The African Peer Review Mechanism as a tool for enhancing domestic resource mobilization and public finance management in Africa

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Executive summary

Aim and purpose

The purpose of the present report is to review the role of the African Peer Review Mechanism in developing strategic, operational and normative pathways for enhanced domestic resource mobilization and private finance management. That role and the Mechanism's efficacy in carrying it out have become even more urgent in the light of the demands for African countries and citizens to be integrally involved as the primary agents in the efforts aimed at achieving the Sustainable Development Goals and implementing Agenda 2063: The Africa We Want. With 36 countries acceding to its voluntary processes and the structures of the peer review, the Mechanism is well placed to leverage institutional competences, skills and experiences to enhance domestic resource mobilization and public finance management.

Conceptual issues

Domestic resource mobilization and pubic finance management are synergistic and mutually reinforcing. Domestic resource management refers to generating fiscal and financial resources from the domestic economy in three areas: household, public and corporate sector savings; corporate profits and retained earnings; and public sector revenue. Enhancing the efficacy of domestic resource management requires the following measures: increasing levels of savings; improving the efficiency of savings-into-investment intermediation and the allocation of investment; and increasing and improving public sector revenue mobilization and the allocative efficiency of public investment and recurrent expenditure.

Public finance management refers to the strategic prioritization of expenditure, technical efficiency and aggregate fiscal discipline. An effective and purposive system of public finance management must be underpinned by accountability, good governance and responsible resource allocation in order to generate and achieve sustainable social benefits and welfare-enhancing outcomes.

In the view of the multiple challenges associated with achieving the Sustainable Development Goals and the vision of Agenda 2063, domestic resource mobilization and public finance management have become more significant as leading forces of sustainable development, primarily because external resources of finance on their own, while necessary, are not sufficient. In addition, external resources respond to various motivations: foreign direct investment is driven mainly by opportunities for commercial profit while retained earnings go to foreign investors and development aid and debt relief are given to meet the political ends of donors and creditors.

Challenges of domestic resource mobilization and public finance mechanisms

The main challenges associated with domestic resource mobilization and public finance management are low-income levels, demographic factors and the structure of financial markets and public sector performance relating to corporate savings, tax revenue, tax administration, illicit financial flows and addressing shortcomings in credit provision and impediments to investment. The role that the Mechanism can play in that regard is to monitor and evaluate the types and amounts of existing resources, how those resources can be allocated in optimal ways that improve welfare in social and economic terms and how governance norms and standards can be put in place to ensure that they are used effectively and efficiently.

With regard to improving financial governance, there is a premium on creating the right enabling environment for domestic resource mobilization and pubic finance management through an institutional mix of macroeconomic and sectoral policies and institutional reforms that are responsive to development priorities.

Role of the African Peer Review Mechanism with regard to domestic resource mobilization and public finance management

In 2016, the mandate of the Mechanism was expanded with regard to monitoring and evaluating progress in achieving the Sustainable Development Goals and in realizing the vision and goals of Agenda 2063. The expanded role includes close observation of progress in key and strategic areas of governance – political, economic and corporate, which is centred on the four thematic competences of the Mechanism: political and democratic governance; economic governance and management; corporate governance; and socioeconomic development. For domestic resource mobilization and public finance management, a strong case can be made for the Mechanism to use its expanded mandate to strengthen and deepen the existing modalities within its process infrastructure that are capable of generating increasing returns to scale in mobilizing domestic sources of development finance and improving the management of public finance.

It has been observed that Africa generates $520 billion from domestic revenue streams, compared with $60 billion in private flows and $50 billion in external aid. Given the primacy of domestic resources in financing continental initiatives, however, this amount is not sufficient to meet the financing requirements of the 2030 Agenda for Sustainable Development and Agenda 2063 projects and the benchmarks defined in the Addis Ababa Action Agenda of the Third International Conference on Financing for Development.

The Mechanism can contribute to a comprehensive initiative to develop innovative financing instruments and build on those that currently exist. There already is a rich repository of financial resources in the form of pension funds, domestic savings, diaspora remittances, income from minerals and fuels, international reserves held by central banks, liquidity in the banking sector and private equity funds. In addition, the Mechanism must continue to expand and intensify its work to improve governance in its four thematic areas to include how its norms and standards, best practice methods and analytical tools, and peer orientation and learning can be deployed to enhance domestic resource mobilization and pubic finance management.

The Mechanism questionnaire and country reports of Ethiopia, Lesotho and Uganda revealed that the review standards and measurements for public finance management were well developed and satisfactory, while those for domestic resource mobilization could be substantially improved in the following areas:

(a) Savings structure in the public and private sectors and households;

(b) Financial structure of the economy, including the size and constitutive elements of the real and informal economies;

(c) Relevant contingent considerations for their direct and indirect impact on domestic resource mobilization and public finance management, such as global growth and investment; commodities and terms of trade; non-economic shocks; capital flight; financial market development; and the use of resource rents.

Policy recommendations

1. Develop a financial sector conducive for domestic resource mobilization and pubic finance management

   The Mechanism and participating countries should, respectively, promote and adopt policy reforms that include specific modalities for the monitoring, evaluation and implementation of activities that contribute to efforts aimed as meeting the objectives of the 2030 Agenda and Agenda 2063 by:

   (a) Organizing a long-term investment fund;

   (b) Bringing back development banks;

   (c) Creating a microfinance fund;

   (d) Dealing decisively with illicit financial flows and capital flight.

2. Promote capital markets and investment for domestic resource mobilization and pubic finance management

   The transformation of the investment environment in Africa requires functional mechanisms for credit. Related strategies must be based on a sound and viable market for credit that includes the following measures:

   (a) Lowering transaction costs;

   (b) Building information capital;

   (c) Improving legal and regulatory frameworks.

3. Develop financial and investment policies for domestic resource mobilization and pubic finance management

   Market failure tends to undermine growth and development. Because of this, State-driven development is a key element of domestic resource mobilization and public finance management. In this regard, opportunities can be based on the following policy directives:

   (a) Promoting domestic integration;

   (b) Allocating resources more efficiently;

   (c) Reforming the tax system.

4. Enhance the focus of the domestic resource mobilization and pubic finance management in the Mechanism

While the questionnaire is comprehensive with regard to relevant aspects of public finance management, there is a need for a more concerted effort to integrate the technical, operational and policy drivers of domestic resource management to:

(a) Better use the competences of the Economic Commission for Africa and the African Development Bank as strategic partners of the Mechanism;

(b) Develop stand-alone pilot studies on domestic resource mobilization and pubic finance management in select countries.

1. Introduction

The challenges of domestic resource mobilization and public finance management have become very significant in the African countries that are dealing with financial liberalization, low savings rates, rising external debt, stressed fiscal revenue and capital flight. Those factors are compounded by the increasing negative relationship between savings and investment and the continent's overreliance on development aid, foreign investment and trade taxes to manage that dilemma. There are also the problems of Africa being a net creditor, with a substantial proportion of the private wealth being held abroad and the continent's external debt often being illegally externalized as private assets in Western financial markets. All those considerations are disincentives for domestic investment and foreign direct investment (FDI) and have implications for the more judicious management of public finances.

It is against that background that the role of the African Peer Review Mechanism in developing strategic and normative pathways for enhanced domestic resource mobilization and private finance management are reviewed in the present study. This role and the Mechanism's efficacy in carrying it out has become even more urgent in the light of the demands for African countries, and by definition, its citizens to be integrally involved as the primary agents in achieving the Sustainable Development Goals and implementing Agenda 2063: The Africa We Want (African Union Commission and others, 2017). The recent positive growth trends in many African countries in the aftermath of the global financial crisis of 2008 points to the dynamic gains that have been made in structural economic transformation, especially with regard to prudential political and economic governance and policy reforms. With 36 countries acceding to its voluntary processes and structures of peer review, the Mechanism is well placed to leverage institutional competences, skills and experiences to enhance domestic resource mobilization and public finance management.

The imperatives of more effective domestic resource mobilization and public finance management are well aligned with the core mandate of the Mechanism, as articulated in its 2016 Statute (also known as the Base Document) with special reference to articles 4.1 and 4.2. In article 4, the Mechanism is enjoined to ensure that the policies of member States are consistent with the values, codes and standards of political, economic, corporate governance and socioeconomic development as expressed in African Union declarations and agreements and the New Partnership for Africa's Development (NEPAD) programmes and instruments of the Mechanism In article 4.2, the Mechanism is enjoined to follow policies, codes and standards that promote political stability, high economic growth, sustainable development and integration through sharing experiences and best practices, promoting a participatory ethos and developing its own repository of knowledge and analysis.

As a constituent structure of NEPAD, the Mechanism is therefore well placed to assist African countries in closing their financing deficits. More importantly, it is well positioned to effectively assist the continent in efforts to finance its own development by integrating benchmarks for more effective domestic resource mobilization and public finance management into its conceptual, operational and methodological infrastructure. This must be considered in the context of the great needs of Africa and its potential to generate more financial resources to implement the 2030 Agenda for Sustainable Development and Agenda 2063.

There is sufficient evidence to substantiate this claim. More than $520 billion is generated from domestic taxes annually; more than $168 billion is earned annually from minerals and mineral fuels; more than $400 billion is held by central and reserve banks in international reserves; diaspora remittances average $40 billion annually; the continent's stock market capitalization is approximately $1.2 trillion; revenue from banking is $60 billion annually; and the continent's private equity market is worth $30 billion (New Partnership for Africa's Development and Economic Commission for Africa, 2014). A critical fact that cannot be ignored is that Africa lost $854 billion, or approximately $22 billion annually, through illicit financial flows between 1970 and 2008.

If that capital flight were to be curtailed, those funds could vastly complement the continent's resource potential. The Mechanism is therefore in a strong position to set up a salutary platform to devise mechanisms for a comprehensive African strategy for financing development through improved and enhanced domestic resource mobilization and public finance management. Equally, the resource deficits in Africa are relatively well known. For example, some $93 billion is required annually to fund infrastructure and more than $30 billion is needed to support climate change mitigation and adaptation. In addition, approximately $50 billion is needed to support the efforts to achieve the Sustainable Development Goals. This normative call-to-arms has already been expressed in the Addis Ababa Action Agenda of the Third International Conference on Financing for Development and the 2030 Agenda, which provide the framework for resource mobilization for African countries to achieve the Goals.

The present report is structured as follows:

(a) Section 1 provides an introduction;

(b) In section 2, a conceptual framework for understanding the key themes that underpin domestic resource mobilization and public finance management is presented;

(c) Section 3 contains an assessment of the problems associated with domestic resource mobilization and public finance management in Africa. It needs to be noted that governance will remain a critical pillar in resolving those problems;

(d) Section 4 covers governance issues pertaining to domestic resource mobilization and public finance management, with one point of discussion being on how an enhanced governance architecture in Africa can be used to foster greater domestic resource mobilization and financing for development;

(d) In section 5, the importance of the Mechanism as a possible platform for enhanced domestic resource mobilization and public finance management is discussed;

(e) Section 6 offers a profile of policy recommendations aimed at revitalizing the role of domestic resource mobilization and public finance management as strategic axes of growth and development, especially with regard to the Sustainable Development Goals and Agenda 2063;

(f) Section 7 presents the conclusion, based on a range of reflective considerations resulting from the report.

2. Conceptual considerations: the key themes of domestic resource mobilization and public finance management

It is helpful to take the view that domestic resource mobilization and pubic finance management are synergistic and mutually reinforcing. The former is all about generating fiscal and financial resources from the domestic economy in three areas: household, public and corporate sector savings; corporate profits and retained earnings; and public sector revenue. To enhance the efficacy of domestic resource mobilization, the following are required: increased levels of savings; more efficient savings-into-investment intermediation and allocation of investment (public and private) and recurrent investment; and greater and more efficient public sector revenue mobilization. For its part, public finance management refers to the strategic prioritization of expenditure, technical efficiency and aggregate fiscal discipline. An effective and purposive system of public finance management must be underpinned by accountability, good governance and responsible resource allocation with the objective of generating and achieving sustainable social benefits and welfare-enhancing outcomes.

In the view of the multiple challenges associated with achieving the Sustainable Development Goals and the vision of Agenda 2063, domestic resource mobilization and public finance management has become more significant as factors behind sustainable development, primarily because external resources of finance on their own, while necessary, will not be sufficient. Moreover, external resources respond to various motivations: FDI is driven mainly by opportunities for commercial profit while retained earnings go to foreign investors; and development aid and debt relief are all too often designed to meet the political ends of donors and creditors (Economic Commission for Africa, 2008). Accordingly, for conceptual and normative purposes, domestic resource mobilization and public finance management form a virtuous circle for several reasons: they can facilitate higher levels of private and public investment for economic growth and social development; they help to reduce the dependence on external sources of aid and investment; and they help to promote policy space and domestic ownership and improve governance and accountability.

The paragraphs below include a review of the main conceptual dimensions that underpin domestic resource mobilization and public finance management in terms of their relevance for informing the present study.

Domestic resource mobilization

A simple formula would be that enhanced domestic resource mobilization equals greater domestic private and public savings for investment. The bulk of resources that countries generate for investment should therefore come from domestic sources as opposed to external sources. Consequently, countries with higher rates of domestic savings should, in general, have much higher rates of investment. In the sub-Saharan Africa context, increasing levels of savings and investment are critical for growth. Notably, the improved growth performance of Africa from the 1980s up to the global financial crisis in 2008 can be ascribed to improved savings and increased investment flows.

While there is a large body of literature on the link between growth and investment, in this study only a few major points are referred to (Easterly, 2001). The classical Harrod-Domar model posits that higher levels of savings and investment lead to higher levels of growth. Problems with the model’s simple production function with fixed proportions between labour and capital and unbounded rates of savings and investment, however, are later taken up by Solow and Swan in their neoclassical revision in which they argue that savings and investment rates lead to higher output, but not always higher growth rates. The fundamental postulate of Solow and Swan is that growth is determined more by exogenous technical progress (Solow, 1957). In the African context, both models carry theoretical and empirical weight, given that there are many country examples that suggest that low savings and investment rates are major constraints on growth. This is compounded by African countries not benefiting from exogenous technical progress. The failure to explain how exogenous technical progress occurs, however, has led to further refinements, which draw their inspiration from Schumpeter relating the nature of endogenous growth in which technical progress is embedded rather than exogenous (Aghion and Durlauf, 2005). Endogeneity is important for domestic resource mobilization because it reinforces the postulates of the classical and neoclassical models that higher domestic savings and investment increase growth, output and productivity. In Schumpeterian terms, mobilizing domestic financial resources and investing in human capital is integral to domestic resource mobilization. This notion anticipates a proactive role for government to offset market failure but also crucially to ensure that investment has socially optimal benefits (Fitzgerald, 2007). While aggregate economic growth improvements are notable in sub-Saharan Africa, at the country level, greater and sustained focus on critical development initiatives, such as the 2030 Agenda and Agenda 2063, and institution-building are required to support those initiatives. This includes the formulation of more effective macroeconomic and tax policies and more efficient administration of the policies; public expenditure on infrastructure; and creating an appropriate climate for both public and private investment.

The financialization of the economy and the exponential growth of the financial sector through an effective system of banks, non-bank intermediaries and bond and stock markets is a function of a government's ability to create this system and to regulate it. In addition, African countries can make better use of development financing institutions to support their domestic mobilization efforts, especially with regard to developing small and medium-sized enterprises and promoting private-public partnerships (World Bank, 2013). To tackle the challenges relating to industrial development and manufacturing, institutional reconfigurations in harnessing domestic resources are required, and public investment in innovation needs to be linked with private long-term investment in value chains, skills development and market reforms (ECA, 2014a). Lastly, the role of donors must be reviewed in a manner that actively and constructively supports the means and ends of domestic resource mobilization and enhanced public finance management, given that they provide strategic stimuli for economic growth and social development, while ensuring the ownership of domestic policies and development initiatives in a general context, while donors, on the other hand, have merely shown a rhetorical commitment.

Public finance management

A sound system of public finance management enables governments to use the resources available, including development aid, directed at efforts to achieve growth and development objectives effectively, efficiently and equitably. Such a sound system not only depends on increased social expenditure, but also, quite crucially, requires the administrative capacity and managerial competence necessary to manage public finances in order to attain the maximum impact in improving citizen welfare and livelihoods (Diamond, 2013).

Enhancing public finance management must be an integral component of the entire governance framework, given that it could, in an organic manner, improve the prospects of growth and development in African countries. Accordingly, it is important to harmonize and synergize public finance management with other factors behind institutional efficiency and effectiveness, which include human capital, strategic and operational planning and information and technical systems. To achieve the objectives of the Addis Ababa Action Agenda and the 2030 Agenda, public institutions in Africa must be more flexible and adaptable responsive to their development and growth imperatives and be strong advocates of the agendas.

Against that backdrop, public finance management could be seen as an information and purposive system of government in pursuit of socially beneficial objectives based on four essential components: governance; aggregate fiscal management; fiduciary risk oversight; and operational management (North, 1991; Diamond and Khemani, 2005; Robinson, 2007; Hedger and de Renzio, 2010; Allen and others, 2013; Cangiano and others, 2013). In the discussion below, the salient points of each of those components are highlighted, drawing on the cited literature.

Governance is related primarily to public finance management through budgetary and financial reporting processes. There is, however, a critical distinction in that budgets involve the ex ante mobilization of resources and the plans and decisions about how and where such resources will be allocated, while financial reporting and statements involve the ex post scrutiny and oversight with regard to the actual impact of service and social delivery. Two other important elements of governance in public finance management are related to transparency and accountability. Transparency not only is about the disclosure of financial information, but also includes the larger context of the totality and accessibility of published budgets, financial statements and audit reports. Messages within those data sets must be explicit, which requires judgments about what constitutes appropriate messages. Meanwhile, accountability moves beyond transparency and holds individuals and groups responsible for their actions, whether they have failed to carry out specific actions or have committed specific transgressions in failing to be accountable. Accountability is the end objective of a participatory and transparent process in public finance management and the system of government in general. It is an essential condition of institution-building and reform. As a result, accountability plays a profound role with regard to budget preparation, expenditure and systems of accounting.

Aggregate fiscal management represents an accounting model of financial flows and balance sheets that provide the mechanisms for monitoring, controlling and, importantly, for managing public finances. Without prudent aggregate fiscal management, activities financed through public revenue cannot be funded, and borrowing is difficult. In short, without aggregate fiscal management, there can be no fiscal sustainability. That problem and challenge become even more acute in the cases in which governments have to provide "implicit" guarantees that are not set out in the legal code, such as bailing out failing public enterprises. A similar case can be made with regard to structural fiscal deficits in which levels of revenue are inadequate to sustain the quantum of government expenditure. In this situation, difficult but necessary choices must be made, such as borrowing, raising taxes or reducing expenditure.

Addressing those issues requires the creative use of public finance management tools to maximize resource mobilization and allocate resources according to policy priorities. With regard to the former, there must be credible financial statements that accurately assess the potential for sovereign debt risk and, accordingly, the borrowing capacity and cost of borrowing. This is necessary to spur both public and private investment and donor support. With regard to allocative matters, enhanced public finance management through the budgetary process provides a useful mechanism for establishing the link between articulated policy objectives and the finite limits of financial resources.

Fiduciary risk oversight is critical for monitoring the use of public resources, especially when it comes to theft of money, fraud, mismanagement and corruption. Effective public finance management not only provides a partial solution or corrective intervention to fiduciary risk, but also is an important tool for dealing with and avoiding risk. In that situation, there are three mechanisms of fiduciary management and controls: effective financial controls; constitutional and regulatory requirements; and oversight of public finances.

Effective financial control refers to internal controls and auditing procedures. Internal controls are designed to guard against the risk of loss. Typically, there is recourse to payment authorization, managing against budgets and reconciliation methods. Internal auditing is a system of oversight to ensure the appropriate use of resources in accordance with international standards.

A rule-bound environment is essential for effective public finance management in terms of having regulations, processes and procedures that are grounded in legal and constitutional norms and practices. This includes the bureaucratic structure as an element of fiduciary risk management so that the scope for activities that are antithetical to public policy is reduced.

A transparent and institutionally-grounded oversight process of public finances is a potent tool and incentive for operating purposeful fiduciary risk management, in particular by parliaments and their dedicated portfolio committees. In addition, it lends legitimacy to the work of auditors and the early-warning use of legislative privilege to identify matters of concern and issue pronouncements.

The operational management of public finance often comes up against the major constraint that governments' accounting model does not lend itself to easy input-output measurement. In the public sector, while inputs can be expressed in monetary terms, the outputs are delivery-based and non-financial. Accordingly, performance management has become a distinct subdiscipline within public finance management in which financial resources are linked to measures and indicators of objectives and how such objectives could be achieved against the normative standard of value for money and managing within the budget cycle.

Ultimately, the manner in which these four components are brought together as a functional system of public finance management determines how actions of government will shape the development prospects of society. In addition, the components can be used to provide conceptual benchmarks for public finance management against which effectiveness, efficiency and outcomes of government performance can be judged and assessed, with an emphasis on the centrality of citizen welfare.

3. Assessment of the problems associated with domestic resource mobilization and public finance management in Africa

The main challenges associated with domestic resource mobilization and public finance management are low income levels, demographic factors and the structure of financial markets. The general discourse about how the growing resource deficiencies for development in Africa can be addressed has focused mainly on increasing the external flows of aid and investment, which may be complemented by reducing the quantum of debt. Such propositional logic, however, must be challenged. While external aid has historically been the main source of finance in Africa, it is unreliable and tends to be concentrated heavily among select countries. In addition, its effectiveness is dubious, notwithstanding global compacts, such as the Paris Declaration on Aid Effectiveness, Ownership, Harmoninsation, Alignment, Results and Mutual Accountability, the follow-up Accra Agenda for Action and the Addis Ababa Action Agenda. FDI has similar features, but it is directed mainly towards extractive and rent-seeking sectors, with very few forward and backward linkages into the domestic economy (Economic Commission for Africa, 2006).

On the basis of the discussion above, there are compelling reasons for African countries to harness and exploit the benefits of enhanced domestic resource mobilization and public finance management. Among them are to decrease African countries' overreliance on external flows of aid and investment in order to deal with and reduce the serious volatilities associated with them; provide African countries with greater policy room to take ownership of development processes and, importantly, to strengthen their own State capacities to do so in terms of the 2030 Agenda and Agenda 2063; help to improve the domestic economic environment for growth, poverty alleviation and employment by creating positive externalities; and signal the right messages to potential donors and investors in order to augment external resource flows. There is also the role that the Mechanism can play in that regard as part of its review process, namely, monitoring and evaluating the types and amounts of existing resources, how those resources can be allocated in optimal ways that improve welfare in social and economic terms; and how governance norms and standards can be put in place to ensure that they are used effectively and efficiently.

In this assessment, it is necessary to examine the main problems and perspectives that militate against the most effective use of domestic resource mobilization and public finance management as catalysts for growth and development. Those problems are presented on the basis that the Mechanism, in terms of its expanded mandate, should deal with the elemental questions of how norms and standards can be set and best practices applied to improve the systemic governance environment in African countries for domestic resource mobilization and public finance management with respect to the considerations and perspectives discussed below. In particular, a major reflective policy and analytical concern is the modalities of practical interventions that contribute to closing financing deficits in Africa, with a view to meeting the benchmarks of the Addis Ababa Action Agenda, Agenda 2063 and the 2030 Agenda.

Household savings

The countries of sub-Saharan Africa have very low rates of savings. In 2005, gross domestic savings constituted 17.6 per cent of gross domestic product (GDP), compared with 26 per cent for South Asia, 24 per cent for Latin America and approximately 43 per cent for Asia and the Pacific. Although the figure for the African countries rose to 22 per cent between 2005 and 2010, the large informal sector and the volatility of sources of income for those countries have been a major structural impediment to improved domestic savings. Transactions in the informal sector do not pass through the formal banking system. That situation is exacerbated by low income, high levels of poverty and unemployment and inadequate incentives for low-income earners to use the formal banking system.

It is important to consider the nature of savings and the choices that exist for households and firms. A major challenge relating to domestic resource mobilization and public finance management is how household savings could be better used to promote development. In general, household savings is a precautionary or self-insurance mechanism in an environment in which there are no attractive savings instruments for poor households with low levels of disposable income (Aryeety and Udry, 2000). Household savings tend to be irregular, and dissaving often occurs among poor households. They are, however, liquid and accessible. The portfolio of household savings is critical for development purposes, given that it determines what types of funds are available for investment. The nature of savings for households are essentially non-financial and informal. Consequently, only a small proportion of them can be used for a productive investment.

The non-financial assets options, such as livestock, merchandise for trade, real estate and construction materials, suggests a calculus of rational choice and prudent decision-making in a context of high risk, economic and financial uncertainty and inadequate access to formal financial instruments. This translates into the need for an improved financial sector that is more accessible, adequate and reliable, which, in turn, can boost savings. With regard to the informal sector, there is a wide array of savings instruments, ranging from simple deposits to large savings groups and pools, which, in general, meet the needs of households and small business but that rarely accrue interest. There is also recourse among households to a number of savings instruments with various institutions that offer different arrangements as far as deposits and withdrawals are concerned. Such arrangements help to meet the growing needs as prices rise and minimize the impact of default risk. The options available for non-financial savings and in the informal sector not only highlight the small proportion of household assets in the formal financial sector, but also point to the problems of access to formal savings instruments and the lack of trust in formal financial institutions, especially banks, which are the most important locus for mobilizing savings in Africa. In that regard, there are also limiting factors, such as physical distance to the financial institutions, high minimum deposits and the time and administration involved in concluding transactions. It is, however, encouraging to note the extent to which technology, especially mobile phone banking, is playing in overcoming those limitations, including in rural areas. Nevertheless, the problem of trust in banking institutions is pervasive because of government intervention and political expediency. In the absence of commercial viability, banks throughout Africa have suffered from large liabilities, non-performing loans and poor supervision and regulation, all of which undermine their viability and operations (Daumont and others, 2004).

Corporate savings

Data on corporate saving in Africa are difficult to obtain, making this an area that requires more research and analysis (Ogaki and others, 1996; Rodrik, 2000; Wills and others, 2016). Other than South Africa, there is insufficient information about the nature and dynamics of corporate savings in Africa countries (Prinsloo, 2001). Nevertheless, there are two common characteristics relating to corporate saving in Africa: the small number of established firms in the formal sector and a much larger number of mainly small and medium-sized enterprises operating in the informal sector.

Access to finance and start-up costs remain major issues in getting enterprises off the ground, in particular among small, informal enterprises, which comprise the vast majority of the continent’s business sector. Consequently, there is greater dependence on retained earnings to fund working capital and new investment. Accordingly, without corporate savings, firms and enterprises in Africa will remain insecure and vulnerable to failure in a risky operational environment in which avenues or means of outside financing are sparse. In addition, there is little scope for the intermediation of savings for corporate growth purposes rather than as a means of self-insurance or high liquidity in times of need (Wills and others, 2016). There are several dimensions to the problem that constrain the optimal use of corporate savings. First, retained earnings are not always sufficient to generate successful and profitable enterprises. As a result, firms find themselves caught in credit constraints that are difficult to manage or get out of. With few exceptions, African enterprises fail to progress from small or micro enterprises to become large corporate or industrial entities with a multinational footprint (Nissanke, 2001). Second, the need to focus on self-investment and the imperatives of enterprise survival crowd out other productive opportunities for growth and expansion in domestic markets. Lastly, the highly liquid form of savings points to weak credit and insurance systems and undercuts reinvestment in productive activities with multiplier effects.

Tax revenue and tax administration

There is enough evidence to suggest that domestic resource mobilization and public finance management would greatly benefit from more efficient revenue collection and tax administration, otherwise known as the "tax effort". Great potential exists in that area, given that the average tax-to-GDP ratio in Africa is higher than in other country groupings if measured in terms of per capita income and levels of urbanization, literacy and shares of the industrial, mining and agricultural sectors. Between 2005 and 2010, the average tax-to-GDP ratio in Africa was 20 per cent, compared with 15 per cent for developed countries, 13 per cent for emerging markets and 11 per cent for East Asia and the Pacific (New Partnership for Africa's Development and Economic Commission for Africa, 2014). In addition, the expansion of the value added tax (VAT) has also helped to generate extra revenue, and tax reforms centred on indirect taxes as a percentage of government revenue have been increasing.

This points to the need not only to increase tax rates, but also, more importantly, to expand the tax base among African countries, improve tax administration systems and focus on other sources of taxation, such as property and the environment. Accordingly, public sector resource generation can complement private sector savings because it promotes human capital development in critical areas, such as health and education, and improves the environment for growth by promoting investment in physical infrastructure, all of which are critical to the development process. It must be noted that taxation is not only a technical and administrative exercise, but also profoundly political in nature. Much of the tax reforms throughout Africa have been at the behest of the donor community and have been focused on easier-to-collect taxes, such as VAT, anti-corruption measures, areas that are less distorting economically and putting in place regimes that reduce direct taxes. The reforms have not been very successful because of low levels of per capita income, weak manufacturing capacity and large agricultural sectors, along with a large percentage of production, transactions and employment taking place in the informal sector (Xaba and others, 2002). Low levels of tax are also symptomatic of State weakness. The inability of the State to broaden its tax base indicates that taxable capacity is mostly in a small section of the wealthy and affluent class in society and the commercial sector in which tax evasion or avoidance could easily take place because of the power and influence of those segments and the weak tax enforcement culture. The legitimacy of the State is based on its capacity to levy taxes fairly, efficiently and effectively and in a manner that reproduces a virtuous circle for improving governments' fiscal performance and ability to deliver services, which improves the level of accountability in the use of public resources between States and societies. Initiatives, such as the African Tax Administrative Forum and the Regional Anti-Corruption Programme for Africa, have been instructive in setting norms and standards for better tax and public revenue management, and their best practice regime is a very useful platform to build on.

Other factors that must be considered as constraints to revenue collection are tax holidays and the granting of tax exemptions to multinational corporations, especially in the extractive sectors. Those concessions exclude the most profitable areas of taxation, such as retained earnings and corporate profit. Also notable is the challenge of financial intermediation, which is a crucial link between savings and investment as a means of resource mobilization and the improved management of public finances. In addition, improved financial services throughout Africa are increasing to enable households to deal with the volatility associated with their income sources.

There is great scope for innovation in financial intermediation, which is highly segmented and fragmented and could potentially be the source of new government revenue. Bank operations, for example, cannot be expanded because of their limited capacity to manage risk (Nissanke and Aryeetey, 2006). Other sources of revenue that can be mobilized are pension funds and national and regional stock exchanges. Although at an embryonic stage, market capitalization increased dramatically between 1996 and 2010, from $300 billion to $1.2 trillion. For capital markets to expand, robust and strong regulatory bodies, along with measures and policies that discourage wrong practices and speculative tendencies, are required. Better and improved financialization, however, will also require prudential responses to the collateral and systemic effects of trade losses, extreme ecological problems, abrupt policy changes and political instability.

Illicit financial flows

Capital flight is a very large problem in Africa, given that it reduces the resources available for public and private domestic investment. Capital flight also constitutes a grave challenge in the efforts to enhance domestic resource mobilization and public finance management because it is made up of funds that are earned illegally, namely, through theft, bribery and corrupt activities. Its scope is wide and is driven by the following: criminal tendencies: drug trafficking; racketeering, counterfeiting; contraband; and financing of terrorism; and the need to park proceeds from evading taxes and money laundering from illegal commercial transactions. These are components of an ecosystem of illicit financial flows, which impede domestic resource mobilization and efforts to improve public finance and cost African countries billions of dollars.

In one study, the cumulative stock of capital flight from 1970 to 1996 from sub-Saharan Africa was estimated to be $285 billion (Boyce and Ndikumana, 2001), while, in a more recent one, it was suggested that, between 1970 and 2008, Africa lost $854 billion, or on average $22 billion annually, in illicit financial flows (Economic Commission for Africa, 2015a). Much of the activity in illicit financial flows tends to be concentrated in the extractive sector, with more than half (56.2 per cent) coming from oil, precious metals, minerals, ores, iron and steel, and copper. There is also evidence that such flows are generated from drug trafficking and illegal transactions in other sectors, such as electrical machinery and equipment, fisheries and timber, and textiles and clothing (United Nations Office on Drugs and Crime, 2011). In short, illicit financial flows have a direct and pernicious effect on tax revenue collection and resource mobilization, in addition to boosting African countries' dependence on external assistance and borrowing, which adds to their already heavy debt burden and compromises public investment.

The negative effects of illicit financial flows must not be underestimated. These flows distort resource allocation and prices and directly and implicitly affect the patterns of consumption, imports and exports, investment and economic growth, and advance unfair competition and the abuse of dominance. Moreover, illicit financial flows crowd out legal economic activity, raise the levels of corruption in the public and private sectors, skew income and wealth distribution and undermine the integrity and credibility of institutions.

The work of the High-level Panel on Illicit Financial Flows from Africa, led by the former President of South Africa, Thabo Mbeki, has been highly effective in raising awareness about the negative effects of illicit financial flows and on how accountability and transparency can be improved (Economic Commission for Africa, 2015a). This work has been further complemented by the decision of the African Union member States to implement the recommendations of the Panel through their special declaration on illicit financial flows of 31 January 2015.

4. Assessment of the governance aspects of domestic resource mobilization and public finance management

With regard to improving financial governance, there is a premium on creating the right enabling environment for domestic resource mobilization and public finance management through an institutional mix of macroeconomic and sectoral policies and institutional reforms that are responsive to development priorities. As has been suggested, central to good governance is the process of decision-making and implementation, the capacity of governments to formulate and effectively implement policies and programmes, space and capacity for political participation, and effective and efficient public institutions and systems, as well as peace and security. Good governance and effective public institutions provide the foundation on which countries' growth and development rests (New Partnership for Africa's Development and Economic Commission for Africa, 2014).

Better governance will, accordingly, provide African countries with greater policy room to put in place strategies and policies that are conducive to accelerated domestic resource mobilization and enhanced public finance management and, above all, reflect their own development priorities and not those of external donors. If the normative standard of good governance and country ownership is not adhered to, the overarching prerequisites of achieving the Sustainable Development Goals and advancing the programmes of Agenda 2063 will not be met. Progress in that regard should be prioritized when levels of poverty are taken into account: in 2010, 414 million Africans were living in extreme poverty, compared with 290 million in 1990 (Economic Commission for Africa, 2014a). To achieve the Goals, especially those that pertain to poverty reduction, the processes of the Mechanism must be harnessed. Its questionnaire is an appropriate tool that could embed domestic resource mobilization and public finance management at the heart of sustainable growth and development in order to spur economic growth and employment and reduce levels of extreme poverty. In that regard, several propositions and their relationships to growth and development can be contemplated.

Reform of the financial sector

First, it is evident that the attempt to reform the financial sector during the past 20 years have had a limited impact on domestic resource mobilization and public finance management. The structural deficiencies in the traditional banking sector and the concentration on import and export activities remain pervasive, while productive investment in industry and agriculture has stagnated. The rural sectors have been ignored in large part as sources of domestic resource mobilization and improved public finance management, leaving a large amount of potential savings outside the realm of development. This is indicative of the static and lethargic nature of the financial sector in the African post-colonial States, which have remained entrapped in deeply entrenched rent-seeking pathologies. Reforming the financial sector could significantly improve State capacity in aggregate fiscal management, operational management, fiduciary oversight and governance. It should also should be noted that there is the untapped resource resulting from empowering the informal sector by endowing it with monetized legitimacy and making it a strategic agent in mobilizing domestic savings.

Microfinance on its own is incapable of closing African countries' intermediation deficits, given that it covers only a small percentage of financial services, compounded by a lack of stable resources and human and technical capacity to manage larger volumes of transactions and the high cost of credit. Nevertheless, if the informal sector were to be mobilized, it would bring in participants, especially in the rural areas, who fall outside the formal coverage of the banking sector and credit market. The net multiplier effect would be the complementary credit delivery mechanisms and synergistic links, which the formal banking sector and microfinance can extend to the informal sector in the interests of long-term financial resources.

Second, there is the structure of short-term savings and long-term productive investment and how high liquidity ratios in the banking sector can be better managed. This points to the absence of sophisticated bond markets in making long-term savings available and developing appropriate "bankable" projects. Bond markets play a critical role in a country's quotient of debt; they also allow governments to make long-term investment and provide banks with greater opportunities for diversifying their portfolios. In short, African countries must focus more on developing their capital markets.

Third, the recommendations of the High-level Panel on Illicit Financial Flows from Africa and the special declaration on illicit financial flows reveal the impoverished condition of political and economic governance and are indicative of worst practices that result in the skewed distribution of wealth, in addition to robbing countries of strategic financial resources. There is a direct correlation between illicit financial flows and income inequality if Gini coefficients are taken into account. It is not surprising that countries with high levels of illicit financial flows also have high levels of income inequality, such as the Democratic Republic of the Congo, Nigeria, South Africa, Zambia and Zimbabwe. This problem is exacerbated by declining total factor productivity, which hypothetically causes allocative inefficiencies and wasteful expenditure (Collier, 2007). Evidence from country cases of the Mechanism indicate that it is having a positive impact on efforts to address those challenges, but that much more must be done. The problem of illicit financial flows is emblematic of the serious institutional and governance weakness that persists in many countries in sub-Saharan Africa.

Lastly, serious and ongoing efforts must be made to reform the tax sector as part of the core challenges in improving economic governance. More efficient tax collection and administration is needed to enhance domestic resource mobilization and public finance management. Reforms have made headway in instituting tax systems that are more income-elastic, broad-based and less distorting. Levels of public confidence and trust in the system of domestic taxation, however, remain highly problematic when it comes to the provision of welfare services to the poorest of the poor (Fjeldstad and Rakner, 2003). Related to this are such concerns as State legitimacy and the extent to which the State is capable of honouring its social contract with citizens; how pervasive opportunistic tax avoidance tends to be, especially among the wealthy African elite; and the weak mechanisms for detecting and punishing tax defaulters. Accordingly, without stronger tax compliance and tax governance, the value of domestic resource mobilization and public finance management with regard to growth and development will continue to be undermined.

Shortcomings in credit provision

The lack of credit facilities is responsible in part for the impoverished and anaemic investment environment and low levels of formal economic activity in much of sub-Saharan Africa. Firms are embroiled in a perennial “Coasian” struggle to attain access to credit from banks, which demonstrates how rationed the credit market in Africa tends to be. Poor credit access, in turn, has direct implications, resulting in the postponement, downscaling or even abandonment of investment plans and decisions. The sad irony is that the difficulties that households and firms experience in gaining access to credit takes place against a backdrop of high liquidity and excess “lazy capital” in the banking sector. It is important to examine the reasons behind that situation. There are a few considerations that are germane to this. The first one is the high transaction costs in making credit available to ordinary citizens, especially to those who live in atomized and distant rural areas, which is exacerbated by poor infrastructure, such as roads, water, electricity and communication services. The financial and geographic coverage of microcredit institutions is further limited by their restricted and limited resource bases. Those institutions are not a sufficient credit source for financing large investment. Banks also have to contend with high administrative costs, which add to the loan burdens that small and medium-sized enterprises must bear. This has led to the segmentation of financial markets, in which, as indicated, formal banks concentrate on crowding in larger customers, while the opposite is the case in the informal sector. One study suggests a profit-to-capital ratio of 200 per cent is required to give a loan to a small firm, compared with a ratio of 56 per cent for medium-sized enterprises (Bigsten and Söderbom, 2003).

The second one involves the information asymmetries that exist between banks and customers because credit information systems are inadequate. Credit providers tend to focus on a small and dependable group of customers who have a proven record of creditworthiness. This practice can quickly turn into a vicious circle of reproducing levels of debt, be it personal or corporate. Part of this vicious circle is the extent to which collateral provides a weak buffer against default, given that credit contracts are not easy to enforce and must depend on the subjective quotient of the reputation of the borrower. Any reform agenda for domestic resource mobilization and public finance management must therefore be cognizant of this segmentation effect on credit markets and how this affects microfinance. The importance of building synergistic linkages between microfinance and the formal banking sector bears repeating. A compelling part of this logic is the need to develop a credit information system on the basis of the rule of law that has enforceable mechanisms for credit contracts.

Impediments to investment

The first set of impediments to investment are low demand equilibrium, credit rationing, high investment risk and the poor credit environment. Those are the main factors behind the difficult investment landscape in Africa, which, consequently, have direct ramifications on efforts to enhance domestic resource mobilization and public finance management. Other factors are institutional and structural problems associated with poor infrastructure, high entry costs, labour market barriers, low levels of investor protection and high taxes and inefficient tax systems (Economic Commission for Africa, 2014a; 2015b). Import and export costs are exorbitant in sub-Saharan Africa, compared with other regions. They magnify the costs of producing merchandise goods and reduce rates of profit. Studies have further demonstrated the deleterious effects that poor and unreliable infrastructure has on rates of investment, in particular with regard to water and energy supply. The African Union Programme for Infrastructure Development in Africa requires $93 billion annually to meet the infrastructure financing deficit by 2020. Improving the spatial quality of infrastructure throughout Africa could boost GDP growth by 2 per cent and provide the impetus for sustained industrial growth and development.

The second set of impediments are the high entry costs, which make the cost of starting a business the highest in Africa globally and procedurally complex and demanding. It takes, on average, 62 days to start a business in Africa, compared with 17 days in Organization for Economic Cooperation and Development countries. Those factors limit investment and impede the ability to make dynamic welfare gains. While there remain disagreements in the academic literature about the advantages of labour market regulation, compelling arguments support the importance of having flexible labour regimes, given that they tend to reduce the cost of labour and are job creating (Economic Commission for Africa, 2005). A balance, therefore, needs to be struck between basic protection and compensation for labour and the flexibility necessary that has developmental effects and is capable of guarding against employment rigidities. Striking the right balance has a critical signalling function in encouraging a favourable investment climate. Investor protection is important for disclosure and transparency purposes. This takes on added significance as a bulwark against arbitrary and corrupt behaviour by public officials and as a means of contract enforcement. There is also the problem of high taxes, which discourage sound and productive investment. The rationale that high taxes are necessary to fund services and reduce fiscal deficits is counterfactual, given that this situation actually produces lower revenue streams, forcing businesses to migrate to the informal sector as a method of tax avoidance.

The above sketches are suggestive of the critical and strategic role that governments must play in economic governance and the extent to which domestic resource mobilization and public finance management rests squarely on the ability of African States to take the initiative to put in place measures that would result in a more conductive investment environment. This discussion must also refer to pervasive market failures, which create barriers to investment and growth and require firm and bold government intervention.

Such interventions must include basic public goods, such as promoting the rule of law, ensuring that measures exist for enforcing contracts and investing in basic infrastructure, all of which require that African States assume a distinct and assertive development role in guiding economic transformation (Economic Commission for Africa, 2011). The imperatives of domestic resource mobilization and public finance management are well captured in the transformative role of the State in Africa. The role of the State in achieving rapid and sustained economic growth and development combined with deep structural transformation must be channelled through a disciplined planning approach based on a comprehensive development framework (Economic Commission for Africa, 2011).

5. Role of the African Peer Review Mechanism in domestic resource mobilization and public finance management in Africa

According to the memorandum of understanding of 2003, which outlines the purpose and mandate of the Mechanism, the objective of the Mechanism is to foster the adoption of policies, standards and practices that lead to political stability, high economic growth, sustainable development and accelerated subregional and continental economic integration through the sharing of experiences and reinforcement of successful and best practice, including identifying deficiencies, and assessing the needs for capacity-building of participating countries. The adoption of its Statute (Base Document) in 2016 has expanded the purview of the original mandate of the Mechanisms to include establishing it as specialized agency within the African Union structure. The Base Document has been complemented by the first strategic plan for the Mechanism for 2016-2020, with an emphasis on deepening democratic practices, identifying deficiencies and best practices with greater vigour, putting in place corrective measures for addressing deficiencies and ensuring a wider reach in disseminating and replicating best practices in Africa.

With respect to its expanded mandate, the Mechanism has an even more important role to play in monitoring and evaluating progress in achieving the Sustainable Development Goals and in realizing the vision and goals of Agenda 2063. This includes close observation of progress in key and strategic areas of governance, namely, political, economic and corporate. This is centred on the four thematic competences of the Mechanism: political and democratic governance, economic governance and management, corporate governance and socioeconomic development (Gruzd, 2014). With regard to resource mobilization and public finance management, a strong case can be made for the Mechanism to use its expanded mandate to strengthen and deepen the existing modalities within its process infrastructure that are capable of generating increasing returns to scale in mobilizing domestic sources of development finance and improving the management of public finance.

It has been observed that Africa generates \$520 billion from domestic revenue streams, compared with \$60 billion in private flows and \$50 billion in external aid (New Partnership for African's Development and Economic Commission for Africa, 2014). Given the primacy of domestic resources in financing continental initiatives, this amount, is insufficient to meet the financing requirements of the 2030 Agenda and Agenda 2063 projects and the benchmarks defined in the Addis Ababa Action Agenda.

The Mechanism is therefore well placed to contribute to a comprehensive initiative to develop innovative financing instruments and build on those that currently exist. There already is a rich repository of financial resources in the form of pension funds, domestic savings, diaspora remittances, income from minerals and fuels, international reserves held by central banks, liquidity in the banking sector and private equity funds. In addition, the Mechanism must continue to expand and intensify its efforts to improve governance in its four thematic areas to include how its norms and standards, best practice methods and analytical tools, and peer orientation and learning can be deployed towards enhancing domestic resource mobilization and public finance management (Interview (b), 2018). This approach would be salutary and have positive knock-on effects for enhancing political stability, promoting peace and security, strengthening public institutions and administration systems, improving the efficacy of legal and regulatory frameworks, and, most important, waging the moral equivalent of war against illicit financial flows and corruption. Such interventions could support domestic resource mobilization and public finance management by creating greater fiscal room for governments to expand their tax base and develop capital markets, improve the rates of savings and, most critically, sharpen macroeconomic instruments for industrial policy reform, enhanced public expenditure and better management of terms of trade.

Achievements, challenges and processes of the African Peer Review Mechanism

To date, the Mechanisms has registered significant successes among the 36 member States that have participated in its voluntary processes and among the 20 countries that have completed their country review assessments and have continued to implement their national programme of action stemming from the review process. In a short time, the Mechanism had to develop processes and systems that were capable of competently and accurately identifying the range of governance challenges as defined in its mandate. It had to develop a methodology and questionnaire for the country review that was robust, fair and credible enough to stand up to critical examination.

On the basis of this, it can be stated that the infrastructure of the Mechanism is well suited to enhancing domestic resource mobilization and deepening public finance management throughout Africa. It needs to do so, however, in a more comprehensive and focused manner. There is a need to develop a different basket of products without departing from the basic methodology of the Mechanism. The basket could include, for example, a tool for the roll-out and incorporation of best practices (Interview (a), 2018). Below is an assessment of the Mechanism's institutional assets and review instruments and a discussion justifying why it should take on the tasks necessary for addressing financing deficits in Africa and its shortcomings in managing public finances.

Achievements

Since its establishment in 2003, the Mechanism has succeeded in advancing broad-based governance reform through changes in legislation and policy. It has strengthened governance institutions and policy implementation and the authority of its reviews has helped to increase foreign investment and development aid among the countries reviewed. The Mechanism has also been an important catalyst for democratization, such that non-State actors have been able to influence governance and policy issues through their pronouncements and positions on matters, such as poverty alleviation, the role of the private and informal sectors, access to information, the electoral system, media freedom and economic management. Through its flagship country review reports, the Mechanism has created a common syntax and grammar for governance in Africa, and this has proved instructive for sharing knowledge, experiences, skills, best practices and expertise across cleavages of language, culture, religion, and nationality (Herbert and Gruzd, 2008).

Challenges

The achievements of the Mechanism must, however, be balanced against ongoing and persistent challenges. As the primary governance vehicle of the African Union, it still struggles with problems of self-funding, which can perhaps to traced to the start-up period as part of NEPAD, which was created on the basis of a strong donor paradigm (Interview(a), 2018). Many countries still wrestle with the principle of having to fund their own country self-assessments because of their excessive reliance on donors. This may to explain why, after 15 years since its establishment, only 36 countries have acceded to the review process. While the national plan of action may be costed by countries, donors continue to fund this exercise (Interview (b), 2018), which is perhaps a reason why countries have been lethargic in completing and submitting their annual progress reports on agreed action plans. Nevertheless, the revitalization and expanded mandate of the Mechanism could remedy those shortcomings, in particular because countries must pay greater attention to and consider more carefully the prerequisites of domestic resource mobilization and public finance management rather than simply concentrate on their country review reports (Interview(a), 2018).

The drawn-out nature of the review process is also noteworthy. It takes more than five years from the point of accession before a country completes its first review. This is indicative of the problems of institutional capacity, especially managerial and administrative competences within the Mechanism secretariat and its ability to coordinate, monitor and evaluate this very labour-intensive and analytically demanding process. The returns to scale and comparative advantage of implementing national plans of action have suffered as a consequence because of inadequate follow-up mechanisms, given that there is a premium placed on completing the country review report. This has direct implications for the intended outcomes of the review process such as peer learning, experience-sharing, best practices and policy uptake (Interview (b), 2018).

Processes

The Mechanism self-assessment questionnaire serves as the basic guide to the review process and is grounded on the four thematic areas already referred to: democracy and political governance, economic governance and management, corporate governance and socioeconomic development. Recent revisions to the questionnaire include questions pertaining to media freedom, climate change and transparency in the extractive sector. The questionnaire also includes a number of enquiries to determine how well countries are complying with continental and international agreements, conventions, treaties and declarations.

To ensure that that the process is very thorough and logical, the country to be reviewed sets up a multi-stakeholder National Governing Council of the Mechanism, which is responsible for appointing technical research institutes to conduct the technical parts of the review. The outcome is a country self-assessment report, which has to be endorsed by the stakeholders. The country assessment includes a draft national plan of action in governance deficiencies in the four thematic areas. On completion of the country report and the submission of it to the South Africa-based secretariat, a delegation referred to as “the country review mission” visits the country. The delegation is comprised of reputable and knowledgeable African academics, scholars and experts and is led by a member of the Mechanism Panel of Eminent Persons, which is responsible for managing the peer review process in participant countries, writing up country review reports, ensuring their quality and integrity and making presentations to heads of State and Government.

The Panel and the secretariat then send a draft country review report with recommendations to the country’s Government for comments. This review report typically results in amendments and revisions to the national plan of action, all of which comprise the content and substance of the final country review report. The final report is presented to the Forum of Participating Heads of State and Government for discussion and peer review.

The Forum meets at least twice annually on the margins of the African Union summits. After this step, the country involved must agree to address any concerns or problems that have been raised or identified. In the spirit of peer solidarity, other participating countries may assist the country in its efforts to address such problems and concerns or they can intervene in cases in which problems and concerns have not been adequately addressed. When the country review report and the Forum’s peer review have been completed, the full account of the outcome needs to be published six months later for tabling and discussion at other institutions, such as the Pan-African Parliament and the relevant regional economic communities (Gruzd, 2014), and to be disseminated.

Assessing the African Peer Review Mechanism questionnaire

The questionnaire is the basic instrument used to define the objective standards, criteria and indicators that ultimately shape the country's self-assessment. A preliminary programme of action is also prepared in tandem with the self-assessment in order to take into account the extent to which the programme of action can be informed by existing policies, programmes and projects.

The present section is focused on the economic governance and management dimensions of the first 2003 and the 2012 revised questionnaires, given that both of them are focused on matters relating to domestic resource mobilization and public finance management, in addition to the institutions, processes and practices in place that are relevant to sound economic policy.

The questions dealing with public finance management in the first version and the subsequent revision are adequate and appropriate in general and are also more focused than the questions that deal with domestic resource mobilization (see table). It would be useful if the Mechanism were to include some of the strategic elements discussed earlier on public finance management with regard to more in-depth assessments of governance (e.g., transparency and accountability), aggregate fiscal management (e.g., fiscal sustainability and resource allocation), fiduciary risk management (e.g., proper oversight and effective financial controls) and operational management (e.g., performance management and delivering value for money). All of those elements can greatly complement and enrich the set of indicators, which do not appear to have changed much over the years.

The questions dealing with domestic resource mobilization, however, have conceptual, analytical and empirical weaknesses. They are too perfunctory, lack rigour and depth and do not investigate deeply the basic deficits, deficiencies and challenges associated with domestic resource mobilization. Given the imperative for African countries to finance their own development plans and put in place the policies and institutions necessary that set public finance management on a more goal-oriented path, the Mechanism needs to develop a different and more meticulous diagnostic methodology that embeds domestic resource mobilization at the epicentre of its revitalized institutional dynamism. (The section below contains a list of issues that could be considered in developing such a diagnostic methodology).

In the 2003 and 2012 versions of the questionnaire, the theme of economic governance and management has the following similar objectives:

(a) Design and implement economic policies for sustainable development;

(b) Encourage ownership and participation of key stakeholders in policy formulation an implementation;

(c) Promote sound public management;

(d Combat corruption and money laundering;

(e) Accelerate and deepen regional integration in the monetary, trade and investment domain;

(f) Develop and implement trade and investment policies that promote economic growth.

These objectives are further elaborated in the 2012 version, with an emphasis on appropriate systems and institutions that ensure the smooth functioning of markets, the combatting of corruption, the regulation of capital flows and the equitable distribution of wealth to meet the needs of the people" (Africa Peer Review Mechanism and African Union, 2012). In both questionnaires, the theme is structured to track the progress that countries have made in achieving the objectives of economic governance on a range of issues, including adherence to recognized codes and standards; the soundness of macroeconomic policies; resource mobilization; the effective management of public finances; institutional capacity; sectoral policies that promote economic growth and sustainable development; and initiatives to improve infrastructure.

Adherence to codes and standards of best practice is essential for domestic resource mobilization and public finance management to be effective, given that they open a window to the extent to which there is a conducive country environment for enhanced domestic resource mobilization and better public finance management. Those codes and standards include the following: best practices for fiscal transparency; guidelines for public debt management; core principles on effective banking supervision; transparency in monetary and financial policies; and guidelines for cooperate governance of State-owned enterprises. For the purposes of organization and structure, it is useful to compare and contrast the articulations of domestic resource mobilization and public finance management in the original 2003 and revised 2012 versions of the questionnaire, as represented in the table below.

Table
Economic governance and management

African Peer Review Mechanism questionnaire: 2003 version	*African Peer Review Mechanism questionnaire: 2012 version*
Objective 1: Promote macroeconomic policies that support development Question 4: What has your country done to increase domestic resource management (public/private savings, capital formation, capital flight)? Indicators: • measures in legislation, policies, programmes, institutional development, financial intermediation • effectiveness of measures: fiscal revenue and GDP; private and public savings: GDP ratio for the past five years; capital formation: GDP ratio for the past five years; share of population with access to micro-finance and savings facilities Objective 3: Promote sound public finance management Question 1: What has your country done to promote sound public fiancé management? Indicators: • Measures to adopt and implement a predictable medium-term fiscal framework and challenges that arise	Objective 3: Promote sound public finance management Question 1: What has your country done to promote sound public finance management (legislation, policies, programmes, institutional development, resource allocation)? Indicators: • accepted regional and international standards • Internal audit • Auditor general reports • Publishing fiscal information • parliamentary scrutiny Question 2: To what extent is your country's fiscal system decentralized (legal provisions and policies between national and sub-national authorities? Assess the effectiveness with regard to: • Consistency of policies and programmes of sub-national authorities • Capacity of local authorities to raise revenue (tax collection, levies, fines) • Capacity of local authorities to manage fiscal resources and implement economic policies

• Match of expenditure and revenue to national annual budgets • Extent to which government monitors and publicly reports on revenue and expenditure • Nature of public debate and oversight of government's fiscal operations • Time allowed for parliamentary review and approval of budget proposals and number of amendments adopted Question 2: What measures has your country taken to develop an effective system of fiscal decentralization? Indicators: • Legal provisions between national and subnational authorities • Consistency of policies and programmes of subnational authorities • Capacity of subnational authorities to generate and manage fiscal resources, plan and implement economic policies • Challenges in implementing an effective system of decentralisation	• Percentage of local expenditure from local resources Question 3: What are the main challenges for your country in adopting and implementing a medium-term fiscal framework? What measures have been taken to address these and how successfully? Indicators: • Relevant legislation and policies on public finance management and fiscal management and how effective • National and department budgets and medium-term expenditure frameworks • Accepted regional and international standards • Internal audit and Auditor general reports • Publication of fiscal information • Parliamentary scrutiny Question 4: How is the tax system in your country structured and administered, and how effectively (institutions and law for determination and collection, types of taxes and sources, tax breaks, incentives for compliance)? Indicators: • Tax revenue • Compliance rates per tax category and source Question 5: What has your country done to increase domestic resource mobilization (public and private savings, capital formation, capital flight)? Indicators: • Fiscal revenue: GDP • average public and private savings ration:5-10 years • Capital formation: GDP: 5-10 years • Share of population with access to microfinance • Expenditure: under-expenditure ratios • Earnings from mining: GDP • Oil revenue: GDP (oil producers) Question 6: What other resource flows are important for your count (trends, rates, statistics)? Indicators • Royalties, grants, loans, remittances

Issues for the African Peer Review Mechanism to enhance domestic resource mobilization

More specific questions on domestic resource mobilization are needed in the questionnaire that focus on the key conceptual dimensions identified. This will invariably come up against the Mechanism's perennial challenges in following up on its recommendations once a country review is completed, on the one hand, and the need for greater institutional capacity, on the other. Nevertheless, it is of vital importance to prepare the groundwork for domestic resource mobilization, especially with regard to the institutional development of the financial sector, and anticipate analytical challenges with regard to serious policy matters, such as whether the role of the State in Africa should be to facilitate the growth of markets or participate directly and intervene in them. Accordingly, the essential terms and conditions for enhanced domestic resource mobilization is not only important for fostering long-term growth and poverty reduction, but also equally necessary for the structural transformation of economies.

The following considerations, which include focal areas that can inform and be useful for enhanced domestic resource mobilization, can also be useful for such a review:

- Savings structure: low savings rates, a smaller proportion of monetized savings and financial assets and a weak investment motivation behind savings give rise to a structural savings trap, which affects productivity, investment and growth.

Focal areas:

  - **Public sector**: The department that deals with revenue examines the relative weight of domestic against external sources with regard to development aid, tariff revenue, external borrowing and other external sources. The department that deals with expenditure examines external and domestic aspects; the proportion of public sector recurrent against capital expenditure and whether fiscal deficits are financed by domestic borrowing.

  - **Private sector**: There is scope here for further research that could suggest novel approaches to private/corporate savings characteristics in Africa. There is a need to better understand the relationship between countries' macroeconomic strategies, fiscal stance, factor productivity, rate of return and investment climate.

  - **Household savings**: Indicators could be developed to cast light on the reasons for low levels of monetization, high non-financial asset holdings, low access to formal financial services and high liquidity preferences. How could a conducive policy and institutional framework be created for mobilizing household savings and enhancing intermediation? A more practical understanding of the local constraints and opportunities associated with African economies is required.

- Financial economy structure: transforming the economic structure is a complex undertaking that requires a better understanding of the relationship between the financial sector and the real economy. Financial development and more efficient financialization can accelerate growth by improving financial sector institutions, including the banking sector, micro-finance, capital markets and the legal and regulatory environment.

Focal areas:

  - **Structure of the real economy**: This must include the relative size of agriculture, manufacturing and services sectors and how they affect domestic resource mobilization. Other factors are employment levels across sectors, its implications for fiscal revenue (consumption, property and capital gains taxes) and levels of urbanization.

- **Structure of the informal economy**: This must involve obtaining a clearer picture by mapping the share of employment and income, the dynamics of financial market fragmentation and the primary institutions and the interaction between the informal, semi-formal and the formal financial sectors.

- Contingent considerations: Further analysis of several focal areas is required as part of the process to make domestic resource mobilization a more meaningful exercise in the Mechanism. The focal areas below are not exhaustive but merely suggestive of their scope and significance.

Focal areas:

- **Global growth and investment:** A better understanding is needed of the impact of the recent global financial crisis on African countries, given that the embryonic state of the continent's financial sector is greatly affected by the external economic climate. More data are needed, for example, on how commodity prices, interest rates and inflationary pressures have affected domestic resource mobilization in African countries.

- **Commodities and terms of trade**: Reduced demand for commodities present challenges for macroeconomic and monetary management and require increased capacity to intermediate. This reduced demand must take into account the effects of "Dutch disease", the monetary responses and their impact on domestic resource mobilization.

- **Non-economic shocks:** A better understanding is needed of the impact of conflict, famine, disease and State dysfunction on domestic resource mobilization. There is also the matter of risk of these impacts for individual households, small farms and enterprises. which can have a disruptive effect on domestic resource mobilization strategies at the country level.

- **Capital flight:** To date, the role of the Mechanism with regard to illicit financial flows has been limited, and there is urgent need to develop a monitoring and assessment tool that can be integrated into its questionnaire (Interview (a), 2018). A better and more concerted effort must be made by the Mechanism to understand the extent to which capital flight constrains the base of domestic resource mobilization and what information issues this entails. There is enough evidence to suggest that capital flight stems from external borrowing and is fuelled by debt. Improved prevention strategies, such as deepening financial markets, improving governance and reducing debt, are needed. Consideration must be given to allowing repatriation of funds by offering tax amnesties or limited taxation.

- **Macroeconomic policy strategies**: While many African countries pursue prudent macroeconomic policies, a better grasp is needed of how they could create space for countercyclical policies by striking a balance between fiscal prudence and fiscal flexibility; exploring the country orientation with regard to employment and growth objectives rather than a single-minded focus on inflation targeting; and integrating macroeconomic policy with other areas of economic policy as part of a wider development strategy.

- **Financial market development**: The primary question pertains to how the financial sector can help to pave the way for domestic resource mobilization and rapid structural transformation. In that regard, the role of development finance institutions would be especially important because they would move away from the tradition of being sources of long-term finance and pockets of expertise to supporting the development of corporate bond markets and addressing sectoral finance gaps.

- **Legal and regulatory reform**: This requires greater emphasis in the Mechanism because of African economies' weak "information capital", which has resulted in greater economic inefficiencies and has stunted financial sector development. More priority must be given to investment in basic infrastructure (as is already the case), while also removing bureaucratic barriers, simplifying tax systems and relying more on direct taxation. The Mechanism must examine how deficits in law, regulation and information hinder the development of domestic resource mobilization and determine what policy responses are necessary.

- **Mobilization and use of resource rents**: This needs better analytical treatment by the Mechanism, given that many countries in Africa are well endowed with natural resources. To date, however, resource extraction has not contributed to development benefits but has instead fed corruption, undermined nascent institutions, fuelled debt and Dutch disease, and caused capital flight and macroeconomic instability. Greater transparency is needed through domestic initiatives and international cooperation in allocating concessions and establishing a fair system of royalties.

Select country experiences with the African Peer Review Mechanism.

This subsection also draws on country review experiences in order to highlight the challenges and opportunities for African countries to enhance their domestic mobilization efforts and improve their public finance management systems. By October 2013, 17 countries had completed their first full review, and most of them had acceded to the Mechanism between 2003 and 2005 (Gruzd, 2014). The country review reports are available on the secretariat's website (www.aprm-au.org). Overall, the country review reports provide fair and accurate appraisals of the state of governance in a country, pointing to strengths and weaknesses and stressing the cross-cutting or overarching issues.

The country experiences of Ethiopia, Lesotho and Uganda are reviewed below with an exclusive focus on the sections that deal with the subject matter of this report.

Ethiopia

As part of a wide range of policy reforms in Ethiopia since 1991, the former socialist command economy was replaced by one that is liberalized and market–oriented, even though the Government continues to play a major role in economic management. The country's participation in a World Bank poverty reduction strategy resulted in the plan for accelerated and sustained development to end poverty for 2005-2010. The focus of the plan was to promote economic growth, improve citizens' access to basic services, reduce the country's vulnerability to drought and improve governance in pro-poor growth initiatives and activities that contributed to the achievement of the Millennium Development Goals. The country's macroeconomic performance has progressed well in terms of growth, inflation, employment, domestic resource mobilization, food security and private sector development and investment. From 2009-2015, however, the country was hit by internal and external shocks, which resulted in inflationary pressures, trade deficits and falling external reserves. Attempts have therefore been made to reduce domestic borrowing, diversify markets, expand private sector involvement in agriculture and agro-industries and improve the regulatory environment for small and medium-sized enterprises. Extensive investment has been made in hydroelectric power generation, and efforts to privatize and commercialize State-owned enterprises are ongoing.

The levels of domestic resource mobilization remain low, As a result, Ethiopia relies heavily on external resource flows. Key reforms have been undertaken in tax policy and administration, including the setting up an autonomous body, the Revenue and Customs Authority, and doing away with the Ministry of Revenue. In addition, a presumptive tax scheme was introduced to deal with hard-to-tax groups, tax administration has been computerized and a tax education to encourage compliance was developed. Many problems, however, persist, including a large informal sector, corruption and limited human supervision capacity. Deeping financial institutions is imperative. Although the number of private banks and microfinance institutions has increased, there is still an urgent need for financial sector reform to raise the low savings rates and enhance food security, road transport and the power supply.

Ethiopia has concentrated more intensively on public finance management than domestic resource mobilization. This is driven by the macroeconomic and fiscal framework, which establishes the resource envelope and sector allocations, in line with poverty reduction and social development. The country has a policy to decentralize the budget operations within a clear administrative structure for medium-term fiscal management. A legal framework is in place for an open, timely and transparent budgeting process. After being prepared, budgets are submitted to the Council of Ministers for review and approval by parliament. All budget information is freely available to the public and media under the protection of basic sources programme.

Ethiopia has a long history of fiscal decentralization to close the gap in growth and development among the country's regions. Government departments and decentralized structures, however, need to build their institutional and technical capacities. There is an inadequate incentive structure for regions to generate additional revenue because of how grants are allocated by the Government to regions: the own revenue element of grants imposes a tax of 85 per cent on extra revenue that regional governments generate through taxes of improved tax administration. Major sources of revenue are domestic taxes, non-tax revenue and external donor grants. Domestic revenue comprises 80 per cent of the financial resources, while the level of development aid ($14 per capita) is much lower than that of other low-income countries. Accordingly, some of the problems relating to the use of decentralized funds must be dealt with, including poor local capacity to plan, manage and account for funds, lack of an effective oversight mechanism, underspending because of the late disbursements from the Government and working language differences.

Lesotho

As a small landlocked country, Lesotho has gone through an adjustment period since 2005, underpinned by significant economic liberalization and the removal of price and cost distortions. In addition, it is trying to shift from an agrarian economy to one that is semi-industrialized based on manufacturing and services. In 2007, agriculture accounted for 9 per cent of GDP, while industry accounted for 50 per cent. A major challenge faced by the country is that only 50 per cent of the country's GDP is generated internally, while the rest comes from remittances from migrants. Overall economic growth has been greatly assisted by the highlands water project, which is a critical water source for the South African province and industrial hub of Gauteng, and by significant investment in the textile and clothing industry, both of which have accelerated increases in GDP.

The economy continues to face serious development challenges, such as poverty and unemployment, food security, low incomes, the high prevalence of HIV/AIDS, a high dependence on South Africa and poor and inadequate infrastructure. The Government has developed a growth strategy for the period 2008–2011 to deal with those issues and a medium-term expenditure framework to address growth and poverty reduction. The country's macroeconomic strategies are shaped by its membership in regional arrangements, in particular the Southern African Customs Union, the Common Monetary Area and the Southern African Development Community.

Lesotho is in a very weak position with regard to monetary and exchange rate matters and must rely on fiscal policy for managing demand through improving revenue collection and setting ceilings on public expenditure. The maintenance of budgetary discipline has been ascribed to the adoption of the medium-term expenditure framework, which is a transparent planning and budget formulation process. The pursuit of macroeconomic stability resulted in budget surpluses during the 1990s, thereby reducing debt servicing and public sector borrowing. The country's fiscal balance is dependent on large part on receipts from the Southern African Customs Union and a large inflow of grants. The economy, however, was adversely by the global financial crisis in 2008 when both types of inflows decreased substantially. A major concern for fiscal policy is that the public sector absorbs approximately 50 per cent of GDP, and a major contributing factor is the country's membership in the regional customs and monetary regimes. Prices and wages are at high levels, requiring high levels of expenditure. In order to reduce its dependence on customs revenue, the Government is encouraging the rapid development of the private sector.

With regard to public finance management, the Government has initiated a public sector improvement and reform programme, which consists of three elements: planning and budgeting, accounting and reporting and auditing and oversight. It also includes capacity-building in economic planning and promoting public finance management reforms. Decentralization remains in its early stages, and while a critical goal of local authorities is to facilitate effective service delivery, it cannot collect revenue or rely completely on conditional grants from the central ministry of local government. While the country has developed a legal framework for public finance management, allocations to economic sectors are relatively low and declining because of a lack of long-term growth perspectives, reduced allocations to agriculture and donor-funded investment in infrastructure. The role of the budget is therefore very weak with regard to enhancing growth and development. Recurrent expenditure comprises a large part of the Government's total budget expenditure (more than 80 per cent in 2008), while 50 per cent of capital expenditure is financed from external sources. An overreliance on aid has reduced budget predictability and incentives for mobilizing domestic resources, thereby further weakening budget control, performance assessment and long-term development planning. The low budget implementation rate is therefore a major challenge for public finance management in Lesotho, given that it indicates poor planning.

Uganda

Corruption in public finance management is endemic in Uganda. Following a self-assessment report conducted in 2008, laws and regulations were put in place to deal with the scourge. Moreover, while there is a well-developed fiscal linkage between the Government and local authorities, the existing legal provisions lack satisfactory enforcement mechanisms. The Public Accounts Committee of Parliament is struggling to carry out its oversight function because of poor institutional capacity. It was observed that friction exists among the Office of the Prime Minister, the Ministries for Planning and Economic Development and local governments in carrying out the planning, monitoring and evaluation of fiscal decentralization initiatives.

Uganda has succeeded in strengthening its internal audit mechanisms to ensure the proper use of public funds, but challenges remain with regard to technical and logistical capacity and delays in adopting the International Public Sector Accounting Standards. The Bank of Uganda has continued to apply the Core Principles for Effective Banking Supervision set by the Basel Committee on Banking Supervision. While the Government has recorded a reduction in the inflation rate, it has faced challenges in aligning the medium-term expenditure framework with the strategic objectives of its national development plan. This points to problems of intrasector and intersector links in development planning and budgeting.

With regard to its tax system and administration, Uganda relies too heavily on indirect taxes and must deal with a lean tax base, high tax administration cost, poor disclosure of potential taxpayers, tax evasion by businesses and weak control systems. Efforts have been made to increase domestic revenue, mainly through direct taxes, given that tax revenue accounts for 96 per cent of total revenue. To boost revenue, the country has sought foreign investment in agriculture, oil and gas and the service sector.

In terms of domestic resource mobilization and investment promotion, Uganda is a large beneficiary of development aid, with an aid-to-GDP ratio of 10 per cent. The country's tax policy does not encompass more than 80 per cent of the population in the informal sector, and a review of the existing tax system has been called for to determine the country's revenue potential. Foreign business is very active in the major economic sectors, especially banking, with the 10 highest corporate taxpayers being foreign-owned entities. Even though the country's liberalized market has generated investment inflows and widened the scope of foreign business involvement, it has made the economy vulnerable to the withdrawal of capital and investment.

Poor revenue mobilization has impaired the country's ability to achieve its development goals, and service delivery has suffered as a consequence. As noted, the key challenges are to develop efficient mechanisms to penetrate the informal sector, which constitutes more than 70 per cent of economic activity, while small and medium-sized enterprises comprise 75 per cent of the companies. The overall challenge for Uganda is how to address the deterioration of its fiscal balance during the period 2005-2015. The fiscal deficit widened from -1.9 per cent in 2007-2008 to -4.9 per cent in 2015-2016. With an estimated 6.5 billion in proven oil reserves, the oil and gas sector could significantly boost domestic revenue mobilization capacity.

Developmental challenges for the African Peer Review Mechanism

A review of the issues and challenges in the case studies relating to domestic resource mobilization and public finance management led to a discourse on the developmental role of the State in promoting economic growth and broader development through structural transformation. The extent to which the Mechanism can develop the capacity to effectively carry out domestic resource mobilization and public finance management becomes relevant and essentially involves seeking ways in which it can further assist member countries in their efforts to implement, monitor and evaluate economic policies that deal with the transformative challenges of unemployment, poverty and inequality. If the expanded mandate of the Mechanism is developmental, it must assist African countries in creating a system of governance that tackles the institutional, technical, administrative and political deficits associated with domestic resource mobilization and public finance management. It has been highlighted that the need for effective economic transformation policies explains in part why the interest in development planning and the role of the State in economic and social development has resurged in recent years (Economic Commission for Africa, 2011).

It is through this resurgent energy to plan for development that the Mechanism can provide added value by contributing to a pan-African orthodoxy that promotes a path to achieving the Sustainable Development Goals and the goals of Agenda 2063. This must be based on a pragmatic and tangible mix of measures that build on the market and financial potential for domestic resource mobilization, while ensuring that there is judicious State action to embed public finance management in the frameworks of public administrations. The Mechanism has the further advantage of operating in a new African Union-driven institutional landscape that is an integral part of the Mechanism's infrastructure at the continental and national levels. This infrastructure embodies the agency necessary to realize a development strategy for domestic resource mobilization and public finance management**.** The continental and national agents that comprise this infrastructure should be mobilized behind such a development strategy. They are the five continental institutions composed of the Mechanism Forum of Heads of State and Government; its committee of focal points of participating countries; the Panel of Eminent Persons, which acts as custodians of the review process; and the continental secretariat At the national level, the national focal points coordinate the Mechanism's activities; the national governing councils, which are comprised of all relevant stakeholders; the national secretariats, which support national structures; and technical research institutions, which help to administer the Mechanism's instruments.

The Mechanism can put in place processes that harness the capabilities and experiences of this elaborate infrastructure in order to unleash a determined effort to promote financial sector action and policy reform directed at carrying out long-term domestic resource mobilization and extending credit. This must include improved public finance management, which would lead to the creation of an environment conducive for introducing long-term debt instruments and encouraging public investment in infrastructure that would generate jobs, especially in water and energy. In addition, a review should be conducted on how financial markets and institutional arrangements can be developed to encourage non-bank mechanisms and public-private partnerships with the objective to better serve rural communities. The basic message is that the Mechanism can serve as the institutional interface of Africa for tackling the problem of endemic weaknesses in the continent's financial sector and the types of government action that could generate welfare gains. This can, for example, include analytical and diagnostic accounts in country reviews about the extent to which monetary policy is flexible, how lower rates of inflation can be achieved and, most important, how capital accounts can be better regulated to deal with illicit financial flows and capital flight.

Creating policy room and the African Peer Review Mechanism

The Mechanism has played an important role in reversing the pessimistic and distorted image of African States being corrupt and predatory, governed by rent-seeking and kleptocratic elites, doomed by neopatrimonial excesses and constantly embroiled in social and political turmoil. The era of structural adjustment in the 1980s, which marginalized domestic capital and productive capacity and was underpinned by a neo-liberal ethic, helped to embellish those assumptions (Mkandawire, 2001). It is against this background that debates about an African version of a developmental State has emerged and whether such a State formation is capable of advancing growth through economic transformation and diversification. It has been said that this role must be normatively unambiguous, given that, while market forces will not drive economic transformation on their own, the developmental State must play a central role in resource allocation and in efficient coordination of crucial economic activities" (Economic Commission for Africa, 2011). To carry out this role, emphasis must be placed on developing infrastructure, human capital and financial markets and putting in place a means of production that promotes agriculture and industry.

Domestic resource mobilization and public finance management can provide African countries with more room to manoeuvre policy in terms of realizing the benefits of their "embedded autonomy" with regard to improvements in the quality of institutions and governance and macroeconomic stability. This developmental logic and orientation gives State policies legitimacy and broad ideological credibility among domestic and international actors. There is a great opportunity for the Mechanism to recast the African development paradigm with a greater focus on expanding the role of domestic factors and away from the externalized and debilitating modes of resource allocation. This translates into how the Mechanism can use its vast comparative advantages to create the policy room necessary to institutionalize domestic resource mobilization and public finance management. Much of this depends on the extent to which member States of the Mechanism can appropriate the policy room that exists to identify and define their own social and economic priorities and specific development plans, how domestic resource mobilization and public finance management can be enhanced to support those priorities and plans in a reciprocal and mutually reinforcing manner and how the Mechanism can be used in the design and implementation of development strategies.

To design and implement such development strategies, the constraints that undermine their policy autonomy and how the Mechanism can develop measures that help to overcome some of them must be considered. Most critically, this relates to the role of external donors and development aid in government budgets and the extent to which African States are held hostage to externally defined conditionalities and demands. In addition, there is the challenge of the non-diversification of the continent's export basket and the restrictive effect that the reliance on commodity exports has on growth and development, especially in the wake of the generalized depression of commodity prices in the aftermath of the global financial crisis of 2008. Those conditions have been exacerbated by the residual effects of poor economic performances because of unbridled liberalization and an onerous debt overhang under the Washington Consensus frameworks.

Enhanced domestic resource mobilization and public finance management would make it possible for African countries to embark on more refined and eclectic policy measures that combine the elements of market and financial forces with State-led development policy management. The Mechanism can advance this discourse through a careful review of what is required to open up more policy room for African countries, especially the continent's least developed countries, through greater reliance on domestic sources of capital formation and development finance, with an emphasis on growth and diversification in industry and agriculture. More intense effort to promote domestic resource mobilization and enhanced public finance management will have direct implications on the drive to reduce dependence on external aid and investment. The Mechanism can become the conceptual and best practice "domestic driver" of self-sustaining growth through prudential policy mapping and best practice advice in development processes. Domestic "ownership" must be more than a platitude. It must be a means for creating the policy room necessary around which a continental consensus can be developed on how enhanced domestic resource mobilization and public finance management can be a harbinger not only for more rapid capital accumulation, export diversification and moving countries to higher growth trajectories, but also for bringing them together in the drive to achieve the Sustainable Development Goals and meet the terms of Agenda 2063, as articulated and set out in the Addis Ababa Action Agenda.

The challenge for Mechanism is therefore to become the institutional steward of a new development ideology and conceptual vocabulary that moves African countries irrevocably towards adopting strategies aimed at realizing the developmental rewards and growth benefits of domestic resource mobilization and public finance management.

6. Towards policy considerations

The main objective of this study is to explore, reflect on and consider how the Mechanism can serve as an effective platform for domestic resource mobilization and public finance management in Africa. This has been motivated by the key issues contained in the Mechanism's expanded mandate with consideration given to problems relating to economic and financial governance, how those problems affect key development challenges in Africa, what role the Mechanism can play in using its institutional competences and comparative advantages to promote domestic resource mobilization and public finance management and the appropriate policy messages that need to be conveyed in order to realize the potential of domestic resource mobilization and more efficacious public finance management among the countries that follow the Mechanism's codes and practices.

The authors of this study have not concentrated on specific country examples and experiences to make their case. Consequently, the study is based on large part on common measures, issues and principles for developing a normative consensus and policy framework for domestic resource mobilization and public finance management in the sub-Saharan African countries. It is the constitutional function of the Mechanism to help to improve the institutional setting and policy mechanisms for enhanced domestic resource mobilization and public finance management. This is predicated on a political and ideological understanding that the real welfare-enhancing benefits of domestic resource mobilization and public finance management would be realized only if there is a strategic and tactical balance between the roles that States and markets must play in Africa's growth and development. Accordingly, there must be an embedded pan-African outlook that identifies domestic resource mobilization and public finance management as key components of economic governance and the development DNA of Africa, especially because this affects the ability of countries to pursue the objectives set out in the 2030 Agenda and Agenda 2063.

The recommendations given in the report are based on the information presented and are intended to inform the work of the Mechanism.

Promoting a financial sector for domestic resource mobilization and public finance management

It is paramount to involve Mechanism participating countries in adopting financial reforms that include the specific modalities of monitoring, evaluation and implementation to promote the objectives of the 2030 Agenda and Agenda 2063. Such reforms must have domestic resource mobilization and public finance management at its core and include the following recommendations, which are grounded in a development ethos for improving the performance of the financial sector:

- **Organizing a long-term investment fund:** This should be developed on the basis of the liquidity that can be mobilized in African countries. It should draw on contributions from public and private enterprises on a voluntary basis that is motivated by the public good that will invariably flow from enhanced domestic resource mobilization and public finance management.

- **Bringing back development banks:** While there is ample evidence to suggest that such banks were havens of corruption and mismanagement, a compelling case can be made for the relevance of such banks in the process to enhance domestic resource mobilization and public finance management. They could become the financial pioneers for unleashing the potential of the informal sectors, with a focus on agriculture, rural infrastructure development and small and medium-sized enterprises.

- **Creating a microfinance fund:** The fund should be for smaller creditors in urban and rural areas. Portions of development aid and contributions from banks could comprise its capital base. In addition, central banks could encourage commercial banks to make a percentage of their reserves available to the fund with favourable rates of interest.

- **Dealing decisively with illicit financial flows and capital flight:** Specific means should be made available to repatriate such funds and implement the recommendations of the High-level Panel on Illicit Financial Flows from Africa. The principles of the United Nations Convention against Corruption, which has been ratified by a majority of African countries, can also be used to form partnerships with Western governments in order to repatriate proceeds stemming from corruption.

Promoting capital markets and investment for domestic resource mobilization and public finance management

The transformation of the investment environment in Africa requires functional mechanisms for credit. Related strategies must be based on a sound and viable credit markets that includes the following measures:

- **Lowering transaction costs*:*** This must be based on a higher density of formal and informal financial institutions in order to crowd in more economic activity and needs to be accompanied by an attempt to seriously tackle supply-side constraints, such as infrastructure. African countries should set this measure on the premise that microfinance institutions hold the key to lowering transaction costs.

- **Building information capital*:*** More reliable information must be provided on the risk profile of potential borrowers in poor households and small businesses. Governments can help fund databases containing that information and ensure the confidentiality of them.

- **Improving legal and regulatory frameworks*:*** This requires a sound institutional environment based on credibility, certainty and predictability, which is critical for ensuring the confidence and retention of domestic and foreign investors. Some of the issues that need to be addressed in the frameworks are related to the labour market, entry costs, bureaucratic barriers and reform of tax administration.

Developing financial and investment policies for domestic resource mobilization and public finance management

In the present study, the factors behind market failure that tend to undermine growth and development have been pointed out. In addition, the case has been made for State-driven developmentalism as a key element of domestic resource mobilization and public finance management. In that regard, opportunities can be structured around the following policy directives.

- **Promoting domestic integration*:*** This requires the strengthening of weak forward and backward links in the domestic political economy. The role of infrastructure must be stressed, together with product diversification and structural transformation of the national economy, especially in order to focus on building the industrial and agriculture sectors.

- **Allocating resources more efficiently:** Strategic interventions by governments are required to ensure that domestic resource mobilization and public finance management are aligned with the country's development plans and priorities. Credit allocation policies, public investment and expenditure and robust incentives for the private sector are among the interventions required.

- **Reforming the tax system:** This must be part of a wider package of reforms to improve investment and business climates. In addition, tax systems must be simplified in order to review the exemptions, investment and incentive structure and to encourage greater compliance.

Enhancing the focus of domestic resource mobilization and public finance management in the African Peer Review Mechanism

In terms of its overall goals and objectives, there has been a tendency for the Mechanism to concentrate on the governance dimensions, with a consequent emphasis on issues that relate more to the modalities of public finance management than the requirements for enhanced domestic resource mobilization (Interview (b) 2018). In the 2016–2020 business plan of the Mechanism, the principle of a greater concentration on knowledge products and independent and more in-depth studies on governance-related matters was introduced. This is because the general country reports do not go far enough in reflecting country priorities, especially with regard to domestic resource mobilization and public finance management. This presents a strategic opportunity for the to:

- **Build strong strategic partnerships:** The multiple analytical, technical and policy competences of the African Development Bank (AfDB) and the Economic Commission for Africa (ECA) should be drawn on as a matter of urgency in order to develop more accurate mapping of what would constitute an appropriate template for domestic resource mobilization within the Mechanism.

- **Prioritize pilot studies:** The Mechanism has developed wide and in–depth country knowledge and experiences throughout the history of its country review processes. These, however, stop short of drilling down deep and far enough with regard to the purpose of this study. To attain a more sophisticated picture and rigorous understanding of the scope of the challenges relating to domestic resource mobilization and public finance management with regard to the Sustainable Development Goals and Agenda 2063, stand-alone pilot studies should be conducted in select countries with the objective of providing robust indicators and policy lessons.

7. Conclusion

The purpose of the present study is to establish the conceptual referents and empirical basis for domestic resource mobilization and public finance management. The strategic and policy interventions necessary for addressing the financing for development deficits in Africa are identified in the study. These interventions, in turn, are used to shape the structure of the report. In this framework, the general parameters that are germane to the successful completion of the study, its core deliverables and the assessment criteria are set out.

A review of how the Mechanism could be more effective in assisting African countries in pursuing strategies aimed at building their capacities for enhanced domestic resource mobilization and public finance management is conducted. This effort takes on added urgency when it comes to realizing the letter and spirit of the Sustainable Development Goals and Agenda 2063, whose synergies hold great promise but also serious challenges for growth and development in Africa. The Mechanism can therefore be the catalyst at the country and continental levels for enhancing domestic resource mobilization and public finance management, especially given its unique mandate, which involves the sharing of experiences, peer learning, knowledge management and exchange and the dissemination of best practices. Above all, the cumulative analytical competences in evaluating and assessing governance and development in Africa places the Mechanism at a distinct advantage in making domestic resource mobilization and public finance management more effective instruments in achieving the goals set in the 2030 Agenda and Agenda 2063.

The scope and domain of domestic resource mobilization and public finance management are of critical importance in Africa as mechanisms of savings. This takes on even greater importance when considering how such savings can be allocated as a means to ensure economically and socially productive investment and outcomes. Domestic resource mobilization has the potential to be the largest source of long-term financing of sustainable development and improved governance in the provision of public goods and service delivery. More effective public finance management can improve economic governance, in particular in strengthening fiscal institutions and assisting in developing stable and predictable revenue platforms for optimal allocation to priority sectors. In addition, enhanced domestic resource mobilization and public finance management would assist countries in their efforts to end their long-term dependency on foreign aid, help to promote domestic ownership of growth strategies and provide the policy room necessary for autonomous decision-making that would lead to welfare-enhancing gains (Economic Commission for Africa, 2014b).

In the conceptual section, several key challenges relating to domestic resource mobilization and public finance management are highlighted, and the role that the Mechanism can play to mitigate such challenges is considered. This takes on added relevance when the goals and intended outcomes of the 2030 Agenda and Agenda 2063 are considered. For this study, several problem areas that reflect the dimensions of the challenges have been identified. The first problem is low savings, which helps to explain the low levels of economic activity and the slow pace of growth. This is compounded by low levels of financial intermediation and credit, given that more than 40 per cent of savings in Africa is invested abroad. The second problem is capital flight and illegal financial flows, which are estimated to be several times higher than aggregate inflows of foreign aid. That problem has direct knock-on effects on good governance and development.

The third problem concerns tax incentives and exemptions, which typically distort resource allocation and provoke suboptimal investment decisions and ultimately undermine long-term growth. The fourth problem is that mineral-rich countries in Africa tend to have poor records with regard to good economic governance, often referred to as the "paradox of plenty". The fifth problem is that many African countries have a narrow tax base. The major structural hurdle pertaining to this is the very large informal sectors throughout African countries, the small share of wages in national income and weak consumer spending in the formal sector. Lastly, there is the problem of poor administrative systems and organizational capacity.

Against the backdrop of these challenges, the Mechanism is also well placed, in terms of its mandate and focal areas, to take advantage of opportunities that could be salutary for more effective domestic resource mobilization and public finance management. Country-specific interventions to consider are enhancing intra-African trade and cooperation in the exchange of goods and services, broadening the existing tax base, improving the tax administration capacity of African countries, rationalizing tax incentives and strengthening tax policy. Among the continental institutions, namely, the African Union, AfDB and ECA, as well as the eight officially recognized regional economic communities, there needs to be a political and policy consensus on the high relevance of the roles of domestic resource mobilization and public finance management in enhancing growth and development, especially as they relate to the 2030 Agenda and Agenda 2063.

This consensus must include how the Mechanism could become the institutional agent for putting in place measures to deal with tax fraud, capital flight, illicit financial flows and tax evasion across borders and how tax harmonization can be promoted, together with providing better support for strengthening revenue management, tax reform and more efficient tax administration. In addition, the Mechanism can be instrumental in promoting the role of strong institutions in enhancing domestic resource mobilization and public finance management, improving regulatory responses relating to emerging and innovative forms of finance and promoting greater global transparency in financing development.

Ultimately, there is exciting scope for the Mechanism to become the continental lodestar for the structural transformation of Africa on the basis of the essential norms of the 2030 Agenda, Agenda 2063 and the Addis Ababa Action Agenda.

Annex

Interview questions for the African Peer Review Mechanism secretariat

Questions for African Peer Review Mechanism interviews: domestic resource mobilization and public finance management

1. How can the African Peer Review Mechanism be used to address the challenges of domestic resource mobilization and public finance management in Africa? Are the African Peer Review Mechanism processes and instruments, such as the African Peer Review Mechanism Questionnaire fit for purpose in enhancing domestic resource mobilization and public finance management in Africa?

2. What institutional and operational challenges does the domestic resource mobilization and public finance management in Africa face in embracing a wider mandate that includes domestic resource mobilization and public finance management?

3. Do the country review reports and national plans of action provide any pointers on the challenges and opportunities for African countries to enhance their domestic resource mobilization prospects and deepen their efforts to enhance public finance management?

4. What do you see as the major constraints in the African financial markets with regard to domestic resource mobilization and public finance management and what role could the African Peer Review Mechanism play in overcoming those constraints?

5. To what extent have African policymakers prioritized domestic resource mobilization and public finance management as a means to develop financing compared to foreign direct investment or development aid?

6. Are there any national strategies in place pertaining to domestic resource mobilization and public finance management that you know of and what are the main reasons behind the inefficient implementation of domestic resource mobilization and public finance management strategies?

7. What is the role of the State and development partners such as the African Development Bank, the Economic Commission for Africa, international financial institutions and bilateral donors in financial infrastructure development, with special reference to domestic resource mobilization and public finance management?

8. What role can private sector participants (domestic and foreign banks, non-banking financial institutions) play in financial infrastructure development, with special reference to domestic resource mobilization and public finance management?

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Interviews at the African Peer Review Mechanism secretariat

Interview (a) (20 February 2018): Eddy Maloka, Chief Executive Officer.

Interview (b)[a] (28 February 2018): Melaku Desta, Senior Technical Advisor to the Chief Executive Officer; Dalmar Jama, Head of Strategic Planning; Rachel Nukamunana, Head of Country Review Planning; and Ejigayhu Tefera, Research Analyst.

[a] Conducted as a focus group.