ENHANCING THE MOBILIZATION OF DOMESTIC RESOURCES TO GUARANTEE THE DEVELOPMENT OF ECONOMIC INDEPENDENCE IN THE POST COVID ERA

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Outline

1. Introduction
2. The Role of Fiscal Policy for Enhancing Domestic Resource Mobilisation.
3. Challenges for Fiscal Policy Implementation.
4. Current Patterns of Fiscal Performance in African Countries.
5. Recent Fiscal and Structural Reforms in African Countries.
6. Recommendations for Enhancing Domestic Resource Mobilisation in Post COVID Era.

1. Introduction

- Africa was making steady progress in building the critical ingredients for sustainable development but progress towards achieving the Sustainable Development Goals (SDGs) is slow and uneven across the continent. Access to basic infrastructure such as energy, water and sanitation services are improving but fall well below the global average.
- Effective implementation of Agenda 2063 and 2030 Agenda for Sustainable Development Goals requires African Countries to scale up investments in science, technology and innovation to promote rapid and inclusive growth.
- However, African countries lack the fiscal space to respond to all development requirements due to low domestic saving rates, low level of domestic resource mobilization, high elicit financial flows, capital flight, volatile commodity prices, stagnating official development assistance etc.

----Introduction

- COVID 19 pandemic complicated the situation further. It is estimated that Africa could loose up to 20 to 30% of its fiscal revenue because of the pandemic, which is estimated at 500 billion US dollars, which will be necessitated to improve the health infrastructure by scaling up intensive care units and provide more resources for hospitals and health care systems to control the spread of corona virus.
- All the above indeed require increased domestic resource mobilsation rather than putting too much reliance on official development assistance.

2. **The Role of Fiscal for Enhancing Domestic Resource mobilisation**

The following are the various roles of fiscal Policy:

(i) Mobilisation of domestic resources;

(ii) Resource allocation to achieve accelerated growth by boosting efficiency and improving long term economic performance by dealing with critical sources of market failure.

(iii) Reducing inequality by investing in human capital. This can be achieved by increased spending on education and health.

(iv) Increasing employment opportunities. Fiscal incentives in the form of tax rebates and concessions, can be used to promote the growth of those industries that have high employment generation potential.

(v) Macroeconomic Stabilisation: This entails using counter-cyclical fiscal policy in the short run to offset the impact of macroeconomic shocks that create large or persistent gaps between aggregate demand and potential out put.

3. Challenges for Fiscal Policy to Increase Domestic Resource Mobilisation

The following are some of the challenges:

- Low levels of private savings , partly on account of large informal sector, where transactions are not intermediated through the formal banking sector.
- Large scale tax evasion and illicit financial flows.
- Corruption and inefficient administration that fail to implement requisite measures of fiscal policy.
- Political instability, insecurity, infrastructure deficit which inhibit foreign direct investment inflows.
- COVID 19 will have significant impact on government finance due to great investment needs to improve health care infrastructure in order to cope up with the devastating impact of the pandemic.
- Fiscal shortfalls and decline in growth faced by development partners due to COVID 19, which may cause decrease in their development assistance to African countries,

4. Current Patterns of Fiscal Performance in African Countries

The following are some of the current patterns of fiscal performance in African countries:

- Higher government expenditure which is outpacing the growth in overall revenue for most countries. Thus the persistence of limited fiscal space which limit the use of counter-cyclical fiscal measures to address financial shortfalls.
- Increase in recurrent expenditure owing to growing population which has placed high demand on the financing of public service including health, education and maintenance of infrastructure among others.
- Increased expenditure on infrastructure in many African countries to address the infrastructure gap.
- No significant improvement in most African countries in revenue to GDP ratio as compared to emerging economies.
- Inflated military expenditure in some countries
- Increasing trend in public debt to GDP ratio which created concern for fiscal sustainability

5. Recent Fiscal and Structural Reforms in African countries

Most African countries have undertaken three major types of structural adjustment in fiscal policy since 1990s:

1. Privatization and liquidation of public enterprises: Many African countries generated significant amount of funds from their privatization process. For those enterprises that remained in the public sector domain in some countries, there was an effort to improve the quality of management through grants of autonomy and other incentives such as performance contracts that specify clear objectives.

2. Public Finance Management Reforms(PFM): In recent years the reform in these areas covered improvements in the transparency of budget accounts through the introduction of PFM. This will help coordination of policies within a macroeconomic policy framework and enable easier assessments of the sustainability of fiscal policies over the short and medium term.

--Recent Fiscal and Structural Reforms in African countries

3. Tax Reforms and Tax Administration: In an attempt to improve the tax regime, the following are measures undertaken by many African countries:

   - Reduced reliance on taxation of international trade and to shift tax system towards domestic transactions and sources of income.
   - VAT was introduced in most countries.
   - Shifting excise tax valuation from specific to advalorum basis.
   - Simplifying and improving the equity and efficiency of personal income tax regime.
   - Tax administration framework with special emphasis on the provision of adequately trained man power and other infrastructural facilities to enable the attainment of revenue targets and objectives.

6. Recommendations for Enhancing Domestic Resource Mobilisation in Post COVID Era

Recent global uncertainties have posed significant challenges to fiscal policies in African countries, since traditional aid support providers particularly have endured significant fiscal shortfalls at home of their own due to COVID 19 Pandemic. These factors demonstrate the importance of building potentials for increasing domestic resources in Africa instead of overreliance on external financing sources. The following are some of the recommendations for enhancing domestic source mobilisation by public, and private sectors:

a) **Public Resource Mobilisation**

(i) Transforming the African economies towards the generation of revenues, by increasing formalisation and diversification into many sectors of economic activity. Such structural change could then assist in reducing dependence on commodities as a source of public finance.

Policy Recommendations

(ii) Increasing revenues through the reduction or removal of tax exemptions on corporations, increase VAT rates on luxury consumptions.

(iii)Reliance on trade taxes in an environment characterised by increased global economic integration poses considerable difficulties for African countries. Reducing vulnerability from this source requires efforts to increase revenue from non-trade taxes through diversification of tax structure.

(iv) Diversification of tax revenue sources as well as improvements in tax and customs administration are essential elements for improving revenue collection.

--Policy Recommendations

(v)Enhance extractable natural resource revenues given African countries vast

natural resource potential.

(vi) Curtailment of illicit financial flows of money illegally earned.

(vii) Improve measures for efficiency and accountability in the use of public

resources.

(viii) Avoiding sustained and high external debt levels which often result in future capital out flows and may induce sustained debt servicing difficulties with adverse consequence for resource mobilization.

(ix) Emphasing productive spending and more spending on the health sector

(x) Careful public spending choices

(b**) Improving Private Sector Resource Mobilisation**

(i) Strengthening domestic financial institutions by providing market incentives that encourage financial institutions to mobilise savings and to channel them to productive investment.

----Policy Recommendations

(ii) Create linkages between formal and informal financial institutions so as to help open up and improve access of small scale businesses to formal financial services.

(iii) Development of capital markets by all African countries.

(iv) Encourage microfinance institutions. They significantly contribute for resource mobilization efforts in rural areas.

(v) Encourage digital financial services or financial technology(Fintech) such as mobile money to overcome many challenges that exist because of poor infrastructure which has impeded efforts to take financial services to rural areas. This hold the promise of reaching millions of people who were previously excluded due to location or pricing.

(vi) Develop and enact regulations that enhance technological innovations such as mobile money.

(vii) Encourage agency banking

(viii)Fostering interoperability and effective interconnection within different digital financial services. Interoperability will enable customers not to be restricted to transacting only with customers affiliated with their own network and can create value and attract large volumes of customers.

(c) Other Sources

Other sources include the following among others:

(i) Encourage the flow of remittances from Diaspora.

(ii) At continental and regional level there is need to enhance mobilization of resources through levies in order to finance continental and regional projects.

QUESTIONS AND ANSWER SESSION