#overview

4.2.2 Fiscal Analysis of Resource Industries (FARI):

To effectively manage taxation in the extractive industries, a comprehensive fiscal system is crucial. The IMF Fiscal Affairs Department developed the FARI tool[18]. FARI is commonly utilized in designing fiscal regimes for individual countries in the extractive sector. It can also be employed for revenue forecasting and management by integrating it into countries' macroeconomic frameworks and revenue risk management.

FARI is a user-friendly Excel-based tool that can be downloaded from the IMF website, tailored to the specific natural resource being considered. The available FARI tools include the Mining FARI Model 2022 and the Petroleum FARI Model 2022, each accompanied by a respective manual. The FARI model was initially published in 2016 and was updated in 2021 to enhance usability, including the addition of French and Spanish language options alongside English. The IMF also offers a course on FARI implementation in resource-rich countries.

The extractive industries typically involve various stages, such as exploration, development, production, and decommissioning/ mine closure. FARI follows a project-level modeling approach, estimating the government's share of pretax net cash flow from the natural resource. It calculates the tax obligations based on the discounted cash flow model. The input parameters in FARI include project data (annual costs and production volumes) and economic assumptions (prices, inflation, interest rates, and discount rates). The calculations are performed annually, starting with the estimation of net project cash flows before any fiscal obligations. Payments are then determined based on the fiscal regime parameters, and the total tax owed to the government is calculated.

Several countries have utilized the FARI framework, including Mauritania, South Africa, Israel, the Philippines, Iceland, Russia, and Zambia. These countries have applied FARI to manage their natural resource sectors, as evidenced by various published papers highlighting their implementation.

4.2.3 Fiscal Transparency Evaluations (FTE):

FTEs[19] are comprehensive assessments of fiscal transparency conducted by the IMF upon request from a country. These evaluations offer several benefits to the host countries. Firstly, they provide a thorough evaluation of the country's fiscal transparency against IMF standards. Secondly, they analyze the fiscal vulnerabilities of the country based on transparency indicators. Thirdly, they offer a more complete understanding of the financial position of the entire public sector, providing a comprehensive picture of public sector activities. Finally, FTEs present visual representations of a country's fiscal transparency strengths using heatmaps. To date, FTEs have been conducted in over 30 countries worldwide, and the respective reports are published on the FTEs website.

FTEs contribute to effective fiscal management and accountability for governments by providing a clear understanding of their financial situation. They also equip lawmakers, markets, and citizens with the information they need to hold the government accountable. Enhanced fiscal transparency increases a country's credibility in terms of its fiscal plans.

The IMF has developed a fiscal transparency code over the years, which serves as the standard for disclosing information about public finance to the public. This code covers various aspects, including fiscal reporting, fiscal forecasting and budgeting, fiscal risk analysis and management, and resource revenue management. The first three pillars of the code were established in 2014, while the fourth pillar was added in 2019. Each pillar consists of several subsections. The IMF published a fiscal transparency code handbook in 2018, which provides detailed implementation guidance for pillars 1 to 3. Additionally, a handbook focusing on pillar 4 was published in 2019.

4.2.4 Public-Private Partnership Fiscal Risk Assessment Model (P-FRAM):

P-FRAM[20] is an analytical tool developed in Excel by the World Bank and IMF to help governments manage and assess the fiscal costs and risks associated with engaging in PPPs. Governments use this tool to understand the positive and negative effects of PPPs, which can improve the efficiency of public investment. The P-FRAM was developed for three reasons: (a) when the government engages with the private sector, there are fiscal implications that must be analyzed; (b) PPPs improve the efficiency of public investment, but their fiscal effects must be analyzed; and (c) the tool can be used to assess the fiscal implications of PPPs in terms of infrastructure development and delivery. To promote informed decision-making on infrastructure development, version 2.0 of the P-FRAM was developed with additional features that enable governments gather specific information related to the project, estimate the potential fiscal impact of contingent liabilities, and assess the financial costs and risks associated with PPPs. The World Bank and IMF provided the P-FRAM as a form of technical assistance to individual countries since 2016.

4.2.5 Public Investment Management Assessment (PIMA):

PIMA [21] is a tool developed by IMF to evaluate the quality of public investment processes and governance practices across countries. PIMA assesses institutions across the three stages of the public investment cycle: sustainable investment planning, investment allocation, and investment implementation. It measures the strength and effectiveness of each institution in three common areas of public investment management: legal and regulatory framework, staff capacity, and IT systems. PIMA scores institutions based on a chart with three dimensions: not met, partially met, and fully met. The benefits of PIMA include covering the full public investment cycle, identifying gaps, offering practical recommendations, and supporting coordination and follow-up by development partners.

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18 https://www.imf.org/external/pubs/ft/tnm/2016/tnm1601.pdf
19 https://www.imf.org/en/Topics/fiscal-policies/fiscal-transparency
20 https://ppp.worldbank.org/public-private-partnership/library/public-private-partnerships-fiscal-risk-assessment-model-pfram-version-2-0
21 https://infrastructuregovern.imf.org/content/PIMA/Home/PimaTool/What-is-PIMA.html#tab_6

PIMA recommendations for African countries aimed to improve the efficiency of public investment management practices, and included: strengthening the legal and regulatory framework, enhancing staff capacity and IT systems, improving coordination and communication between different entities involved in public investment management, developing sustainable investment plans, allocating investments to the right sectors and projects, and implementing investments that deliver productive and durable public assets. PIMA also emphasizes the importance of transparency, accountability, and monitoring in the implementation of public investments. Some specific actions taken by African countries in response to PIMA recommendations include the establishment of central public investment management sections, the development of standard project appraisal rules, and the streamlining of project appraisal and selection processes.

VI. GLOSSARY

Audit – a process conducted independently and objectively to ensure adequate and effective controls of the reliability and integrity of financial and operational data. It includes assessing the efficiency of operations and programs, protecting assets, and ensuring compliance with laws and regulations.

The Internal Audit is done – in line with international auditing standards issued by the Institute of Internal Auditors (IA). The External Audit is provided through Supreme Audit Institutions (SAEs) to support transparent and accountable use of public funds. The efficiency of SAEs differs across countries, depending on factors like their level of independence, political support, legal foundation, institutional capacity, and compliance with International Organization of Supreme Audit Institutions (INTOSAI) standards and benchmarks, among others.

Budget – the financial plan that outlines a government's anticipated revenues and proposed expenditures for a specific period. It Serves as a crucial tool for policymakers to manage the country's finances.

Budgeting Methodologies – methods used by central or local governments to achieve the goals and priorities of the community. Over time, local governments have used various methodologies, including line-item budgets, program budgets, performance budgeting, budgeting for outcomes, and gender-responsive budgeting.

Decentralization – redistributes authority, responsibility, and financial resources for providing public services among to sub-national governments. The redistribution can be at the administrative, fiscal, or political levels.

Domestic Resource Mobilization – the process through which governments raise funds to meet their people's needs primarily through taxation and non-tax sources – and has four components: public, private, debt, and non-debt flows.

Fiscal Discipline – refers to the practice of managing government finances responsibly and prudently. Strengthened by the reliability of aggregate revenue and expenditure outturns, as well as the reasonable level of composition variances on both revenues and expenditures.

Fiscal Policy – refers to the government's use of taxation and spending to influence the economy, achieve its macroeconomic goals aiming to achieve economic stabilization, promote growth, and manage public finances effectively.

Financial Management Information Systems (FMIS) – support the automation and integration of public financial management processes including budget formulation, execution, accounting, and reporting. There are tools and platforms to enhance efficiency, transparency, and accountability in PFM. These include e-procurement, e-payment systems, online budget portals, and the broader Integrated Financial Management Information System (IFMIS).

Fiscal Risk Management – refers to the process of identifying, assessing, and mitigating potential risks to a government's fiscal health and stability. It involves strategies and actions taken by governments to manage various financial risks, including those related to budgetary constraints, revenue fluctuations, expenditure volatility, debt management, and economic uncertainties.

Fiscal Rules – a way of promoting fiscal discipline and macroeconomic stability, preventing excessive borrowing, and ensuring the long-term sustainability of public finances.

Integrated Financing Framework (INFF) – a global framework that was established in Addis Ababa in 2015 to finance the 2030 agenda and the 17 Sustainable Development Goals (SDGs).

Legislative Scrutiny – keeps a check on the executive to ensure legal reporting requirements are met, scrutinizes the external audit reports over the execution of the approved budget, and conducts inquiries on audit recommendations to ensure the executive remains accountable.

Payroll Management – is the administration of salaries, wages, and benefits for government employees.

Political Economy – a term that emphasizes the importance of political factors and their interrelationship with economic phenomena. In budgeting, politics and economics are inherently intertwined as budgetary decisions are contingent on political factors.

Procurement Management – the way governments get goods and services from commercial bidders. Often, the process is heavily regulated, with statutes, rules, and regulations to promote the proper use of taxpayer dollars.

Public Financial Management (PFM) – the set of processes and systems governments use to manage their financial resources effectively. PFM plays a crucial role in making fiscal policy work effectively.

Public Investment Management (PIM) – refers to the process of planning, executing, and monitoring government expenditures on infrastructure, education, healthcare, and other public goods and services. It involves assessing investment needs, prioritizing projects, allocating resources efficiently, and evaluating the effectiveness of investments to achieve sustainable development goals.

Revenue Administration – the work done by specific government agencies in the enforcement of tax law and implementation of policies to optimize revenue collection while ensuring fairness and transparency in the tax system. It includes the

collection, oversight and regulation of taxes, tariffs, and other government revenues.

Revenue Forecasting – the process of estimating the amount of revenue expected to be collected in a given financial year. This includes an analysis of historical data, economic and other policies that impact revenue collection – including, tax policy, economic growth rate, inflation rate and more.

Tax Design – it is about the processes established to create a tax system that is fair, efficient and effective for tax citizens. It involves the decisions that must be made on what items to tax and at how much as well as the system of collection.

Tax Policy – can be defined as the set of principles set by governments to determine tax rates, exemptions, deductions and other regulations for the sole purpose of collecting taxes from individuals and businesses. It involves the why and how societies carry out taxation.

Treasury Single Account (TSA) – refers to the unification of government bank accounts to consolidate, utilize, and manage government cash resources. It minimizes cash management and borrowing costs by reducing fragmentation in the handling of government receipts and payments.

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