COVID-19 PANDEMIC IMPACT ON DOMESTIC RESOURCES MOBILISATION IN AFRICA

A CALL FOR ACTION

AUGUST 2020
OVERVIEW OF
COVID-19 AFRICA
DRM

COVID-19 is one of the greatest challenges that African authorities have ever faced in a generation. Given its impact on the entire world population and the economy, the World Health Organization (WHO) has declared it a global pandemic and has become a global emergency. Despite the reactionary measures being put in place by African governments, COVID-19 continues to spread across the continent. On June 3, 2020, Africa News reported 58,030 cases, 4,505 deaths and 67,491 recoveries. In coping with the coronavirus pandemic, African countries have implemented a number of measures aimed at reducing the continuous spread of the virus. Some of these measures include closure of companies deemed as not critical, social distancing, banning large gatherings, curfews and confinement (partial/total), border control and closure, closure of markets, suspension of non-essential activities and travel bans. Based on reviews by countries some of these measures have been relaxed. Sectors deemed critical such as mining, transport, pharmaceutical etc have been allowed to operate. The relaxation of these measures has exposed workers to the virus. Taking the mining sector as an example, South African underground workers descend downwards in overcrowded cages.

The various measures taken to contain the coronavirus have serious consequences on food security and on the general livelihoods of the people. With the lack of adequate social security coverage due to the predominance of the informal sector which employs 85.8% of the active population, the lack of means of food storage and preservation, the emergence of shanty towns in urban areas, the agrarian nature of the population, water and electricity shortages, the isolation of certain areas and communication problems, the weakness of the health system and the lack of means of control, Africa is struggling to curb the pandemic.

Against this background, the purpose of this paper to interrogate on the implications of coronavirus on the domestic resources mobilisation. This paper argues that coronavirus has negatively affected DRM efforts by African countries. The implications of coronavirus on DRM are two pronged. Firstly, the coronavirus pandemic has affected the global economy. As a consequent, this has also affected DRM efforts by African countries since they rely heavily on the export of primary commodities. Secondly, the responses by countries to cope with coronavirus pandemic have also implications on DRM especially on taxation. Important to mention is the fact that Africa is already facing challenges as far as the mobilisation of resources is concerned.

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The coronavirus pandemic has affected the global economies and financial systems and African economies have not been spared. The World Bank notes that as a result of the pandemic, economic growth in sub-Saharan Africa will decline from 2.4% in 2019 to between -2.1% and -5.1% in 2020. However, this sluggish in economic growth will depend on the success of measures taken to mitigate the pandemic’s effects\(^3\). The effects of Covid-19 on African economies are a combination of both exogenous and endogenous.

### 2.1 Exogenous Factors

The effects of the COVID-19 pandemic will affect African economies through external channels. Notwithstanding the fact that the effects will be on economic performance of Africa economies, there will be a significant impact on the wellbeing and number of people living in poverty. It is imperative to note that the looming health shock of COVID-19 could have disastrous impacts on the continent’s already strained health systems, and could quickly turn into a social and economic emergency. The major externa effects of the pandemic are IFFs, trade, tourism, remittances and Official Development Assistance. On one hand some of the external effects of the pandemic may be beyond Africa’s influence and on the other hand some can be addressed through adequate policies and establishing effective institutions.

#### 2.1.1 IFFs

To begin with, despite the coronavirus pandemic, it is imperative to mention that IFFs have greatly been affecting the development of African economies. These IFFs are attributed to a constellation of factors such as weak legislation and institutions, poor mineral resources governance, tax evasion and avoidance, aggressive tax planning etc. IFFs are a developmental problem that results in draining financial resources suffocating national budget. This drainage of resources is detrimental to the development of African economies. A 2017 study by AFRODAD unraveled that in GDP terms, IFFs outpace government spending on health in both SADC and EAC regions. The trend is the same for the education sector. As noted by the Global Financial Integrity (GFI), in normal times, IFFs are deemed as a threat to the integrity and stability of countries financial systems. With the onslaught of the COVID-19 crisis concerns on the scale and scope of IFFs increasing are growing as authorities are diverting their focus and overwhelmed by the unprecedented economic fallout. Such concerns are especially acute in developing countries, many of which are already characterized by poor governance, weak regulatory oversight and corruption\(^4\).

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2.1.2 Trade
Another factor is the trade link between Africa and other affected continents such as Asia, Europe and the United States. Before the pandemic, Africa's trade with the rest of the world has been showing good momentum. According to UNCTAD’s Economic Development in Africa 2019 report, in the period of 2015-2017, total trade from Africa to the rest of the world averaged $760 billion in current prices, and the share of exports from Africa to the rest of the world ranged from 80% to 90% in 2000 –2017 in Africa's total trade. This positive development has had the potential for African countries to collect revenues through export earnings but alas. With the coming in of the pandemic, trade has been sluggish. There has been a reduced demand for raw commodities due to the closure of the main markets, consequently this has had negative effects on quality and amount of revenues accruing to African countries. This situation is exacerbated by the fact that African economy is rentier and extroverted. A good example is Nigeria which exports 91% of her oil and stands to lose USD 19 billion in 2020 due to the fall in the price of a barrel to USD 30. Similarly, the Central African region with 53% of exports to Asia and 29% to Europe and 37% of imports to Asia and 35% to Europe are also seriously affected by the consequences of the pandemic.

2.1.3 Tourism
It is undeniable that the tourism sector is also another strong pillar upon which African economies are hinged on. The sector contributes similar amounts of wealth into national economies as private and public sector investments and development assistance from foreign governments. In 2015 for example, Foreign Direct Investment (FDI) to the African continent totaled $54 billion and official development assistance (ODA) totaled $51.04 billion, while tourism generated $39.2 billion. Furthermore, the sector has created 9.1 million direct jobs. A report by International Labour Organisation (ILO) postulates that domestic tourism industries are also being impacted as about half of the world’s population is estimated to be constrained by containment measures. As a result of travel bans and closure of hotels and resort areas, the volume of international arrivals who bring in foreign currency has dropped drastically. Consequently, the revenue contributions from the sector have dwindled. The tourism sector is expected to lose more than $30 billion in earnings. The laying off of workers has also affected revenue streams such as pay as you earn and Value Added Tax (VAT). The loss of jobs effects on consumption. Furthermore, VAT has been affected as a result of reduced demand for daily consumables and food staffs for patrons. However, the ILO report gives the hope that domestic tourism is expected to recover faster than the international tourism industry.

2.1.4 African Diaspora Remittances
The decline in remittances from the African diaspora has also affected African economies. Re-mittance flows are an integral part of development finance in the African context. Despite proving to be relatively resilient during the 2008 financial crisis and the 2014 Ebola epidemic, remittances are currently under threat by the COVID-19 pandemic. This is because lockdown measures implemented in host countries have caused many African migrants to lose their jobs, consequently reducing remittance flows to developing countries. Furthermore, some of the migrant workers are undocumented and this hinder them from sending money to their families be-cause of the stringent identification requirements demanded from migrant workers. The World Bank predicts that international remittances to Sub Saharan Africa will decline by 23% in 2020 because of the COVID-19 pandemic with implications for major recipient countries in the region. The notable implications are on socio-economic life of families that rely of remittances to fill in the coverage gaps where safety nets are unavailable.

2.1.5 Development Assistance
Foreign Direct Investment and Official Development Assistance are critical finance mechanisms for Africa's development. As note by the World Bank FDI benefits developing countries, brin-ging in technical know-how, enhancing work force skills, increasing productivity, generating business for

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6 https://www.brookings.edu/blog/africa-in-focus/2019/03/05/africas-tourism-a-global-destination-for-investment-and-entrepreneurship/
local firms, and creating better-paying jobs\textsuperscript{11}. Despite these purported benefits, global FDI flows are expected to drop 40\% from their 2019 value of $1.54 trillion. This decline would bring FDI below $1 trillion for the first time since 2005. Furthermore, FDI is projected to decrease by a further 5\% to 10\% in 2021 and to initiate a recovery in 2022\textsuperscript{12}. The principal factor behind the decline is the COVID-19 pandemic. Developing economies are expected to see the biggest fall in FDI,\textsuperscript{13} as they tend to depend on foreign investment for production and raw material extraction. The lockdown measures are slowing down existing investment projects. The prospect of a deep recession will lead multinational enterprises (MNEs) to reassess new projects. Policy measures taken by governments during the crisis include new investment restrictions\textsuperscript{13}.

2.2 Endogenous Effects

The COVID-19 pandemic has had internal effects on African economies. These effects have occurred as a result of the rapid spread of the virus in more than 47 African countries. On one hand, they are linked to morbidity and mortality. As at 17 June 2020 Africa had 91 2016 cumulative active cases, 4 316 cumulative deaths and 89 271 cumulative recoveries\textsuperscript{14}. South Africa is the hardest hit. Being one of the largest economies in Africa, the ripple effects of COVID-19 will definitely affect the SADC region and other South Africa’s trading partners. The COVID-19 has led to a disruption of Africa’s economic activities. This has led to decrease in domestic demand in tax revenue due to the loss of oil and commodity prices coupled with an increase in public expenditure to safeguard human health and support economic activities.

2.2.1 Loss of Jobs

As noted in the preamble, countries have implemented measures to deal with the Covid-19 pandemic. Important to note is that some of these measures have implications on DRM in Africa. To reduce the spread of the coronavirus, countries have closed companies that are deemed unnecessary. For companies that have been allowed to operate they have mitigated the effect of the excessive costs as a result of the pandemic by laying off some of their employees, enforcing forced leaves and reducing wages due to slow economic activities and reduced demand for their products. ILO projections against COVID-19 show that 22 million full-time jobs will be lost in Africa in the second quarter of 2020. Better still, the drop in income in the informal sector, which employs almost the entire working population, is estimated at 81\% of income in the first month of the crisis and has largely reduced deductions from wages because workers in this sector do not enjoy any social security system that could benefit employees and States in the mobilization of national tax resources\textsuperscript{15}. The overall result has been a reduction in the amount of government revenues through Pay As You Earn (PAYE) taxes. The cutting of salaries and wages has pushed the majority of workers into tax free brackets where they are not taxed. The loss of jobs by workers shrinks the PAYE revenue stream further containing DRM efforts. PAYE is a major revenue stream in Africa.

2.2.2 Closure of the Informal Sector

The informal sector is a large part of employment in African cities. ILO estimates that more than 66\% of total employment in Sub-Saharan African is in the informal sector\textsuperscript{16}. Economically, the sector is a significant component of most economies in sub-Saharan Africa, contributing approximately 25-65\% of total gross domestic product and accounting for approximately 30-90\% of non-agricultural employment. There is wide recognition that recent growth has been due to growth in sales in commodities, services, and manufacturing, as well as in mining and agriculture, the sectors that operate largely in the informal economy. There are already growing reports on the economic losses faced by workers engaging in certain occupations due to reduced demand, lack to access to markets, and the loss of mobility of people and goods. The loses have an impact on the spending patterns of the informal workers. In this case VAT may be affected due to reduced consumption. Furthermore, the operations of some of the companies that rely on inputs and raw materials from the informal sector are likely

\textsuperscript{14} https://www.afro.who.int/health-topics/coronavirus-covid-19
\textsuperscript{15} https://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/documents/briefingnote/wcms_743155.pdf
to be affected. This may also affect the general functioning of the national economy as a whole. The informal sector in sub-Saharan Africa remains one of the largest in the world and the pandemic constrains the mobilization of domestic resources, as it is undermining the already weak economic performance of the country and presents a further downside risk to economic growth.

### 2.2.3 Reduction in Tax Rates

The COVID-19 pandemic has affected the daily lives of the people. Some have lost their incomes and livelihoods. In response to cushion citizens, countries have reduced and scrapped taxes such as import duty on medical equipment and pharmaceutical supplies and differ tax payments. Good examples can be seen in the Democratic Republic of Congo where there are exemptions from all duties, taxes, levies, and fees on import and sale of pharmaceutical inputs and products, as well as medical materials and equipment linked to COVID-19 for six months. More so, DRC has also suspended the collection of VAT on the import and sales of necessities or mass consumption products for three months. Similarly, Ivory Coast has issued an exemption of import duties and taxes on health equipment, materials and other health inputs related to the fight against COVID-19.

Countries such as Kenya have responded by reducing tax liabilities. The Kenya Revenue Authority (KRA) issued 100% tax relief for taxpayers earning a gross monthly income of up to KES 24,000; reduced the PAYE rate from 30% to 25% and Value Added Tax (VAT) from 16% to 14%. Although these measures may result in reduced government revenues, they are commendable in that they will increase disposable incomes for the citizens. Increased disposable incomes will help the citizens to acquire food and medicines they require in their daily life. Furthermore, Kenya has reduced income tax for resident companies from 30% to 20%. Although this may reduce company taxes accruing to KRA, this is also commendable in that companies will be encouraged to boost production and be able to compete with foreign and international companies.

### 2.2.4 Tax Deferments

In terms of tax deferments, the Botswana Unified Revenue Service introduced a deferral of 75% of any two self-assessment tax (SAT) quarterly payments due between March and September 2020, with payment of the deferrals to begin from March 2021. Similarly, the Mauritius Revenue Authority (MRA) announced that taxpayers that are unable to submit returns or pay their tax due to the lockdown will not be charged any penalty or interest for late submission or payment. Burkina Faso has deferred the payment of vehicle tax and reduced the transport sector license by 25% for the period April to June 2020. Tax deferments allow companies to breathe allowing them to have cash flow but however they result in late collection of revenues which are much needed in the fight against COVID-19 by governments.

### 2.2.5 Mining Fiscal Regimes

In the mining sector, it is still early to determine and analyse the implications of government tax and royalty receipts from mining as a result of the COVID-19 pandemic. However, depending on design of various tax tools and on past experiences, price drops have a stronger impact on profit-based taxes (such as income taxes, rent taxes, or state equity dividends). This is due to collapse in demand for raw materials from China and the rest of the world. The price of oil, for example, continues to fall, starting with the price wars between OPEC and Russia and aggravated by the economic slowdown and Covid-19’s uncertainty. As a result, countries like Nigeria and Angola which highly dependent on oil exports will likely see major undercutting of their earnings. A smaller impact on output-based taxes (such as most mineral royalties, turnover, or local development taxes). Other taxes (including VAT, customs duties, and withholding taxes) would be affected only to the extent that a price decrease leads to cost-cutting measures or reduced economic activity. Despite the potential of the COVID-19 pandemic to reduce mining revenues, the extractive sector was already enjoying long loss carry-forward periods. Even if the sector is granted tax deferments, the carry forward of losses would not provide any immediate relief to mining companies in terms of tax savings and further defer future tax payments.

IMPLICATIONS ON DRM

As with the rest world, African countries have suffered a sudden slowdown of their economies due to the COVID-19 situation. The Corona pandemic has further exposed Africa’s low level of domestic resource mobilization. According to OECD, the average tax revenue-to-GDP ratio in Africa over the last three years has remained stable at an average of 17.2% of GDP and is half the rate of OECD countries, while the majority of countries have had average tax revenue-to-GDP ratios below 15%. Furthermore, gross domestic resources account for 5.4% of GDP in Africa as compared to high-income countries and social security systems, which account for 8.7% of government tax revenue sources. In addition to tax challenges such as shrinking tax base, reliance on few tax heads, lack of capacity, ineffective tax systems, and outdated tax policies, the COVID-19 pandemic and the different measures implemented by countries to cope with the Covid-19 situation have further implied negatively on DRM in Africa. In the Covid-19 context, these challenges potentially affect DRM as tax systems are suffocated by response measures being implemented by countries.

The COVID-19 pandemic has hit almost all African countries and appears poised to worsen dramatically. The disruption of the world economy through global value chains, the abrupt falls in commodity prices and fiscal revenues and the enforcement of travel and social restrictions in many African countries are the main causes of the negative growth. Exports and imports of African countries are projected to drop by at least 35% from the level reached in 2019. Thus, the loss in value is estimated at around 270 billion US dollars.\footnote{18 https://www.tralac.org/documents/resources/covid-19/3218-impact-of-the-coronavirus-covid-19-on-the-african-economy-african-union-report-april-2020/file.html}

The fight against the spread of the virus and medical treatment will lead to an increase of public spending in Africa estimated to be at least $130 billion. The implication of this may be an increased appetite for borrowing which will further expose countries to debt vulnerabilities and worsen their fiscal positions, lower their revenue generations and widen budget deficits. Before the COVID-19 health pandemic crisis the SSA region was already sliding into a new debt crisis, with 40% of the countries at high risk of debt distress. Debt-to-GDP ratio of many countries had reached levels not sustainable, Mozambique had 108.8%, Zambia 91.6%, Angola 95% (UNECA). A number of countries were already spending between 40% - 50% of their national budgets on debt servicing than they spend on health and education combined.
To date, 24 SSA countries (DRC, Malawi, and Mozambique included) have secured IMF Assistance to mitigate against the impacts of COVID-19. The resources are concessional and no conditionality attached. The funds are supposed to be used to meet urgent balance of payment and fiscal needs stemming from the COVID-19 pandemic, and to mitigate the impact of the pandemic and preserve macroeconomic stability. There is need to demand transparency and accountability in their usage. Likewise, the Africa Development Bank’s (AfDB) Covid-19 response new schemes which is $3 billion social bond and a USD 10 billion loan scheme is dedicated to supporting member countries and their COVID-19 service and infrastructure interventions\textsuperscript{19}. Irrefutably, these measures will increase the amount of resources needed to deal with the coronavirus situation. However, despite being concessional, these loans will impose a heavy burden on the tax payers. Given the fact that African countries are grappling to mobilise resources from sectors such as the mining sector due to tax evasions and tax avoidance, countries will turn to their citizens and squeeze them of their little hard-earned cash. The few tax collections will be diverted to loan repayments.

CONCLUSION AND RECOMMENDATIONS

The COVID-19 has affected the economies of more than 47 African countries. The effects of the pandemic on the mobilisation of resources in Africa are two pronged. On one hand, the pandemic has affected the global economy. Being part of the global economy, the African economy has not been immune to these effects. These effects have been in the form of prevalence of IFFs, reduced earnings from the tourism sector, reduced remittances, slow down in trade and dwindling Official Development Assistance. On the other hand, African responses to cope with the COVID-19 pandemic such as reduction in taxes, tax deferments, closure of companies, laying off of workers, reductions in wages and salaries have implications on the quality and quantities of resources that African countries can mobilise. In the mining sector, the effects of COVID-19 on mining revenues is dependent on the design of various tax tools, on past experiences and the extent of price drops which may have a stronger impact on profit-based taxes. Measures taken by countries have a greater potential to reduce revenues accruing to governments at the same time lessening the negative implications of the pandemic on companies and citizens. To increase the amount of resources available for fighting the pandemic, countries have fallen back on loan contraction further plunging into debt vulnerabilities. Against this backdrop, this paper argues that countries should make consented efforts to mobilise resources domestically. Domestic resources are more sustainable and more predictable as far as dealing with pandemics such as the novel coronavirus. Based on the above discussions and conclusions, this paper recommends the following:

a) African Should Concentrate on Preventing the Spread of the Virus

The COVID-19 pandemic has destroyed the economies of many African countries. The number of new infections is steadily increasing further imposing a burden on economic development of the African continent. Good health is a key equalizer for economic development as economic growth requires a healthy workforce. African governments should concentrate efforts on preventing the spread of the virus, invest in preparedness and early-detection mechanisms, and deploy emergency relief measures, notably in highly informal sectors.

b) Addressing Tax Challenges

Taxation plays a pivotal role in Africa’s development. However, Africa’s taxation is presented with a plethora of challenges. To improve Africa’s taxation there is need to widen the tax base through supporting and formalizing and integrating the
informal economy, improve tax systems, capacity building for tax administrators, updating and amending tax laws. Addressing these tax challenges will lead to improved revenue collections in Africa for development.

c) Curbing IFFs

IFFs are a developmental challenge that drains national resources. As a result of IFFs, national budgets have been suffocated and budget deficits have become a perennial problem. This has in turn negatively implied on critical sectors such as health. Curbing IFFs has the potential to increase resource for funding sectors such as health. IFFs can be curtailed through a combination of actions such as: registering companies for tax purposes, establishing transfer pricing units, automatic exchange of information, beneficial ownership, reviewing of double taxation agreements, curbing corruption and establishing financial intelligence units to investigate and prosecute financial crimes.

d) Improve Mineral Resources Governance

The vast of IFFs emanate from the extractives sector. There is therefore the need to improve mineral governance with the view to plug IFFs. Mineral resources governance can be improved through reviewing mining laws, strengthening mining institutions, conducting geological surveys to know the quality and quantities of resources, addressing challenges in the artisanal small-scale mining sector, improving transparency and accountability contract negotiation and awards, improve public participation, promotion of mineral value addition and beneficiation etc. These measures have the potential to improve revenue collections from the mining sector.

e) Improve Mining Revenue Collection and Management

The mining sector is pivotal as far as DRM is concerned. There is need to establish mechanisms that ensure that mining revenue collections are maximized and properly managed. Countries should develop mechanisms to capture revenues from mining booms and create Sovereign Wealth Funds, improve the mining fiscal regimes and etc.
Sources

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