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

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“Strengthening individual, organizational, and institutional capacity for inclusive growth in Africa – without which the global sustainable development goals and Africa’s Agenda 2063 will not be achieved”
Presentation Outline

• Introduction
• Africa before COVID-19
• COVID-19 – Health and Economic Impacts in Africa
• Implications for PPFM in Africa
• Emerging Policy Options from G-CoP Think Pieces
• Concluding Question
Africa Before COVID-19 Africa
“The Conundrum”

• Africa hosts 30 percent of the world’s mineral reserves.
• Africa accounts for more than 20 percent of global annual production of five key minerals namely:
  • 80 percent platinum,
  • 77 percent cobalt,
  • 51 percent manganese,
  • 46 percent of diamonds,
  • 39 percent chromium and
  • 22 percent of gold.
• 60 percent of world’s arable land,
• 13 percent of the global population and
• About 60 percent of its population under the age of 25 – making it the most youthful population in the World.
• Africa is richly endowed with both renewable and non-renewable energy resources.
• About 75% of Africa’s countries have access offering huge potentials for a blue revolution in Africa.
• African coastal waters contain some of the world’s most prized fishery assets. The Gulf of Guinea and coastal waters of East Africa include some of the world’s richest, tuna fishing grounds
• Yet, African economies remain among the least developed in the world with the size of economies amongst the smallest compared to other regions.
Public and Private Financial Management in Africa before COVID-19
Institutional Capacity and Government Effectiveness in Africa Before COVID-19

CPIA Components 2004 - 2018

Source: AfDB CPIA Website
Fiscal Balance in Africa 1980 - 2021
Policies for Building Resilience in the Public Finance & Debt Sustainability Management in Post COVID-19 Africa

- Domestic Revenue Mobilization: Tax and Non-Tax Revenues
- Prudential Budgeting and Public Expenditure Management
- Fiscal Policy Planning and Management
- Deepening Capital and Financial Markets
- Strengthening Supreme Audit Institutions – Data, Transparency and Curbing Leakages, Corruption and Illicit Financial Flows
- Public – Private Partnerships in Post COVID-19
COVID-19: Health and Economic Impacts in Africa
Impact Transmission Channels

- **Shortfall in domestic revenue** (tax and non-tax) due a reduction in economic activity and commodity price slump
- **Deterioration of the current account balance** due reduction in exports, tourism receipts and workers remittances;
- **Increased pressure on fiscal space** due to expansionary fiscal spending to mitigate the impacts on health and other sectors.
- **Currency depreciation** in major African economies (15 – 25 percent in come countries) since January 2020.
- **Risk ratings and debt sustainability** management challenges could increase the cost of capital.
- **Default on financial and loan obligations** by individual and businesses as a result of business closures caused by the lockdowns and social distancing.
- **Reduced capital inflows due** to cancellation or postponement in foreign investment
COVID-19: Health Impacts
1. Confirmed COVID-19 Cases in 20 impacted countries as at 29 August 2020

- USA: 5,961,094
- Brazil: 3,846,153
- India: 3,542,733
- Russia: 982,573
- Peru: 629,961
- South Africa: 622,551
- Colombia: 591,712
- Mexico: 439,286
- Spain: 401,293
- Chile: 371,816
- Argentina: 334,916
- Iran: 313,911
- United Kingdom: 308,925
- Saudi Arabia: 304,947
- Bangladesh: 295,372
- France: 267,064
- Pakistan: 266,853
- Turkey: 242,835

Confirmed Cases, 29 August 2020
Confirmed Cases, 28 August 2020
Confirmed Cases 22 August 2020
COVID-19 Statistics - Africa

- Africa appears to have turned the corner on the health impacts of COVID-19
- Daily confirmed cases has peaked, Daily deaths has peaked, and death rates has peaked. All trending steadily downwards
COVID-19 Impacts in African Economies

- Africa could suffer **GDP losses** in 2020 between **$145.5 billion** and **$189.7 billion** from the pre-COVID–19 estimated GDP of $2.59 trillion for 2020.
- Some countries have seen a sudden uptick in **inflation** of up to **5%**.
- **Expansionary fiscal spending** could **double** by the end of 2020.
- **Remittances** and **foreign direct investment** could **plunge** significantly.
- Between **28.2 and 49.2 million** more Africans could be **pushed into extreme poverty**
- An estimated **25 - 30 million jobs** could be **lost** by the end of 2020.
- The most affected economies will be those with **poor healthcare systems**, or **rely heavily on tourism**, **international trade**, and **commodity exports**, and those with **high debt burdens** and high dependence on **volatile international financial flows**
Implications for Public & Private Finance Management in Africa
Post COVID-19, Africa’s debt is expected to rise, though less than for developed countries

- Africa’s debt-to-GDP ratio at the end of 2019 was 61%.

- The pandemic could add to Africa’s debt burden by another 10 percentage points, at the backdrop of shrinking repayment base.

- But Africa is still in better shape than advanced economies, where debt is expected to rise by 17 percentage points to 122%.

- Africa needs to shift from the narrative of setting ad hoc debt thresholds and debt sustainability discourse to improving the quality of debt, efficient use of debt, and debt transparency.

Debt-to-GDP ratio: Africa versus comparators

Source: AfDB Statistics and IMF Fiscal Monitor, April 2020
2. Fiscal deficits could double from their pre-COVID-19 levels, notably in Southern Africa

- More than 50% of African countries recorded deficits above 3% in 2019.

- COVID-19 would heighten already large fiscal deficits in African economies.

- Southern African countries are particularly affected due to the relatively larger fiscal stimulus packages there.

- But these fiscal deficit are expected to narrow in 2021, though they would remain above 2017-19 levels.

Source: AfDB Statistics, WEO data, April 2020
But Africa is not alone

• COVID-19 is worsening fiscal stance for all regions in the world

• Although the deepening of fiscal deficits in Africa are not expected to be as high as that of the G7 and China in 2020, the constrained fiscal capacity could worsen the impacts in Africa.

• South Korea appear to present a good case study.
3. Domestic revenue mobilization in Africa is low compared to other regions

- Government revenue as a percent of GDP is lowest in Africa at 18%.

- This is an area that Africa may need to exert more effort post COVID-19, both in terms of expanding the tax and non-tax revenue.
4. African countries commit a lot on defence and military expenditures to fight terrorism and conflicts, especially in fragile countries

- A major driver of high debt and deficits is the military burden in Africa’s fragile states.

- Debt contracted in fragile countries is mostly expended on the military rather than on more productive investments. This delivers a global public good but constrains the fiscal space of the fragile countries to address other competing development goals.
The security expenditures deepens the drag on fiscal conditions in fragile countries.
5. Another source of challenge is illicit financial flows from Africa: estimated at about US$50 billion annually; US$1.2 trillion since 1980

- Illicit financial flows out of Africa since 1980 are estimated at $1.2 trillion, far above FDI and ODA inflows to the continent.

- Blocking these leakages can provide the financing required to accelerate Africa recovery from the recession.

![Bar chart showing illicit financial flows by region](chart.png)

Source: GFI report 2019
6. COVID-19 could increase the challenge of corruption.
Corruption Perception Index, 2019

- **Western Europe & EU**
  - Average score: 66
  - Top: Denmark (67/100)
  - Bottom: Bulgaria (43/100)

- **Eastern Europe & Central Asia**
  - Average score: 35
  - Top: Georgia (56/100)
  - Bottom: Turkmenistan (19/100)

- **Americas**
  - Average score: 43
  - Top: Canada (77/100)
  - Bottom: Venezuela (16/100)

- **Middle East & North Africa**
  - Average score: 39
  - Top: United Arab Emirates (71/100)
  - Bottom: Syria (13/100)

- **Sub-Saharan Africa**
  - Average score: 32
  - Top: Seychelles (66/100)
  - Bottom: Somalia (9/100)

- **Asia Pacific**
  - Average score: 45
  - Top: New Zealand (87/100)
  - Bottom: Afghanistan (16/100)
(1) Corruption,
(2) Double dipping,
(3) Mis-invoicing,
(4) Unjustified high remunerations for Public Officials,
(5) Illicit financial flows,
(6) Domestic resource mobilization, and
(7) Inefficient resource utilization;
(8) Lack of consequence management
CPI & GDP Per capita – Overlaid
CPI & GDP Per capita

CPI, 2019 (Range: 9 - 87)

GDP Per Capita 2019 (261-114704)
7. Expansionary Fiscal Spending - COVID-19 fiscal stimulus packages: What are the trade-offs?

- **Advanced Economies**: 17.4% of GDP
- **Emerging Market Economies**: 5.68% of GDP
- **Africa**: 3.74% of GDP

*Source: AfDB staff calculation based on IMF data*
8. Currency depreciation is on the rise
Global and African Assets Under Management (AUM) is expected to almost double in size by 2025, from US$84.9 trillion in 2016 to US$145.4 trillion by 2025.\[^{1}\] Within Africa, the AUM of domestic institutional investors are expected to reach US$ 1.1 trillion by 2020 from US$ 634 billion in 2014\[^{2}\].
The Inconvenient Truths
Known Knowns

- Africa’s tax/GDP ratio; Savings/GDP ratio; and investment/GDP ratios are among the lowest in the World.

- Comprehensive tax administration reforms costs money. The level of informality in Africa’s economy makes tax administration difficult.

- Dependence on external revenue sources for financing development is not a sustainable policy.

- COVID-19’s unprecedented impacts has led to unprecedented - probably, “unguarded” fiscal and monetary easing in the developed economies. This may have significant inflationary implications in future.

- COVID-19 presents a rationale for unprecedented borrowing and deficit-financing to level that would otherwise be considered abnormal. Because this is an emergency response policy, proper expenditure planning and prioritization is a challenge. This could leave room for heightened inefficiencies and corruption.

- Transparency, accountability and trust are key pre-conditions for efficient resource mobilization and utilization. With the high perception of corruption on the continent, governments may continue to struggle with tax administration.
The COVID-19 Quagmire

• **Expansionary fiscal spending** is required to help countries deal with the unprecedented impacts of COVID-19 in the short, medium and long-term impacts on economies;

• **Sources of Revenue** (domestic and external) have contracted significantly due to lock down of economic activities;

• **Worsening risk ratings** and **perceived credit worthiness** limit the capacity of lower income countries and states experiencing fragilities to access commercial loans due to and associated higher cost of capital;

• **Middle income countries** cannot access **concessional loans and grants** due to classifications and hence are constrained to borrow from commercial markets at high cost, heightening debt sustainability challenges.

• **Africa’s development financing gap** is huge and widening, but the space for overseas development assistance is narrowing in many countries. Countries have an unprecedented need for external aid to respond to the crisis. **But the sources of aid is narrowing.** There is need for countries to re-prioritized balanced budgeting and semi-accruals accounting systems.

• **Africa needs private sector financing** now more than ever. But **lack of transparency** and **accountability systems impair risk ratings of countries** and limit financial inflows.

• Governments need to **think outside the box – innovative public private partnerships** is key.
The Policy Options
(G-CoP Think Pieces)
Short Term Policy Options: Domestic Revenue Mobilization

- Address the **large informal sectors** in the economy

- Adopting **Integrated Tax Administration Systems (ITAS)** and **Single Revenue Accounts (SRA)** and popularizing their usage amongst tax-payers.

- **Diversify economies** away from dependence on revenues from commodity exports

- **Strengthening the social contract** between state and citizens - improve transparency, accountability, monitoring of public service delivery, compliance and consequence management.

- Improve the **business environment** to grow the tax base through private sector participation.
On DRM (Ctd)

- **Tax policy (re-)adjustments** to maintain liquidity in low income household and small business and protect employment across board.

- **Improve compliance** with payments of existing taxes such as the Voluntary Asset and Income Declaration Scheme (VAIDS)

- **Progressive taxation** on high net worth individuals, luxury and ostentatious goods could help.

- **Securitize remittances** – This is worth over US$80 billion annually.

- **Innovative financing approaches**: pension funds, sovereign wealth funds, blended fiancé, impact investing, fin-tech based financing 7 crowdfunding, impact investing, etc.
On Prudential Budget & Expenditure Management

- Adoption of **Medium-Term Revenue Strategy (MTRS)** as a whole-of-government overarching strategic domestic revenue improvement framework

- Establish **Digital Financial Management Information Systems**

- **Budget Prudence**: focus on transparent and efficient balanced budget planning and execution

- **Re-prioritize (Re-allocate) expenditure** – Move away from elephant projects and focus on building the real sector with a special focus on smart health infrastructure, food systems and education.

- **Address leakages, corruption and illicit financial flows** through use of smart technologies.
On Fiscal Policy Management

- **Fiscal infrastructure**: Establish strong and efficient fiscal infrastructure, including good governance architecture.

- **Fiscal prudence**: Deploy fiscal prudential tools, set realistic targets/thresholds, and establish counter-cyclical fiscal buffers during good times.

- **Fiscal discipline**: Consolidation and coordination – focus on building the real sector and technologies to enhance productivity in the economy.

- **Fiscal accountability**: Focus on national development effectiveness of policies and implement development impact assessments. Hold Ministers and Public Officials accountable for development impacts.
Fiscal Policy Management (Ctd.)

- **Fiscal capacity building & incentive systems**: Build capacity for an appropriately skilled and effective public sector and create incentives to keep them focused on the job.

- **Fiscal Transparency**: Build systems that the citizens can see, feel and relate with. Create a system of public oversight on public service delivery.

- **Fiscal consolidation** – Use smart technologies and shared services to create efficiency gains.

- **Negotiate Tax relief with the G7 and G-20 countries**

- Countries to develop **Emergency Risk Financing Fund** to prepare to deal with future exogenous shocks
On Deepening Capital & Financial Markets

- **Inward looking policy** required
- **Implement AfCTA** - interregional trade
- **Prioritize savings** – Sovereign and Private Wealth Management
- **Stimulus packages and debt service suspension** to ailing firms particularly small and medium scale enterprises to enable them remain in operation
- **Provide incentives for Global Public & Private Investors**
- Scale-up general liquidity interventions and provide monetary policy accommodation
- **Reduce interest rates** to ensure extension of the direly needed credit to private sector businesses
- Central Banks to assure **bank forbearance on domestic private loans** by providing liquidity to commercial banks and critical businesses that are constrained by liquidity
- **Reduce collateral requirements** for loans needed to finance businesses
- **Use a combination of equity, debt and credit guarantees** to shore up the finances of affected businesses.
- **Central Bank to increase financial sector supervision** to forestall emergence of weak financial stability and possible contagion
- **DFIs to increase guarantees and liquidity facilities** to banks with which they have lines of credit
On Strengthening Supreme Audit Institutions

• Enduring legal infrastructure and institutional & regulatory frameworks
• Accelerate capacity building for SAIs.
• Promote independence of the SAIs to insulate it from being a subject of political interference.
• Enforce compliance and effective consequence management systems
• Governments to institute legal and framework for establishing supreme audit institutions where they are inexistent
• Establish and/or strengthen anti-corruption agencies and ensure its independence
• Transparency to enhance public accountability for implementation of audit recommendations
As aptly noted by His excellency President Emmanuel Macron, “This period will have taught us a lot. Many certainties and convictions will be swept away. Many things that we thought were impossible are happening. The day after when we have won, it will not be a return to the day before, we will be stronger morally. We will draw the consequences, all the consequences”.

“We are all embarking on the unthinkable…. We all face the profound need to invent something new, because that is all we can do... But it will change the nature of globalisation, with which we have lived for the past 40 years…”.

The UN Secretary-General António Guterres noted that: “Everything we do during and after this crisis must be with a strong focus on building more equal, inclusive and sustainable economies and societies that are more resilient in the face of pandemics, climate change, and the many other global challenges we face - recovery from the COVID-19 crisis must lead to a different economy.”
The New Normal
Thank You

African Development Institute

“Strengthening capacity for inclusive growth in Africa – without which the global sustainable development goals and Africa’s Agenda 2063 will not be achieved”

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