REPORT OF THE STANDING COMMITTEE ON TRADE, INDUSTRY, FINANCE AND INVESTMENT TO THE 51ST PLENARY ASSEMBLY SESSION HOSED BY THE PARLIAMENT OF MALAWI FROM 7TH TO 16TH JULY, 2022

THEME: "DOMESTIC RESOURCE MOBILISATION AS A SUSTAINABLE WAY TO MANAGE PUBLIC DEBT IN THE SADC REGION – WHAT ROLE CAN PARLIAMENT PLAY?"

Mr President, I beg to move that this Plenary Assembly do adopt the Report of the Standing Committee on Trade, Industry, Finance and Investment (TIFI) to the 51st Plenary Assembly Session of the SADC Parliamentary Forum, laid on the table on 12 July, 2022

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1.0 COMPOSITION OF COMMITTEE

The Committee consisted of the following Members:

1.	Hon Ruth Mendes		Angola
2.	Hon Dumelang Saleshando	(Vice Chairperson)	Botswana
3.	Hon. Mukendi Tumba MP		DRC
4.	Hon Sen. Isaac Mmemo Magagula		Eswatini
5.	Hon. Tsepang Tsita-Mosena	(Chairperson)	Lesotho
6.	Hon. Denis Namachekecha		Malawi
7.	Hon Marie Joanne Sabrina Tour		Mauritius
8.	Hon Jimmy Donovan		Madagascar
9.	Hon Carlos Moreira Vasco		Mozambique
10.	Hon. Vipuakuje Muharukua		Namibia
11.	Hon Audrey Vidot		Seychelles
12.	Hon Hlengiwe Mkhaliphi		South Africa
13.	Hon Dr Alfred James Kimea		Tanzania
14.	Hon Kalalwe Mukosa		Zambia
15.	Hon Anele Ndebele		Zimbabwe

2.0 TERMS OF REFERENCE

The Standing Committee on TIFI, guided by its mandate in terms of Rule 42(b) of the Rules of Procedure, convened on Sunday, 1st May, 2022 in Johannesburg South Africa.

3.0 NUMBER AND DATES OF MEETINGS

The Committee held one meeting on Sunday, 1st May, 2022 to consider the topic***:*** "Domestic Resource Mobilisation as a Sustainable Way to Manage Public Debt in the SADC Region – What Role can Parliament Play?"

4.0 BACKGROUND

The financing mechanisms for public expenditure remained at the core of public finance management. Countries around the world were confronted by a dilemma of how best to mobilise financing to meet public expenditure which is critical for effective service delivery. The expansionary expenditure patterns coupled with constrained fiscal space left governments with limited options other than to increase borrowing, resulting in debt that was moving towards unsustainable levels for most countries. In 2018, government debt in SADC as a percentage of

GDP was the highest for the last ten years[1].The high level of external debt in most countries due to the fast pace of debt contraction raised questions on the adequacy of the legislation that governs public debt management in SADC countries.

The rise in public debt coupled by unforeseen expenditures occasioned by external shocks such as the COVID-19 and the recent distortion in oil market prices because of the war between Russia and Ukraine, amplified the dire need for SADC countries to look inwards in order to be able to better withstand adverse shocks and reduce the economic costs associated with these crises, and concomitantly veer away from the temptation to borrow. This had thus necessitated that SADC countries accelerate domestic resource mobilisation measures as one of the sustainable measures of tackling the debt debacle in the Region. However, the effort of galvanising domestic resource mobilisation would not yield positive results if it was not accompanied by enhanced public sector financial management, including mitigating financial leakages and curbing illicit financial follows. Further, a case for strengthened parliamentary involvement in debt contraction and oversight on the subsequent utilisation of resources acquired through borrowing was strong and absolutely relevant. Further, the call to strengthen the mandate of the Public Accounts Committee in analysing audit reports and holding the government to account for its use of public funds and resources by examining the public accounts could not be over emphasised. There was, therefore, need to reflect on how the role of Parliament can be strengthened in this regard.

Generally, Parliaments had been having challenges to fully achieve and exercise their oversight role on public financial management due to its inadequate involvement in debt contraction, including the lack of transparency by SADC Governments on issues around debt. As a matter of fact, information relating to the actual state of public debt in most SADC countries was not easily accessible.

In light of this, it was necessary for the TIFI Committee to explore various ways in which SADC countries could heighten domestic resource mobilisation as a response to high public debt vis-à-vis the role that Parliaments could play in strengthening domestic resource mobilisation and curbing leakages.

5.0 SUMMARY OF PRESENTATIONS ON THE THEME "DOMESTIC RESOURCE MOBILISATION AS A SUSTAINABLE WAY TO MANAGE PUBLIC DEBT IN THE SADC REGION – WHAT ROLE CAN PARLIAMENT PLAY?"

The Committee received an expert presentation from Mr Pepukai Chivore, Director, Parliamentary Budget Office in the Parliament of Zimbabwe. In his

[1]International Monetary Fund, Regional Economic Outlook Database, September 2019, as reported at SADC
weblink https://www.sadc.int/about-sadc/overview/sadc-facts-figures/#GovernmentDebt

presentation, Mr Chivore explained that the subject of public debt was complex and highly technical, thus it could not be explained by a single key indicator. The most commonly used indicator was debt-to-Gross Domestic Product (GDP) ratio, which measured the number of years it would take to pay back debt if GDP was used for repayment. This was considered a 'headline indicator' that could galvanise public attention around a country's debt situation. Other than the debt -to GDP ratio, other useful indicators included gross debt, net debt, external and domestic debt and contingent liabilities.

The presentation also highlighted on the following:

5.1 SADC Debt Situation

The Committee observed that the debt to GDP ratio for SADC rose to a 10 year highest in 2018. Public debt increased from 56.3 per cent of GDP in 2019 to 67.1 per cent of GDP in 2020 and was anticipated to have reached 69 per cent in 2022.[2] Further, only six Member States namely; Botswana, Democratic Republic of Congo (DRC), Eswatini, Madagascar, Malawi and Republic of Tanzania had achieved the regional set target of public debt of 60 per cent of GDP in 2020. Mr Chivore indicated that the high level of external debt in most countries due to the fast pace of debt contraction raised questions on the adequacy of the legislation that governed public debt management in SADC countries. Generally, Parliaments had been having challenges to fully achieve and exercise their oversight role on public financial management due to its inadequate involvement in debt contraction.

5.2 Role of Citizens in the Debt Management Framework

Mr Chivore submitted that debt service decisions should be made after engaging the citizens, civil society organisations (CSOs) and Parliament. Governments must view citizens as active holders of fundamental rights as espoused in the Universal Declaration for Human Rights of 1948 rather than as passive users of public services. The Director stressed that a huge debt burden for a country infringed on the rights of future generations who ultimately had to repay the debts contracted by the Government. Moreover, service delivery may be compromised when a huge amount of resources had to be applied towards debt servicing or when huge debt burden compromises a country's access to capital to improve service delivery. In that regard, the loan contraction process must be transparent and participatory, involving citizens and communities. Participation could be done through parliamentary representation, direct citizen participation or citizen participation through their civic organisations.

[2] SADC Regional Economic Performance and The Business Environment in 2020 and Medium-Term Prospects report

The Committee noted from the presentation that information provision to the citizenry was key because ultimately the responsibility of debt servicing was borne by all the citizens of the country. Information that should be provided to citizens could include who and how much was owed, the purpose and conditions under which loans were given, whether objectives were met, charges other than interest, and the benefits if any, that accrued to citizens as a result of the loans. Government on the other hand should undertake strong economic policy reform to provide strong impetus to efforts aimed at accelerating accumulation of capital, productivity and economic growth, building confidence and enhancing the country's ability to meet future external debt obligations when they fell due and ensuring that all loan agreements were reviewed and approved by Parliament before entering into force.

5.3 Role of Parliament

Regarding the role that Parliament could play in the management of debt, Mr Chivore submitted that through its legislative role, Parliament should set a robust legislative framework for debt management that would provide strategic direction to borrowing decisions and clearly specify the roles and responsibilities of the institutions involved in debt management. These institutions included the Ministry responsible for finance, the Central Bank, an independent Debt Management Office, the Auditor General and/or a debt Management Committee. The Committee observed that the efficiency of debt management in a country was largely premised on the effectiveness of these institutions charged with the responsibility of managing public debt, both jointly and independently.

In addition to setting robust legislative framework, Parliament should ordinarily perform the function of scrutinising and ratifying loan agreements signed by the government before they could come into effect. After ratifying loan agreements, Parliaments should monitor the implementation of investment projects financed by the loan agreements entered into. The presenter cited countries such as Mozambique and Zimbabwe as some of the countries that propelled into debt crises as a result of lack of scrutiny of loan agreements.

It was submitted that Parliament was also expected to integrate public debt management into the four stages of the budget cycle namely: budget drafting, approval, implementation and audit. During the ex-post oversight process, Parliaments, including Public Accounts Committees, must focus on legal compliance and ensure that the approved borrowing plan was being followed, debt servicing was undertaken as per the loan agreements and also monitor the implementation of investment projects financed by loans. Equally important was the need to oversee operations of State-Owned Enterprises (SOEs,) which were often major drivers of debt.

The Committee learnt that Parliament also had a role to play in ensuring that debt ceilings were adhered to. In particular, in Article 3 of Annex 2 of the SADC

Protocol on Finance and Investment, Member States agreed that macroeconomic stability was a desirable outcome of macroeconomic convergence and that such macroeconomic convergence would be measured and monitored by four indicators, one of which was the ratio of public and publicly guaranteed debt to GDP, taking account of the sustainability of such debt. To actualise the convergence desire set out in Annex 2, SADC had recommended that member states should maintain a public debt-to-GDP ratio of no greater than 60 per cent.

5.4 Domestic Resource Mobilisation

The Committee was informed that Africa had the capacity to adequately fund its development programmes from its own pool of resources[3]. The Addis Ababa Action Agenda for financing development called on developing countries to step up their efforts to collect more taxes domestically to achieve the Sustainable Development Goals (SDGs). According to the International Monetary Fund (IMF), funds required in five SDG areas (education, health, roads, electricity, water and sanitation) would grow to 15 per cent of GDP by 2030, but most of sub-saharan Africa required more than that.

Mr Chivore submitted that although domestic resource mobilisation (DRM) referred to generation of savings from domestic resources and their allocation to economically and socially productive investments, as well as accounting for such allocation, it did not necessarily mean new taxes or higher tax rates. In the SADC context, DRM was hampered by low tax revenue despite high tax effort, records of property tax revenues suffered from inadequate records and property valuations remained artificially low. Further, political forces exempted the rich and powerful, Foreign Direct Investment (FDI) was also relatively volatile and tended to focus on extractive industries with very few linkages to the domestic economy (UNCTAD, 2005). Portfolio investment, with the exception of South Africa, is of insignificant magnitude in the region (UNECA, 2006). The presentation underscored the importance of DRM and its accompanying benefits. The presenter stated that enhanced DRM reduced vulnerability to shocks, provided greater policy space, increased ownership of the development processes, enhanced the state's ability to improve the domestic economic environment and created important positive externalities. Further, DRM efforts were likely to be seen as a positive sign by donors and investors, thereby augmenting external resource inflows.

In order to enhance DRM, it was important for SADC countries to, *inter alia*, strengthen efforts of improving DRM, increase transparency in granting tax exemptions, develop a strong anti-corruption stance and invest in financial data collection.

[3] The Africa Capacity Report, 2015

5.5 SADC Model Law on Public Finance Management

The presenter indicated that the SADC Model Law on Public Financial Management, which was still under consideration, was a key tool that would change the landscape of public resource management in the SADC Region, if well domesticated. Public debt was particularly provided for in chapter 8 of the Model Law. This chapter was motivated by the realisation that in at least four SADC countries, there were laws or administrative guidelines on the management of public debt, with targets such as 50 per cent of GDP, but without any penalty against government if this debt target was not achieved. Further, in more than five SADC countries, the laws and administrative guidelines on debt management and related targets as a percentage of GDP were unclear while in some they were non-existent. Moreover, the full details of existing public debt were often not disclosed in Parliament.

The Committee was informed that Clauses 72 and 82 of the Model Law provided for the budget to be accompanied by a comprehensive public debt statement, published at least once annually. Clause 91 actualised the intention in annex 2 of the SADC protocol on Investment and Finance by providing that the quantum of debt must not exceed 60 per cent of GDP. The Model Law also sought to strengthen the role of Parliament in debt scrutiny as highlighted in clause 93 and also provided for the Public Accounts Committee (PAC) to come up with a strategy to monitor the accrual servicing and recommending control of the debt if debt exceeded ceiling or was likely to exceed ceiling.

6.0 RECOMMENDATIONS

In view of the foregoing deliberations, the Committee resolved to recommend that the 51st Plenary Assembly of the Forum that the Assembly:

i. **Call** on Member States to actualise the convergence goal set out in Annex 2 of the SADC Protocol of Finance and Investment of maintaining a public debt-to-GDP ratio of no greater than 60 per cent.

ii. **Urge** on national Parliaments to be fully involved in debt contraction and ensure that the approved borrowing plan is consistently being followed and debt servicing is undertaken as per the loan agreements.

iii. **Urge** SADC Governments to create a favourable and conducive environment for private sector investment in order to attract more enterprise setups, and ultimately increase revenue collection from these enterprises.

iv. **Implore** National Parliaments and SADC governments to demonstrate the political will in curbing corruption, plug resource leakages and capital flight through establishing stronger legal frameworks that allow tracking, stopping and recovering of illicit financial resource flows.

v. **Strongly urge** SADC countries to stiffen penalties for tax evaders in order to address tax evasion related to under-declaration of the volumes of exports, cheating on the costs of production and transfer pricing.

vi. **Call** on Member countries to desist from offering generous tax breaks that undermine DRM efforts but remain focused on increasing transparency in granting tax exemptions and curbing wasteful tax incentives.

vii. **Further urge** SADC Governments must embrace the African Mining Vision and strengthen national measures to maximise tax revenues in order to maximise returns from the mining sector.

viii. **Call upon** Members countries to take advantage of the African Continental Free Trade Area to increase intra-Africa trade and benefit from technology transfer and development of regional value chains.

ix. **Encourage** SADC PF to strengthen collaboration with civil society working on the anti-corruption agenda and facilitate capacity building of Parliamentarians in combating tax evasion, money laundering and corruption, in an effort to curb revenue leakages.

x. **Resolve that** the SADC PF in collaboration with the civil society should support the oversight role of national Parliaments beyond scrutinising and ratifying loan agreements signed by the government, by developing monitoring mechanism to enhance oversight on the implementation of investment projects financed by loan agreements.

7.0 ELECTION OF CHAIRPERSON AND VICE CHAIRPERSON

In light of the fact that the term of the Chairperson and Vice Chairperson was coming to an end during that Session, the Committee elected new office bearers to hold office for the period 2022 to 2024 as follows:

(i) Chairperson – Hon Tsepang Tsita Mosena, MP (Lesotho)
(ii) Vice Chairperson – Hon Dumelang Saleshando, MP (Botswana)

The Committee paid tribute to the outgoing Chairperson and Vice Chairperson for having steered the Committee successfully during their tenure and pledged their continuing support to the incoming leadership.

8.0 CONCLUSION

DRM remains key in financing social and economic sectors and should be a priority for the region. Strengthening the operational capacity of revenue administrations in terms of both administrative and policy must be the focus of SADC governments to spearhead revenue mobilisation efforts. The role of Parliament through its oversight and legislative functions in this cause remains relevant not only in enhancing revenue collection but also how revenue is allocated and utilised. Arguably, the debate on DRM is incomplete without stressing the need to safeguard public resources from various forms of revenue leakages including debt management.

The Committee remains hopeful that, once approved, the Model Law on Public Financial Management will be key in reforming management of public resources including public debt in the SADC region and beyond.

The Committee wishes to place on record its gratitude to the resource person, Mr Pepupkai Chivore and National Parliaments without whose support the work of the Committee would not have been successfully executed. The Committee also thanks ActionAid International for their financial support towards the hosting of the meeting.

APPENDIX I - RESOURCE PERSON

Mr Pepukai Chivore, Director Parliamentary Budget, Zimbabwe

APPENDIX II – LIST OF OFFICIALS

SADC PARLIAMENTARY FORUM SECRETARIAT

1) Ms Boemo M Sekgoma, Secretary General
2) Ms Yapoka Mungandi, Director - Administration, Finance and Human Resources
3) Ms Clare Musonda, Director Corporate Governance
4) Mr Sheuneni Kurasha, Programme Manager – Democracy, Governance and Human Rights
5) Mrs Edna K Zgambo, Committee Secretary- Trade, Industry, Finance and Investment
6) Mrs Sharon B M Nyirongo, Committee Secretary - Food, Agriculture and Natural Resources
7) Ms Luziela Fernandes – Committee Secretary – Regional Women's Parliamentary Caucus
8) Ms Agnes Lilungwe – Personal Assistant to the Secretary General
9) Ms Paulina Kanguatjivi, Assistant Procedural Officer & Coordinator
10) Mr Toivo Mwaala, Assistant Finance Officer

NATIONAL PARLIAMENTS

1) Ms Veronica Ribeiro - Angola
2) Jabulile Malaza– Eswatini
3) Ms Liva N H Raharison– Madagascar
4) Mr Bao T Ratahirisoa– Madagascar
5) Ms Natalie Leibrandt-Loxton – South Africa
6) Mr Cleopas Gwakwara – Zimbabwe
7) Jaime Numaio – Mozambique
8) Mr Geoffrey Zulu – Zambia