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Financing African Union Agenda 2063 and UN 2030 Agenda in Africa – Opportunities and Challenges for Domestic Resource Mobilisation (DRM)

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Introduction

Achieving United Nations Sustainable Development Goals (SDGs) and Agenda 2063 of the African Union requires the mobilisation of resources. The current state of development funding presents a huge gap between the required funding to eliminate poverty and meet the SDGs by 2030 and the actual available resources. According to United Nations Conference on Trade and Development, developing countries alone face an estimated US$2.5 trillion annual investment gap in key sustainable development sectors.[1] A fundamental cause of this gap is because developing countries lose hundreds of billions of dollars every year to corruption, Illicit Financial flows (IFFs) – tax evasion, tax planning, profit shifting, tax incentives (race to the bottom), tax evasion and debt servicing. Against this, Domestic Resources Mobilisation (DRM) becomes key in the implementation of developmental programmes. DRM is defined as is the process through which countries raise or generate revenues from domestic resources, from tax or non-tax sources (royalties, licenses, levies or other income). DRM creates additional space for sustainable budget expenditures, fosters ownership and reduces dependency on external assistance.

Mobilising domestic resources remains a central developmental issue that surpasses past emphasis which focused on scaling up aid and external borrowing to finance development. Domestic resources mobilisation is predictable and present the African continent with potentially the biggest source of long-term financing for sustainable development. Effective domestic resource mobilisation not only provides African governments with the resources necessary to alleviate poverty and fund essential public services, it also presents them with a stable and predictable fiscal environment which is a critical step on the path out of aid dependence.

In addition to DRM, countries have also covered financial gaps through loan contraction and public private partnerships (PPPs). Given that DRM is predictable and sustainable coupled with the negative implications and risks of loan contraction and PPPs the question that comes to mind is the effectiveness of these alternative sources of finance in bringing about the desired development.

The United Nations Economic Commission for Africa (UNECA) in collaboration with the African Union Commission (AU), the African Development Bank (AfDB)and other partners, annually convene the Forum, to follow-up and review the Addis Ababa Action Agenda, the African Union Agenda 2063, and the 2030 Agenda for Sustainable Development. The sixth session of the Africa Forum on Sustainable Development being held under the theme, ***"2020-2030: A Decade to Deliver a Transformed and Prosperous Africa through the 2030 Agenda and Agenda 2063",*** gives AFRODAD a platform and opportunity to share our perspectives informed by our experiences as a pan-African organisation.

The policy brief proffers actions and measures that African governments need to take to drastically accelerate implementation and achievement of SDGs

[1] UNCTAD (2014) World Investment Report, http://unctad.org/en/PublicationChapters/wir2014ch4_en.pdf

2. Context

The 2015 Addis Ababa Action Agenda (AAAA) outcome document identifies domestic public resources as one of the seven action areas under its global framework for financing the post-2015 development agenda. It recognizes that "for all countries, public policies and the mobilization and effective use of domestic resources, underscored by the principle of national ownership, are central to the global common pursuit of sustainable development, including achieving the Sustainable Development Goals (SDGs)".

Agenda 2063 is a strategic framework for the socio-economic transformation of the continent adopted by the African Union (AU) Assembly of Heads of State and Government during the 50th Anniversary of the Founding of the OAU/AU in May 2013, Addis Ababa. The Assembly directed the AUC with support from AfDB, UNECA and NEPAD to provide the leadership in translating Agenda 2063 ideals into reality. The Agenda 2063 is very much linked to SDGs in its aspirations, goals and priority areas.

Given the huge mineral resource endowment of Africa, it is indubitably that revenue mobilisation from the mining sector is key in the ongoing domestic resource mobilisation efforts aimed at ensuring that the continent becomes self-reliant and **finances its own development – Agenda 2063 and SDGs.** Despite the huge mineral resources endowment, Africa has failed to fully benefit from the extraction of her resources as a result of IFFs. Failure to curtail IFFs has deprived the continent from reaching its full revenue mobilisation potential to sustainably and predictably fund its development. As noted by The High Panel Report on IFFs -2015, the continent has been losing at the tune of USD 50 billion annually through IFFs. At this juncture it's paramount to highlight that 70% of all IFFs from the African region are from the extractive sector.

3. Domestic Resources Mobilization, Illicit Financial Flows and New Digital Tools

One of the key characteristics of illicit financial flows is the illegal transfer of money across national boundaries. In a context where new digital tools for money transfers, such as online and mobile banking, electronic payments, cryptocurrencies, e-commerce providers, and online gambling services have evolved, it is crucial to interrogate the implications of these tools on taxation and illicit financial flows. The evolution and growth of digital economies has caught many developing countries in the horns of a dilemma. The quandary is on the developmental impacts of digital economies. Digital economy refers to an economy that is based on digital computing technologies, although it is increasingly perceived as conducting business through markets based on the internet and the World Wide Web.

On the one hand, there is an argument that the benefits of the digital economy for emerging economies are potentially large. Digital economies have significant competitiveness and productivity-boosting opportunities related to access to digital products and services that help optimise processes and production, reduce transaction costs, and transform supply chains. On the other hand, digital economies may be seen as a threat to development given that they may exacerbate IFFs through facilitating easy transfer of financial resources across borders.

The illegal transfer of money as a result of advances in information and communication are permissible due to automation, speed and the cross-border nature, anonymity, complex online transactions and less or no regulation. Moreover, digital economies can also be seen as a medium of underground economies. In order for underground economies to thrive, they always search for safe havens offered by states with weak governments and unstable political regimes. African countries are characterised by weak legal and institutional frameworks on taxation.

The global digital economy and the borderless internet create loopholes in the taxation frameworks, blur the line between illegal tax evasion and legal practices of tax avoidance, and pose particular challenges for tackling illegal activities. Currently, the biggest distress is that the majority of multinational companies operating within the digital economy are said to be paying taxes where they are incorporated as compared to other jurisdictions where they also do or aid businesses.[2] This potentially leads to revenue losses on hosting countries, the majority of them being African countries.

In this regard, AFRODAD calls on African governments to have a profound understanding of digital economies and how they can be used to promote sustainable development. This understanding can be through an analysis of (i) how developing countries can maximise the developmental impacts of digital economies, (ii) enabling factors that developing countries can develop and use as foundations for their digital economies, and (iii) assessing how the negatives from digital economies can be minimised.

4. Deteriorating Sovereign Debt Sustainability

The risks of a major new debt crises are high and growing in Africa. The new wave of debt crises threatens to derail the 2030 Development Agenda and undermines or even reverses progress towards the SDGs in many countries.

According to ECA Report,[3] Africa's public debt rose in 2017, reaching 59.1 per cent of GDP. The high and rising debt created debt vulnerabilities for many African countries. A number of African countries are facing debt servicing challenges, and are at high risk of debt distress or in debt distress. Five African countries are in debt distress already. These are Chad, Mozambique, South Sudan, Sudan and Zimbabwe. Sixteen African countries are in debt distress or high risk of debt distress. This is as a result of low government revenue.

The prudent management of external debts resources is an important factor as far as the mobilisation of resources is concerned. Many African governments have failed to utilise debt resources productively in order for such resources to stimulate domestic resource mobilization because of weak governance frameworks. Debt legal frameworks of many African countries are not respected resulting in high borrowing limits, borrowing power being vested in the hands of a few and limited parliamentary oversight. The institutional framework is characterised by understaffing, lack of capacity and heavy political influence. The lack of prudent debt management is a breeding ground for unsustainable debts which imposes a heavy burden on the citizens. Given the complexities around taxing Multi-National Corporations (MNCs), governments turn to their citizens in a bid to mobilise resources. This in itself undermines local investments which could be a basis of more revenue. Some of the funds that could potentially be invested in technology for improving tax collection and curbing revenue leakages are used for debt repayments.

If debts are subjected to prudent use, there are greater chances that they can foster economic growth and contribute to countries development. On the contrary, excessive and unsustainable debt burdens can generate economic and social crises. Economic and social crises may have negative implications on the realisation of human rights. Given this, it becomes indispensable to interrogate on the nexus between debt and human rights. The ability of states to fulfil human rights obligations depends on the availability and allocation of sufficient financial resources. Thus, the government budget is central to the realisation of all human rights. To progressively realise human rights, states have the obligation to ensure that resources are mobilised domestically and internationally. Excessive debt burdens have the

[2] http://www.sundaystandard.info/experts-exchange-notes-digital-economy-impact-tax

[3] Economic Commission for Africa - Economic Report on Africa 2019: Fiscal Policy for Financing Sustainable Development in Africa

potential to undermine the capacity of debtor countries to create favourable conditions for the realisation of human rights. The major ways in which this is possible is through debt servicing and policy conditionalities such as austerity measures for example.

An emerging trend in loan contraction is the growth in the issuance of bonds. The World Bank IDS (International Debt Statistics) show that 20 countries in Sub-Saharan Africa's issued bonds worth $92.billion by 2019. Most of these African countries e.g. Ghana, Mozambique, Zambia, Rwanda, Senegal and Tanzania seeking refinancing when the bonds mature.

There may be some advantages to Eurobonds: Governments have more control and flexibility of the use of the debt proceeds as the terms and conditions are generally more favourable than other external debt instruments. For that reason, these bonds have been issued for various reasons including deficit financing. The Bonds could also potentially strengthen macro-economic discipline, transparency and accountability if used properly as they could be under the watch of citizens and the international market participants. Equally, if used properly they could be used for long term investments which traditional ODA is insufficient or not able to accessible.

This rapid accumulation of private debt is complex, riskier, and expensive. The risks associated with Eurobond issuances include the fact that repayment is at maturity and not amortized. In the absence of a viable sinking Fund, the debt may be unsustainable. Secondly as the Bonds are denominated in US$, there are foreign exchange risk where any forms of devaluation could generate more debt; interest rates can change increasing the cost of the debt. Eurobonds are also more difficult to restructure due to the large number of creditors involved in the deal.

To ensure debt sustainability, countries need to increase the mobilization of tax and non-tax revenue and deepen the domestic capital market with increased reliance on local currency-denominated loans. [4]

AFRODAD published in 2017 The African Borrowing Charter:
(http://www.afrodad.org/index.php/en/initiatives/65-african-borrowing-charter) which aims at sustainably balancing public debt levels with the necessity to accelerate inclusive development and enhancing public service delivery in Africa.

In other words, the Borrowing Charter aims at contributing to improvements in the transparency of the political, institutional and administrative processes used; and the accountability of the State actors involved in the contraction and management of public debt; the issuance of public guarantees; the selection and implementation of debt financed projects; and the formulation and execution of overall fiscal policy within the context of strengthened legal frameworks and the rule of law. All the actions and expected commitments set out in the charter are in pursuit of the African shared vision of "The Africa We Want: Agenda 2063" for "A prosperous Africa based on inclusive growth and sustainable development". In this regard, AFRODAD calls on African governments, UNECA, AU, and the African Development Bank (AfDB) to adopt the Charter whose strategies strengthen debt crisis prevention and resolution.

[4] IBID

5. African Continental Free Trade Area (AFCTA)

AFRODAD commends member countries of the African Union who took a major step to boost regional trade and economic integration by establishing the African Continental Free Trade Area (AfCFTA). A large free trade area in Africa will amplify the potential for economic transformation in the region. It will not only boost intraregional trade, it will also attract foreign direct investment and facilitate the development of regional supply chains, which have been key engines of economic transformation in other regions. In a context were countries are moving towards digital trade settlements, a profound understanding of how the settling of trade transactions using digital platforms have implications on illicit financial flows and subsequently on domestic resources mobilisation is imperative.

The AfCFTA presents a greater opportunity for Africa in the long run. Although the AfCFTA is expected to boost tax revenues in the long term due to its positive impact on GDP, the elimination of trade taxes will reduce revenues in the short run. Revenue losses associated with the elimination of taxes on trade within Africa are predicted to be small across the region as a whole and are expected to be offset in the longer term by the increase in tax revenues generated by the economic growth by AfCFTA. Revenue losses might be offset by revenue gains from an increase in trade with partners outside Africa facilitated by the removal of non-tariff barriers. All these contribute to the achievement of the AAAA, Agenda 2030 and SDGs.

6. Can Public Private Partnership (PPPs) Deliver?

Over the last decade, Africa's rapid economic growth has brought relatively small improvements for human development. One of the barriers to this has been limited enabling financing for service delivery and infrastructure development.[5] Whilst the World Bank, the International Finance Corporation (IFC) and International Monetary Fund (IMF) have been at the fore front in the promotion of Public Private Partnership (PPPs)[6] in service delivery and infrastructure development; governments and business leaders across Africa have come to accept PPPs as a means of procuring services and financing infrastructure projects.

While a number of African countries have embraced Public Private Partnerships (PPPs) in financing their development projects in education, health, energy, infrastructure among others, there is less publicized assessment that takes a much more measured approach on PPP successes and failures, including contradictions within the PPPs frameworks of majority African Countries.

There are many risks associated with PPPs which governments will need to examine based on experiences in other countries. Fundamental to those that are those associated with issues of transparency and accountability in particular around the costs associated with the associated debt especially given that they are treated as off-budget transactions.

An increasing number of countries are developing PPP policies and frameworks that typically reflect the institutions, procedures, and rules needed to implement the partnerships in each nation.[7] Given this push, over the last twenty years, arising trend in developing countries of delegation to the private sector of the provision of public services has been witnessed in various forms. In this regard, AFRODAD calls on African governments to unpack and rethink the issues of blended financing and the changing financial landscape.

[5] https://blogs.worldbank.org/ppps/infrastructure-africa-s-development-ppp-imperative

[6] PPPs are contractual arrangements between a public entity, or authority, and a private entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility."

POLICY RECOMMENDATIONS

i) African governments must have a profound understanding of digital economies and how they can be used to promote sustainable development.
ii) African governments need to ensure prudent mobilization and use of resources towards the achievement of the 2030 and the 2063 Agenda in Africa, while ensuring public debt sustainability.
iii) African governments, UNECA, AU, and the African Development Bank (AfDB) to adopt the AFRODAD African Borrowing Charter whose strategies strengthen debt crisis prevention and resolution.
iv) Lack of debt transparency and the lack of an effective debt restructuring mechanism, have failed to ensure long term debt sustainability.
v) Governments need to interrogate the implications of the AfCFTA and trade finance on domestic resources mobilisation. A profound understanding of how the settling of trade transactions using digital platforms on illicit financial is imperative.
vi) African governments need to analyse true costs of PPPs, be transparent and accountable and put development outcomes at the forefront before private sector profits.
vii) There are many risks associated with PPPs. Governments need to examine risks associated with debt given that they are treated as off-budget transactions.
viii) African governments need to strengthen public financial management, and manage better and transparently natural resources
ix) African countries must improve tax collection and tax administration, and leveraging pension funds and sovereign wealth funds to direct more monies into financing SDGs and Agenda 2063.

[7] SADC Banking Association, PPPs in Africa, https://www.sadcbanking.org/news/public-private-partnerships-africa/

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