Opportunities and Challenges of Public Financial Management (PFM) Systems to Respond to COVID-19 In Africa

IMANI CPE Webinar

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14 July 2020
We would cover the following themes:

1. PFM and fiscal policy implementation in Africa
2. Fiscal laws, fiscal institutions and fiscal transparency
3. Medium-term budgeting and tax revenue analysis
4. PFM systems response to COVID-19 challenges in Africa
COVID-19 case data as at 12 July 2020

12,823,222
Confirmed cases worldwide

567,101
Deaths worldwide

Bloomberg (2020)
The Great Lockdown: a time and crisis like no other – forecast of the worst economic downturn since the Great Depression

IMF World Economic Outlook, April 2020
SSA economies forecasted to see sharp slowdown in 2020 due to the COVID-19 pandemic

IMF World Economic Outlook (October 2019)

IMF World Economic Outlook (April 2020)
# Economic policy responses to COVID-19

## Fiscal
- Credit/financial policies and support packages for people and businesses
- Tax policies – reduction in VAT, CIT, among others
- Control of non-priority expenditure, redirect savings to COVID-19 related spending
- Food stamps, electricity and water subsidies
- Direct support to SMEs, tax holidays.
- Access to commercial banks financing for private (formal and informal) companies
- Social policies - assistance to low-income families

## Monetary and macro-financial
- Reduction in the policy rate
- Lowering the primary reserve requirement and capital conservation buffers of banks
- Revising provisioning and classification rules for specific loan categories
- Exchange rate & balance of payments - REPO arrangements, FX swap lines
Economic policy responses to COVID-19

**Large fiscal packages**
Advanced economies and, to a lesser extent, emerging market economies have deployed a significant level of above- and below-the-line fiscal measures.

(percent of GDP)

Sources: National authorities; and IMF staff estimates.

**Higher and higher**
Forecasts for general government gross debt and fiscal balances for 2020 have undergone unprecedented revisions.

(Percent of GDP)

Sources: WEO, Fiscal Monitor, and IMF staff estimates.
Most countries receiving IMF COVID-19 emergency financing and debt relief are in SSA; economies are not resilient and most exposed to external shocks

Source: IMF (2020)
Structural rigidities in the budget in most SSA countries contributes to the lack of fiscal space (Ghana case study)

<table>
<thead>
<tr>
<th>Resource mobilisation for 2020 (Ghana; USD mm)</th>
<th>Resource allocation for 2020 (Ghana; USD mm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenue &amp; grants</td>
<td>Total expenditure</td>
</tr>
<tr>
<td>Non-oil tax revenue</td>
<td>Compensation of employees</td>
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<tr>
<td>Oil revenue</td>
<td>Interest payment</td>
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<tr>
<td>Non-tax revenue (excl. oil)</td>
<td>Grants to other government units</td>
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<tr>
<td>Other revenue</td>
<td>Capital expenditure</td>
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<td>Grants</td>
<td>Goods and services</td>
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<td></td>
<td>Other expenditure</td>
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<td></td>
<td>Arrears clearance</td>
</tr>
</tbody>
</table>

Data source: Ministry of Finance Ghana (2020)
Situational analysis – Centre of Government fishbone

Weak strategic planning, budget formulation

- Poor linkages, plans-budgets, minimal bottom-up policy costing
- Fragmented strategic planning across MDAs in each sector, and down to subnational level

Inefficient spending and low VFM in social sectors constrain path to self-reliance

- Weak adherence to cash management framework & commitment controls
- MoF releases without recourse to MDAs’ cash plans & forecasts
- Excessive re-allocation and virements from political projects

Weak cash forecasting capacity

- Off-budget expenditures from quasi-statutory & statutory bodies, including SOEs
- Slow, paper-based, procurement approval systems
- Excessive re-allocation and virements from political projects

Governance challenges prevent mobilising greater revenues

- Can’t increase tax burden without addressing leakages & governance issues
- Supplier price inflation

Poor procurement planning and expensive sole-sourcing

- Contracts influenced by political processes
- MDAs commit and incur expenditures beyond budget limits

Poor cash management and forecasting, efficiency bottlenecks

- Capacity constraints (no training or capacity, IT systems and connectivity issues)
- Slow, paper-based, procurement approval systems
- Excessive re-allocation and virements from political projects

Weak public investment management capacity

- Weak public investment management capacity
- Unbudgeted programmes get implemented

SOURCE: OXFORD POLICY MANAGEMENT LTD
Health financing for universal coverage

Current health expenditure per capita (current US$)

Life expectancy

Data from World Bank. Last updated: Apr 8, 2020.
“The government is committed to cracking down on financial malpractices and wasteful public spending, hence the priority on achieving the target set out in the Public Financial Management (PFM) strategy. — Ken Ofori-Atta, 17 Oct 2017
Implementation of outcomes-based fiscal policies to respond to COVID-19 and beyond would be through PFM systems, primarily the budget cycle.
Implementation of outcomes-based fiscal policies to respond to COVID-19 and beyond would be through PFM systems, primarily the budget cycle.
Policy formulation/strategic planning based on MTEF (Step 1)

This is where economic and social policies are translated into a medium-term (3 years) programme of actions subject to available resources.

- Macro-economic forecasting
- Development of sector strategies
- Setting priorities within fiscal constraint
- Capability of the policy side
- Setting expenditure ceilings
- Determining expenditure ceilings
- National Development Plan
- Costing / fiscal impact assessments
- Determining expenditure ceilings
- Fiscal side
- Policy side
Budget preparation/formulation (Step 2)

• Translation of strategic plans into the budget (often annually)

• Responsibilities set out in a legal framework: constitution, organic budget law, financial decrees and regulations - e.g. PFM Act

• Once approved, budget becomes law hence deviations (virements, supplementary budgets) need to be approved
Implementation of outcomes-based fiscal policies to respond to COVID-19 and beyond would be through PFM systems, primarily the budget cycle.

Budget execution (Step 3)

Aim: achieve policy goals

Revenue collection
- Taxes (direct/indirect)
- Excises
- Duties
- Non-tax revenues
- Donor funding

Expenditures
- Control
- Payroll
- Procurement of goods/services
- Transfers / subsidies

Liquidity management
- Short term (cash management)
- Medium / long term (debt management)

Source: European Commission
Alignment between the PFM system and health financing system can lead to a single integrated cycle, improving VfM and efficiency gains.

Contingency appropriations
Emergency spending
Expenditure reprioritisation
Supplementary budgets
External grants

Source: WHO (2020)
More resources on PFM systems response to COVID-19 challenges

June 10, 2020

**Enhancing Digital Solutions to Implement Emergency Responses**
The note proposes recommendations to leverage digital solutions, such as financial management information systems and fiscal transparency portals, to meet the PFM objectives of smooth, efficient, and transparent implementation of COVID-19 responses.

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May 20, 2020

**Budget Execution Controls to Mitigate Corruption Risk in Pandemic Spending**
Ensuring that ramped-up spending in response to COVID-19 is effective requires addressing vulnerabilities to misuse and corruption. This note identifies measures to mitigate such vulnerabilities, with a particular focus on budget execution controls.

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May 13, 2020

**Managing Public Investment Spending during the Crisis**
Managing public investment spending plays a key role in the fiscal response to the COVID-19 pandemic. The note discusses two aspects: cuts or postponements in spending in the initial phase, and the scaling up of spending for economic recovery.

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June 17, 2020

**Government Support to State-Owned Enterprises: Options for Sub-Saharan Africa**
The pandemic is causing distress for many African state-owned enterprises. This note discusses guiding principles for intervention, how it can be done, and what governance steps are needed. While the focus is on Africa, the principles are applicable across all regions.

Download: English

April 29, 2020

**Fiscal Rules, Escape Clauses, and Large Shocks**
The pandemic and the global economic contraction are putting fiscal rules to the test. Many countries are appropriately activating escape clauses to deviate or suspend the fiscal rules. This should be temporary and done transparently.

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April 29, 2020

**Government Cash Management Under Fiscal Stress**
Faced with decreasing revenues, constrained access to financial markets and large emergency spending needs, governments should adopt a multipronged approach to cash management to ensure there is adequate liquidity to meet their payment obligations.

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Implementation of outcomes-based fiscal policies to respond to COVID-19 and beyond would be through PFM systems, primarily the budget cycle.

Fiscal transparency and accountability are critical to an effective COVID-19 response that eases the impact of the disease and builds trust.

IMANI PFM WEBINAR | JULY 2020

Message from the IPSASB Chair

The COVID-19 pandemic is presenting unprecedented challenges for us all, from its effects on our everyday lives, to its impacts on the world's economies.

After we emerge on the other side, one of the legacies of this extraordinary period will undoubtedly be the longer-term financial impacts of the interventions by governments around the world. The unparalleled nature and scale of the fiscal measures being taken in response to COVID-19 reinforce the need for strong Public Financial Management (PFM) to maximize their immediate effectiveness. Strong public accountability for the resources used in fighting the pandemic, through high quality financial reporting, will also be essential to making their overall impact on public sector finances fully transparent.

International Public Sector Accounting Standards Board® (IPSASB®)
Auditing: role of fiscal institutions and fiscal transparency (Step 5)

Source: IMF (2016)
External auditing: role of fiscal institutions and fiscal transparency (Step 5)

Ghana loses $564m to ‘ghost’ workers on MDAs payroll

Source: Ama Cromwell
18 May 2020 8:15pm

Auditor General surcharges 11 corrupt officials

Source: Class FM

Ghana: Public Accounts Committee Orders Mion DCE to Refund Gh¢34,000

Auditor General Daniel Yaw Domelevo has said his office has surcharged eleven people found to have misapplied state funds.

Mr Domelevo announced the disallowance of the expenditure/surcharge at a press conference on Wednesday, 2 August in Accra.

Four people have so far been served and the remaining seven will be served in the course of the week.

They have 60 days after service of the surcharge/disallowance certificate within which to pay the money. Affected persons are also allowed to appeal against the surcharge or disallowance at the High Court within that same period.
Tax revenue analysis – creating more fiscal space

Source: World Bank (2020)
Tax revenue opportunity beyond commodities – crisis offers another opportunity to pursue diversification efforts and digitalisation to improve tax collection

8% of GDP (USD5.2 billion or GHS25 billion) p.a. opportunity; IMF estimates from recent revenue mobilisation initiatives is 1.5% (GHS0.93 billion)
Central bank deficit financing in a constrained fiscal space

Monetary policy:
Refers to actions central banks take to pursue objectives such as price stability and maximum employment

Fiscal policy:
Refers to the government’s revenue collection and spending decisions (Congress and the administration)

Tax and spend (fiscal policy) vs interest rates and money supply (monetary policy)
Central bank financing of fiscal deficits is not a new phenomenon; became important following the 2008-09 global financial crisis and will be for COVID-19

- Will become pronounced post-COVID due to increasing government debts and reduced tax revenues.
- Deficit financing can take several forms with different trade-offs
  - reduction in expenditures
  - increasing fiscal revenues
  - printing money
  - borrowing from domestic and external sources
- Amount of central bank financing is often codified in law (‘dejure’ provision) and subject to legislative approval in most developing countries while often relatively relaxed in developed countries
Central bank financing of the budget in Ghana is via credit lines (overdraft) and open market operations (T-bills and government securities)

Bank of Ghana Act, 2002 Act 612

30. (1) The Bank may

(a) make advances and loans to the Government on overdraft or in any other form that the Board may determine;

(b) make direct purchase from the Government of treasury bills or securities representing obligations of the Government.

(2) The total of the loans, advances, purchase of treasury bills and securities together with money borrowed by the Government from other banking institutions and the public at the close of a financial year under subsection (1) shall not exceed 10 percent of the total revenue of the fiscal year in which the advances were made.

(3) An advance made under subsection (1) shall be repaid within three months after the grant of the advance, and where that advance remains unpaid after the due date, the power of the Bank to make further advances in a subsequent financial year shall not be exercised unless the amounts due in respect of outstanding advances have been repaid.

(4) Where repayment of the advances and overdrafts is unduly delayed, the Bank may transfer the debt to the public through the sale of treasury bills.

(5) The Bank shall charge interest on advances granted under this section at the rate that the Board in consultation with the Minister shall determine.

(6) In the event of any emergency, the Governor, the Minister and the Controller and Accountant-General shall meet to decide the limit of borrowing that should be made by Government and the Minister shall submit a report on the issue to Parliament within seven sitting days.

Bank of Ghana (Amendment) Act, 2016 Act 918

Section 30 of Act 612 amended

16. The principal enactment is amended by

(a) the substitution for subsection (2) of "(2) The total loans, advances, purchases of treasury bills and securities made under subsection (1) shall not at any time exceed five percent of the total revenue of the previous fiscal year." and

(b) the insertion of a new subsection after subsection (6) as follows:

"(7) Where the total of loans, advances, purchases of treasury bills and securities made under subsection (1) is five percent of the previous fiscal year's total revenue, the Governor shall notify the Minister and Parliament of the attainment of the limit under subsection (2) and the Minister upon notification shall report to Parliament on the remedial measures to be taken."
Fiscal responsibility laws may not prevent overspending during 2020 election year due to COVID-19 financing gap – current estimate 8-10% of GDP

- Fiscal policy in Ghana is notably procyclical related to commodity and electoral cycles.
- Ghana introduced a fiscal responsibility law and a Fiscal Council in December 2018.
- Fiscal Responsibility Act may not prevent overspending during 2020 election year due to COVID-19 financing gap
Concluding remarks

1. Significant uncertainties remain about the path of the post-COVID recovery - U-shaped, V-shaped, square root, among others.

2. COVID-19 has exposed fundamental structural weaknesses in several SSA economies – lack of diversification and investments in basics despite recent commodities price boom of the past 10-15 years.

3. Fiscal policy is notably procyclical in most SSA countries, related to commodity and electoral cycles. Fiscal Responsibility Act may not prevent overspending.

4. Post-COVID-19 budget financing in SSA needs to move from inputs into outcomes, based on carefully thought Out Theory of Change framework – tackle rising poverty and inequality, digitalisation, green-growth, among others,

5. Strengthen public procurement systems backed by effective internal and external audits - spending in areas like health, education, social security should deliver on allocative and operational efficiency - value for money, optimal utilisation, thereby ensuring budget credibility.
Concluding remarks

6. Transparency and anti-corruption measures in COVID emergency relief programmes needed to ensure that disbursements reach the most vulnerable – CSOs need to be more proactive here.

7. Central bank financing of fiscal deficits likely to become important for COVID-19.

8. Opportunity for leapfrogging through digitalisation of government and governance services.
THANK YOU!

Q&A
BACK UP SLIDES
Commercial debt continues to be the largest source of external debt liabilities in Ghana, due to significant Eurobonds portfolio (71% of external debt USD denominated)

Source: Ministry of Finance 2018 Annual Public Debt Statistical Bulletin
Bank of Ghana’s measures against impact of COVID-19

- Reduced the policy rate by 150 basis points from 16% to 14.5%, priced off the Ghana Reference Rate (GRR).
- Reduced the reserve requirement ratio for commercial banks from 10% to 8% and the capital conservation buffer (CCB) for banks from 3% to 1.5%.
- Reduced the provisions for loans in the ‘other loans especially mentioned’ (OLEM) category from 10% to 5% for all banks and specialised deposit-taking institutions (SDIs).
- GHS3 billion (USD 521 million) credit support to the private sector in partnership with the BoG and the country’s commercial banks.
- Amending the Bank of Ghana Act to allow for government borrowing from the central bank beyond the stipulated threshold in the act in the event of tight domestic financing market conditions.
Bank of Ghana’s measures against impact of COVID-19

- **Triggered emergency financing provisions** [Section 30(6)], permitting the Central Bank to increase the limit of its purchases of government securities to help finance the residual financing gap.

- **Asset Purchase Programme** in May 2020 which purchases Government of Ghana COVID-19 relief bond:
  - Face value of GH₵5.5 billion at the MPR rate with a 10-year tenor and a moratorium of two (2) years (principal and interest); up to up to GH₵10 billion in Asset Purchase Programme.

- Concluded a USD1 billion REPO facility (short-term secured loan) with the US Fed to further boost foreign exchange liquidity.

- Continuance of normal public sector borrowing requirements with increased amounts (issuance calendar).
A well defined PFM law has the following scope/coverage:

- **Macro-fiscal policy formulation**
- **Budget formulation and preparation**
- **Budget Implementation with special emphasis on commitment control**
- **Internal Audit**
- **Management of State Owned Enterprises**
- **Debt management**
- **Accounting and Reporting**
- **Performance Reporting**
- **Streamlining of management of Statutory fund**
- **Local government borrowing**
- **External audit**
- **Sanctions regime**

Excerpt from the Public Financial Management Act, 2016:

**ARRANGEMENT OF SECTIONS**

**Preliminary Provisions**

1. Object of this Act
2. Application
   - **Responsibilities and Roles for Public Financial Management**
3. General responsibility
4. Responsibilities of Minister
5. Powers of Minister
6. Responsibilities of Chief Director
7. Duties of a Principal Spending Officer
8. Controller and Accountant-General
9. Deputy Controller and Accountant-General
10. Budget Office
11. Oversight of Parliament

**Macroeconomic and Fiscal Policies**

12. Application of sections 13 to 17
13. Fiscal policy principles
14. Fiscal policy objectives
15. Fiscal Strategy Document
16. Fiscal policy indicators
17. Cabinet to adhere to targets in Fiscal Strategy Document
18. Suspension of rules or targets
Ghana’s resource mobilisation and allocation indicates structural rigidities in the budget; applies to most SSA countries especially commodities exporters (Nigeria, Zambia, Angola)

**Resource Mobilization for 2019**

**2019: Summary of Revenues (in GHS mn)**

- Grants: 1,109.87
- Other Revenue: 2,954.47
- Non-Tax Revenue: 9,570.35
- Total Tax Revenue: 45,270.18
- Domestic Revenue: 57,795.00

**Resource Allocation for 2019**

**2019: Summary of Central Gov’t Expenditures**

- Arrears Clearance: 730
- Other Expenditure: 2,544
- Capital Expenditure: 8,531
- Grants to Other Gov’t Units: 18,646
- Interest Payment: 6,355
- Use of Goods & Services: 22,830
- Compensation of Employees: 79,441

**Resource Mobilization for 2020**

**2020: Summary of Revenues (in GHS mn)**

- Grants: 1,240
- Other Revenue: 3,449
- Oil Revenue: 8,932
- Non-Tax Revenue (excl. Oil): 8,464
- Non-Oil Tax Revenue: 44,986
- Total Revenue & Grants: 67,071

**Resource Allocation for 2020**

**2020: Summary of Central Gov’t Expenditures (incl. Arrears)**

- Arrears: 1,443
- Other Expenditure: 2,647
- Capital Expenditure: 9,260
- Social Benefits: 150
- Subsidies: 229
- Interest Payment: 8,331
- Goods and Services: 26,565
- Total Expenditure: 85,952

**Source: MoF**
OPPORTUNITIES AND CHALLENGES OF PUBLIC FINANCIAL MANAGEMENT (PFM) SYSTEMS TO RESPOND TO COVID-19 IN AFRICA

Dr. Theo Acheampong
Economics Consultant & Political Risk Analyst
Senior Fellow, IMANI CPE

This webinar would cover the following:
- PFM and fiscal policy implementation in Africa
- Fiscal laws, fiscal institutions and fiscal transparency
- Medium-term budgeting and tax revenue analysis
- PFM systems response to COVID-19 challenges in Africa

Moderator: Mr. Franklin Cudjoe
(Founder & CEO IMANI CPE)

DATE: 14th July 2020  |  TIME: 10:00am (GMT)

Register Here (ZOOM):