2017 African Caucus Meeting

Fiscal Policy to Support Agriculture Transformation in Africa

Draft Concept Note

Fostering Africa's economic transformation and diversification remains the most significant challenge facing policymakers in the 21st century. While substantial progress has been made in addressing the long-standing bottlenecks to economic competitiveness, the continent's large productivity and competitiveness gap calls for far-reaching structural reforms to lift potential growth, enhance human capital development, and upgrade institutions. In recent years, there has been a recalibration of the macroeconomic policy mix to withstand the impact of adverse external conditions, predominantly from lower commodity prices coupled with weather-related shocks. In this connection, accelerating fiscal reforms encompassing domestic revenue mobilization (DRM), while rebuilding fiscal and foreign reserve buffers is essential to enhance economic resilience.

The growth episodes have been considerably shaped by commodity price cycles on the one hand, and favorable international financial conditions, on the other hand. Many countries significantly scaled up infrastructure investments through increased revenues from the commodity price boom while some countries with market access took advantage of lower world interest rates to raise the requisite financing. The medium-term growth outlook is clouded by downside risks, including the faster than-expected normalization of the U.S. monetary policy, prolonged lower commodity prices, and uncertainty triggered by security-related shocks in some countries. It therefore remains important for countries to sustain efforts towards improving macroeconomic stability and structural reforms to maintain market access and attract foreign investments.

In this regard, fostering fiscal consolidation and simultaneously enlarging the fiscal space for development expenditure is critical to boost broad-based growth. The growing demands for augmented provision of public goods and infrastructure required to upgrade Africa's comparative advantage, essentially in agriculture, light manufacturing, and quarry and mining sectors, has brought reforms seeking to improve DRM at the center of the macroeconomic policy design. This reflects partly the overwhelming evidence that despite the steady rise of tax-to-GDP ratio, which stand at around 15 percent of GDP for most LIDCs, the tax capacity in most African countries remains narrow relative to comparator developing countries. In this context, revamping reforms to widen the tax base, particularly of non-resource revenues, while putting in place measures to enhance tax compliance, strengthen tax administration, and stem illicit financial flows, remains vital.

The IMF provides policy advice, technical assistance, and lending activities, that could be leveraged to improve the institutional capacity for DRM in Africa. In addition, the ongoing

Review of the Debt Sustainability Framework for Low-Income Countries is a unique opportunity to reshape the borrowing strategy, by among other issues incorporating country specific conditions, to guide policy decisions on how to leverage non-concessional financing needed to bridge the infrastructure financing gap. Equally important, is the need to prevent recurrence of episodes of debt distress without precluding countries' market access to non-concessional financing.

Against this background, the panelists are expected to discuss and share their thoughts on the following:

a) How to leverage financing for infrastructure investments needed to lift productivity growth in agriculture?

b) How to sequence fiscal structural reforms to improve DRM, and at the same time improving public investment efficiency?

c) What should be the policy priorities to improve market access to non-concessional financing while preserving debt sustainability?

d) How to better shape the Fund's policy advice, technical assistance, and lending activities to improve the institutional capacity for DRM in Africa?