

THE NEXT EMERGENCY: Covid-19 recovery and building resilience through fiscal democracy in public finance management

By

Leonard Wanyama¹

INTRODUCTION - Crisis is the new constant

Are East African countries ready to face the next crisis or are they simply keen to go back to how things were? What does a new normal mean when speaking about public finance management (PFM)?

In continuing the struggle for structural transformation², economic justice efforts must work towards developing a new citizen plus preparing for unpredictable or unforeseen events, more so those with extreme socio-economic and political consequences.

This is because, besides known challenges posed by existing inequalities³, the Covid-19 pandemic has pointed out how “unusual circumstances such as man-made disasters, natural catastrophes, disease outbreaks and warfare ... depress the ability of citizens to engage in economic activity and pay taxes as well as that of governments [capacity] to collect revenue [or] provide services”.⁴

Such circumstances therefore demand more inclusion of human rights-based approaches in economic justice efforts to champion greater fairness within existing financial architecture.

Disasters should, therefore, not obliterate human rights but should heighten the need to respect, protection, and fulfillment of obligations them through prioritizing expenditures on service delivery, plus all elements of Economic, Social and Cultural Rights (ESCRs) to “boost the capacity of residents to withstand shocks” by improving coping mechanisms.⁵

Promotion of fair taxes⁶ among other broader economic justice initiatives within PFM should consequently adapt towards championing ESCRS within the context of more disruptive and unexpected incidents. Crisis is constant in the new normal.

FISCAL DEMOCRACY AND CIVIL PROTECTION - Recovery, resilience, and transformation

Currently, conversations on recovery are focused on tackling: reduced tax collection; slowed growth; depressed formal or informal productivity; exploding unemployment; diminished remittances; persistent poverty; decline in energy access; and escalating food insecurity.⁷

This emphasis seeks to reverse the effects of various lockdown policies that placed restrictions on businesses, mobility, movement within and across international borders, [plus] public gatherings.⁸ However, it speaks mostly of a desire to return to pre-Covid levels of economic activity while vital systems in tackling the next crisis such as water, education, or health remain unaddressed.

Economic justice initiatives should therefore embrace fiscal democracy and civil protection as goals or appendages in achieving the structural transformation agenda.⁹ This will then speak to the resilience, and transformation needed to ensure PFM works for Africans in good times or bad.

Understanding fiscal democracy takes the form of better prioritization, response to problems, and improved sanctions for mistakes in the revenue cycle.

Advocacy for increased domestic opportunities, promotion of childhood development, enhanced socio-economic mobility, support for workers, motivation of local entrepreneurship, diversification of public infrastructure from mega projects, plus increased innovation through subsidized research and development should be at the heart of economic justice efforts.¹⁰

Civil protection gives a new framework of planning by “envisioning contexts or processes in which a series¹¹ of unfortunate events can [e]merge”¹², thus providing adequate responses without breaking the social contract. This

offers a wholesome prism by which to use PFM engagement on human security as both public safety and economic stability of countries.

Transformation therefore occurs when both go hand in hand so that public facilities are not over stretched in the event of crisis. Hence, in looking at the impact of Covid-19, across the East Africa¹³ region, we must ask ourselves how transformative are current recovery efforts underway? Will they offer a new resilience?

THE SALVAGE JOB – Economic sustainability through reliefs, guarantees, subsidies, and funds

Response have clearly been driven by the urgency to overcome the pandemic and the need to forestall outright disaster or collapse. The “short-term rescue mode” has seen efforts to ensure vaccine access and bolstering of public health systems.

On the economic front governments:

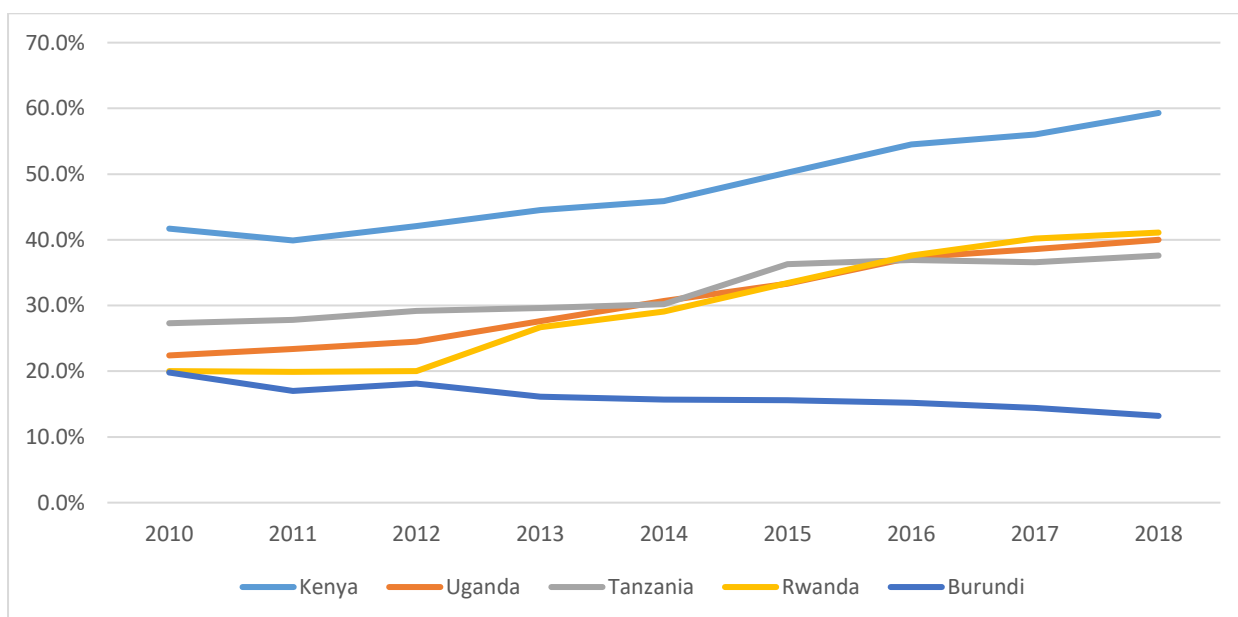
“Have sought debt relief, implemented corporate tax deferrals plus exemptions, made direct citizen transfers and interest rate adjustments. [They have also] implemented guarantees and subsidies, liquidity support and food relief...[with] examples of support for micro, small and medium enterprises (MSMEs). Cash transfers and other safety nets for poor and vulnerable populations are critical for an integrated ... response. While not transformational, they are building blocks for a basic level of resilience to external shocks.”¹⁴

The fact that these efforts are not transformational must motivate the infusion of a justice quotient in recovery efforts. This will enable a movement beyond an emergency-oriented recovery that recognizes existing modern challenges such as climate change, population growth, scarce resources, manmade or natural calamities.

In the case of tax justice, to make the linkages that will establish economic sustainability in East Africa it is important to understand the effect of recovery efforts in relation to public debt; the tax burden on individuals or households; illicit financial flows; harmful tax practices; economic growth; and resource distribution.¹⁵

Recognizing the prevalent debt crisis even before the pandemic struck is important in informing economic justice movements and their activities. Concerns were looming over the fact that 40% of Sub-Saharan African countries were in or at high risk of debt distress. Between 2010 and 2018 public debt in East Africa grew rapidly between as shown in Figure 1.

Figure 1 - National Debt to GDP Ratio



Source: Individual Country Central Banks

East African Community (EAC) governments, in this time, failed to mobilize sufficient revenue, despite an overall increase in taxes. The situation was therefore exacerbated by Covid-19. The consequence being that these countries are stuck in a situation where they must tax more to bridge revenue gaps.

Basically this, first and foremost, creates a context of unfair tax policies in the region that burden their respective citizens, does not enhance service delivery, and is exclusionary in how debt repayment strategies are developed.

Lack of open debate about the country's fiscal priorities within the existing PFM system neglects the needs of youth who constitute majority of the population among other segments of society, curtails ideas on how to increase resources needed to provide for new economic opportunity(ies) and respond to the next emergency.

Secondly, an environment or ecosystem of illicit financial flows (IFFs)¹⁶ that constitutes the formation of International Financial Centers (IFCs) in Kigali and Nairobi plus signing of numerous Double Taxation Agreements (DTAs) continues to perpetuate itself thereby providing loopholes within tax architecture that undermines efforts for domestic revenue mobilization (DRM) because the monies going out of countries are so massive outweighing Overseas Development Assistance (ODA).

This is thanks to “Constitutionalism [among other legal questions] plus demands to implement new public finance management principles, growth in trade and services across countries in the region or with other countries across the globe, and discovery of natural resources requiring more inflows of foreign direct investments (FDI)”¹⁷

On average IFFs accounts for 6.1% Sub-Saharan Africa's Gross Domestic Product (GDP) thereby impeding economic development and sustainability. For instance, Kenya is estimated to lose KES 40 billion.

Third, growing account deficits and rising external debts are heavily limiting to economic growth. Increased spending on debt repayment, is restricting prioritization on essential public goods and services while borrowing remains one of the key sources of budget financing.

In as much as Kenya cancelled its recent pursuit of another Eurobond¹⁸, the about turn towards borrowing domestically following a surge in yields within international markets because of the Russia-Ukraine war is still going to punish its citizens by squeezing them out of access to credit.

Lastly, the debt burden is disempowering the citizen. Rising public debt may result in poor public participation in management of fiscal policy and weak structures for keeping governments accountable. This is further worsened by limited access to information on debt or public spending. Further there is weak oversight by parliaments as executives take full control of processes.

POLICY MAKING PROCESSES DURING CASCADING CRISES: Fiscal Consolidation, Special Drawing Rights, and Open Government

By understanding that crisis is constant, and that it is likely to manifest as confluence events - merging risks of mitigatable disaster(s)- or major confluence events, that is, the combination of potentially unmitigated risk(s) at any one point in time¹⁹, how does policy making in such a time help to prepare for the emergency next time?

For example, what does Kenya's fiscal consolidation²⁰ program comprising of: (i) reforms to improve oversight, monitoring, and governance of state-owned enterprises; (ii) improved transparency of fiscal reporting; and (iii) comprehensive information of public tenders awarded included beneficial ownership information of awarded entities, have to do with preparing for the next series of cascading crises?

Several emergency relief funds have been established to address the impact of Covid-19 such as the Rapid Credit Facility, the Catastrophe Containment and Relief Trust, and the Debt Service Suspension Initiative (DSSI).

However, these efforts are not likely to unlock the existing “trilemma” of solving the health plus economic crisis, meeting development targets, while dealing with a tightening fiscal space.²¹ This is because they are stuck in the present circumstances with no consciousness of how much the challenge is likely to prevail into the future.

Adopting fiscal democracy not only provides a new agenda determining organizing principles, but it has the potential for establishing a new citizenship through further entrenchment of human rights-based approaches in economic justice, and commitment to open government principles.

It will also anticipate and prevent disaster capitalism²² witnessed during the Covid-19 pandemic. Many African countries seem to be in the constant state of crisis hence allowing for IFFs through PFM malfeasance that locks corruption and fraud in procurement through bid rigging or collusion.²³

Principals of public participation, demands for accountability, championing non-discrimination, advocacy for empowering programming, plus legitimacy through the rule of law²⁴ should set standards on beneficial ownership, open contracting, open data for development, legislative openness, improving service delivery, access to information, and access to justice will help build resilience in government.²⁵

A CALL TO CIVIC EDUCATION - Revenue rights and obligations

Somewhere a long the way capacity building, and training programming took prominence over civic education. Advocacy efforts should look for ways to bring back more popular public awareness. Denial of resources for these kinds of activities have been a major blow for PFM advocacy along other activist efforts.²⁶

Civic education will reestablish links between individual claims to service delivery and assigned duties in the fulfilment of public demands. Citizens will be able to identify how the problem manifests and engage on the immediate, underlying or root causes of an issue.

It will also allow them to establish the patterns of relationships which may result in the non-fulfillment of rights or absconding of obligations. This will enable them assign appropriate responsibility by identifying relevant authorities. It will keep an eye on resources through participating in decision making.

Governments and political leadership should therefore work to improve their communication capabilities in engaging the public so that once this new citizenry is involved, they can work together in achieving representative priorities for action.

END NOTES

¹ Regional Coordinator of the East African Tax and Governance Network (EATGN)

² The shifts within or between sectors that yield higher growth and development due to more productivity that leads to increased incomes, read Onyango C.H., Promoting Equity Through Structural Transformation: Impact of Regional Free Trade Agreements on East African Regional Integration, Eonews Africa, 2020

³ One among them being tax inequality, which is the manifestation of disparities within a regime of tax collection, allocation, and expenditure of revenues.

⁴ EATGN (East African tax and Governance Network), Revenue Obligations and Civics in East Africa: A Human Rights Based Approach to Tax Justice, 2021, <https://www.eatagovernance.net/wp-content/uploads/2021/08/F-Human-Rights-Based-Approaches-1.pdf>

⁵ *Ibid.* Citing Development Initiatives, Tracking Subnational Government Investments in Disaster Risk Reduction in Kenya, Nairobi, 2019, <https://devinit.org/resources/county-drr-budget-tracking-kenya/>

⁶ Efforts or initiatives towards addressing the various manifestations of inequality within regimes of collection, allocation, expenditure, and management of taxes to bridge the gap between the rich and poor plus attaining effective domestic revenue mobilization for self-sufficiency.

⁷ CKDN (Climate and Development Knowledge Network), Economic recovery from Covid-19: prospects for sub-Saharan Africa, 1 February 2022, <https://cdkn.org/story/economic-recovery-covid-19-prospects-sub-saharan-africa>

⁸ *Ibid.*

⁹ AU (African Union), Goals & Priority Areas of Agenda 2063, <https://au.int/en/agenda2063/goals>

¹⁰ This interpretation is a contextualization of Steuerle E., Restoring Fiscal Democracy, Milken Institute Review, 19 January 2011, <https://www.milkenreview.org/articles/restoring-fiscal-democracy>

¹¹ Recent events such as drought, flood, pestilence such as locust invasions, the coronavirus pandemic, and the geopolitical effects of the Russia-Ukraine conflict should inform the sense that conflict is constant, thus how can African countries plan for the next emergency.

¹² Wanyama L., The Kenyan Corona Virus Scenario: A Civil Protection Perspective on Crisis Before, Now and Hereafter, 23 April 2020, *Unpublished*.

¹³ Herein referring to the East African Community (EAC) as opposed to Eastern Africa which could encompass or reference the Greater Horn of Eastern Africa (GHEA) region comprising both the Great Lakes and Horn of Africa countries, namely: Burundi, DR Congo, Eritrea, Ethiopia, Kenya, Puntland, Rwanda, Somalia, Somaliland, Sudan, Tanzania, Uganda. See SID (Society for International Development), *Africa Rising? Looking Beyond The Horizon*, East Africa Trend Monitor Observatory, 4 August 2013, <https://www.sidint.net/content/africa-rising-looking-beyond-horizon.html>

¹⁴ *Op Cit*, CKDN

¹⁵ EATGN (East African Tax and Governance Network) and ACEPIS (Africa Centre for People Institutions and Society), *Economic Sustainability in East Africa: Framing the Linkages Between Public Debt and Tax Justice*, 2021, <https://www.eatagovernance.net/wp-content/uploads/2021/08/F-Economic-Sustainability-In-East-Africa-1.pdf>

¹⁶ The UN broadly defines IFFs as ‘all cross-border financial transfers, which contravene national or international laws’, where the stress is placed on the illegal action of IFFs and requires the codified criminal nature of the flow for it to be classed as an IFF. These flows have three sources under the UN definition, the proceeds of commercial tax evasion, revenues from criminal activities and public corruption. The High-Level Panel at the African Union level (HLP) takes a different approach where they define IFFs as ‘money that is illegally earned, transferred or used’ but includes tax avoidance, as opposed to just evasion, as a type of IFF. This moves the debate around IFFs from the illegality of IFFs to include the moral dimension. A more stringent definition places more responsibility on governments to reform their tax architecture to best retain as much of the flows as possible which are needed for DRM in the increasingly competitive and globalized world.

¹⁷ EATGN (East African Tax and Governance Network), *Weaving Webs for Tax Avoidance: Identifying and Mapping Treaties in the East African Community (EAC)*, 2021, <https://www.eatagovernance.net/wp-content/uploads/2021/12/d4-Weaving-Webs-for-Tax-Avoidance-2022.pdf>

¹⁸ <https://www.reuters.com/world/africa/kenya-cancels-eurobond-sale-blames-surgings-yields-local-media-report-2022-06-10/>

¹⁹ Also referred to as cascading crises see Zakaria F., *This is just the first in a series of cascading crises*, The Washington Post, 2 April 2020, https://www.washingtonpost.com/opinions/global-opinions/this-is-just-the-first-in-a-series-of-cascading-crises/2020/04/02/45e8cc52-7510-11ea-87da-77a8136c1a6d_story.html

²⁰ Essentially reducing the deficit through borrowing see, Focus Economics, *Fiscal Balance in Kenya*, <https://www.focus-economics.com/country-indicator/kenya/fiscal-balance#:~:text=Moreover%2C%20the%20fiscal%20consolidation%20plan,GDP%2C%20through%20net%20domestic%20financing>.

²¹ AFRODAD (African Forum and Network on Debt and Development), *Covid-19 Debt Sustainability Impacts and Economic Rescue Packages Analyses in East African Community (EAC) Region*, Debt Paper - Regional Analysis, August 2020

²² Loewenstein A., *Disaster Capitalism: Making a Killing Out of Catastrophe*, 2017, 384 pages; See also Klein N., *The Shock Doctrine: The Rise of Disaster Capitalism*, 2007, 672 pages.

²³ Kiepe T., *Beneficial Ownership Data in Procurement*, Presentation during workshop on beneficial ownership data and public procurement in Kenya, 14-15 June 2022.

²⁴ *Op Cit*, EATGN, Revenue Obligations and Civics in East Africa: A Human Rights Based Approach to Tax Justice

²⁵ OGP (Open Government Partnership), *Kenya Action Plan 2020-2022*, 1 March 2021, https://www.opengovpartnership.org/wp-content/uploads/2021/03/Kenya_Action-Plan_2020-2022.pdf

²⁶ CIVICUS, KENYA: ‘The denial of resources for civic education has been a massive blow for civil society’, Interviews, 9 May 2022, <https://www.civicus.org/index.php/media-resources/news/interviews/5778-kenya-the-denial-of-resources-for-civic-education-has-been-a-massive-blow-for-civil-society>