



Domestic Resource Mobilisation

Lyla Latif





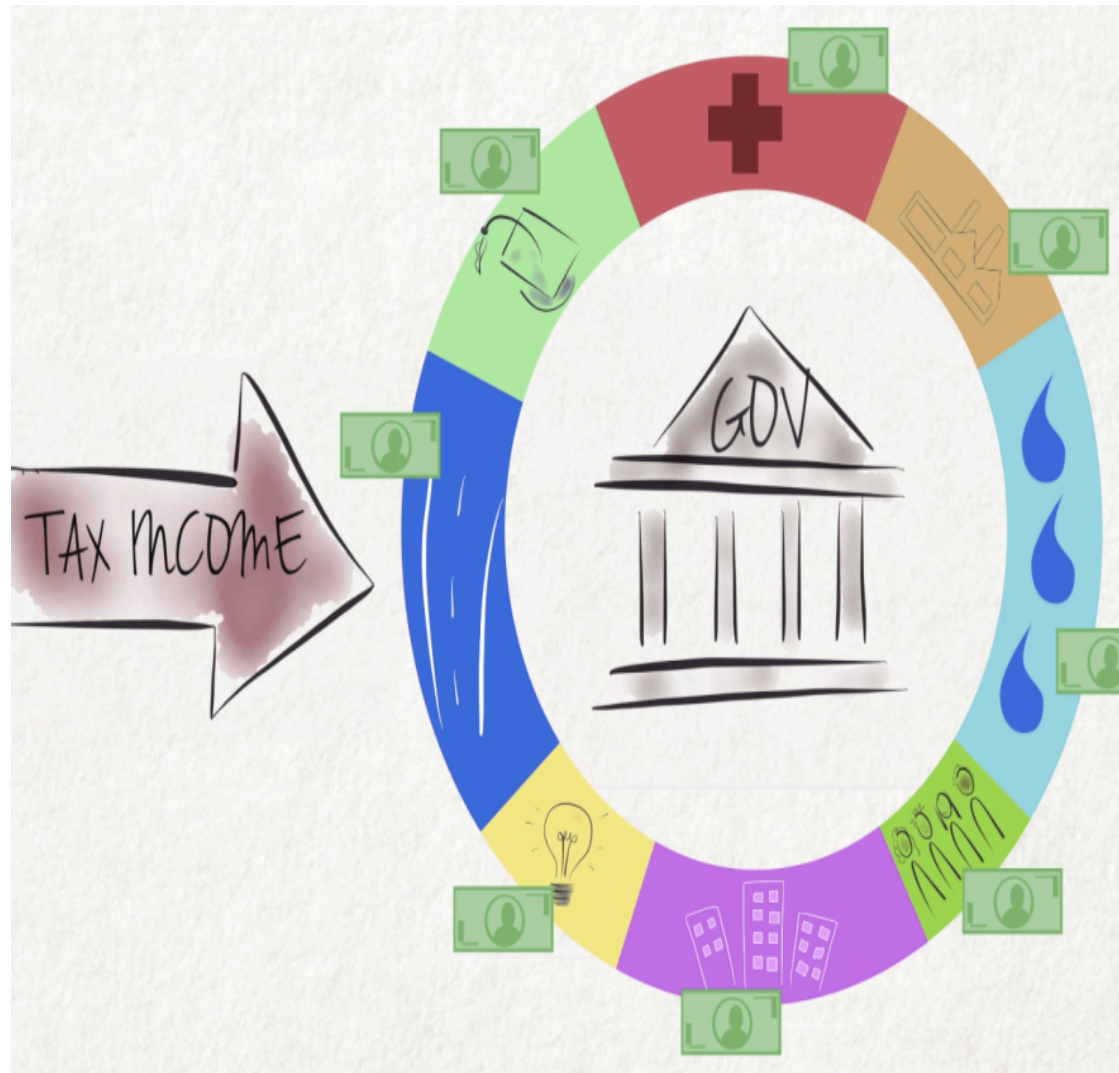
Of course you want more revenue, but what good is it if it isn't predicatble?

Aaron Ross



**TAX JUSTICE
NETWORK
AFRICA**

Context Setting



- Why is DRM important for/to the state?
- What determines DRM priority?
- Is it really necessary to consider DRM when the focus should be towards closing tax loopholes, reducing wage bill, combatting corruption and IFF?
- What does DRM mean to you? Is it only in reference to mobilising sources of revenue through broadening the tax base and identifying additional tax bases? Or is it more than that?

Introducing DRM

How is it understood? What does it mean?



01

- Domestic instruments
- External instruments





DRM – the tax bargain?

- DRM is a political process of contestation and bargaining over who pays and who benefits.



- What has been the role of the citizens in defining DRM?
- Do they participate in DRM decision making (policy and law)?
- How is priority determined?
- Who is consulted?



Broad view on DRM

- DRM concerns mobilising sources of revenue through:
 - Broadening the tax base
 - Identifying additional tax/revenue streams
 - Combatting corruption and IFF
 - Closing tax loopholes
 - Caving in on (aggressive) tax avoidance and evasion
 - Strengthening tax compliance and administration
 - Re-appraising the efficacy of tax incentives and exemptions
 - (Re)negotiating tax treaties



DRM Priorities

- Addis Ababa Action Agenda
- SDGs
- Agenda 2063
- Attracting, leveraging and mobilising revenue in investments of all kinds: public and private, national and global
- Strengthening local financial and capital markets – NIFC
- AfCFTA



Attracting and Directing Public and Private Investments to Areas that Support the Achievement of DRM

- Role of MDBs / IMF and exposure exchange agreements
- Subsidies
- Tax incentives



Enabling Environments Provided by National Governments for DRM

- Political
- Legal
- Societal
- Financial





02

DRM Strategies and Challenges

Importance of DRM in Global,
Continental and Domestic Policies



DRM linked to Addis Ababa Action Agenda, AU 2063 and the Agenda2030 on SDGs

- Commitment to mobilize funding at global and national levels to finance a new social compact and deliver “social protection and essential public services for all”.
- Recommends a broad set of financing instruments such as public finance, international development cooperation, trade and debt, while recognizing related policy and governance challenges, such as illicit financial flows, tax evasion and lack of affordable credit and productive investment.





**Sustainable
Development
Goals**

1



**End poverty
for all**

2



**Freedom
from hunger**

3



**Health and
wellbeing**

4



**Quality
education**

5



**Gender
equality**

6



**Clean water
and sanitation**

7



**Sustainable
energy for all**

8



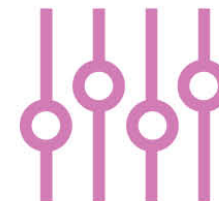
**Decent work
and economic
development**

9



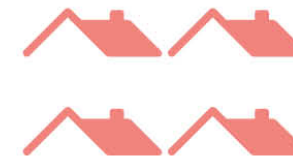
**Innovation and
infrastructure**

10



**Reducing
inequalities**

11



**Sustainable cities
and communities**

12



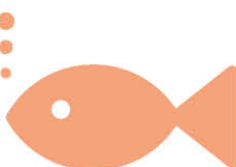
**Sustainable
consumption**

13



**Action on
climate change**

14



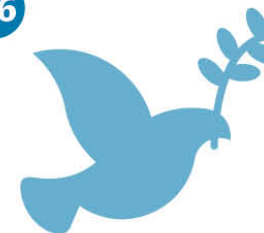
**Healthy
oceans**

15



**Sustainable
ecosystems**

16



**Peace and
justice**

17



**Global
partnerships**

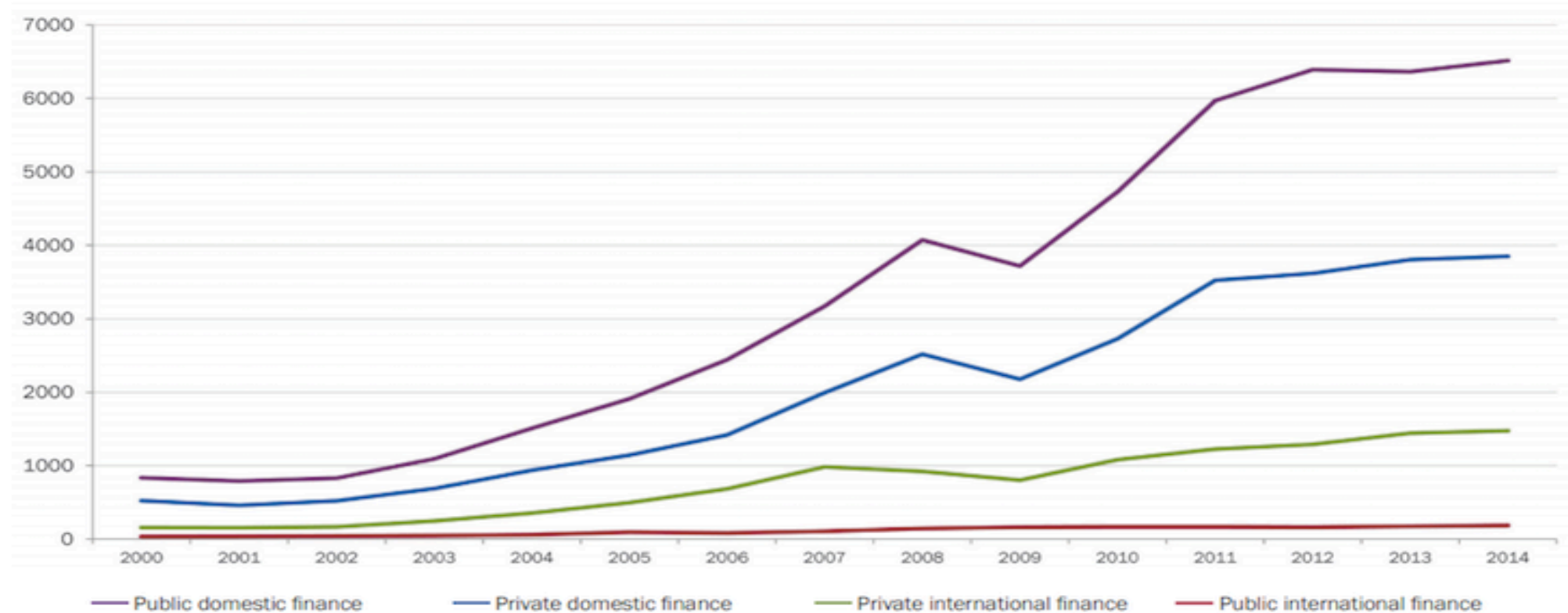
The Financing Challenge

- Financing the 2030 Agenda requires “trillions, not billions”, to cover global financing gaps of between USD 1.5 trillion per year to USD 2.5 trillion or more. This amounts to 2 to 3 percent of GNI, the costs of implementing the 2030 Agenda in proportion to the GNI of developing countries (low- and middle income) are far higher.
- The magnitude of financing requirements at the national level can be illustrated by looking at a subset of the goals related to social protection as defined by each country.



Financing Trends in Developing Countries

2000-2014



★ Data Sources:
ODI et al 2015; World Bank 2016; OECD 2016;
IMF 2016; ICTD and UNU-Wider 2016

Public Domestic Resources

- 2 types of public domestic resources: taxation and revenues from extractive industries, presenting different challenges and opportunities with regard to sustainability and transformative change.
- Public domestic resources have various social, economic and political benefits if compared to private or external funds. Among these are:
 - their linkages with domestic policy making and policy space,
 - their potential for impacting positively on institution building and accountability,
 - their ability to redistribute income and stabilize the economy, and
 - their capacity to make production and consumption more sustainable in environmental, economic and social terms.



Greater Focus Towards Public DRM

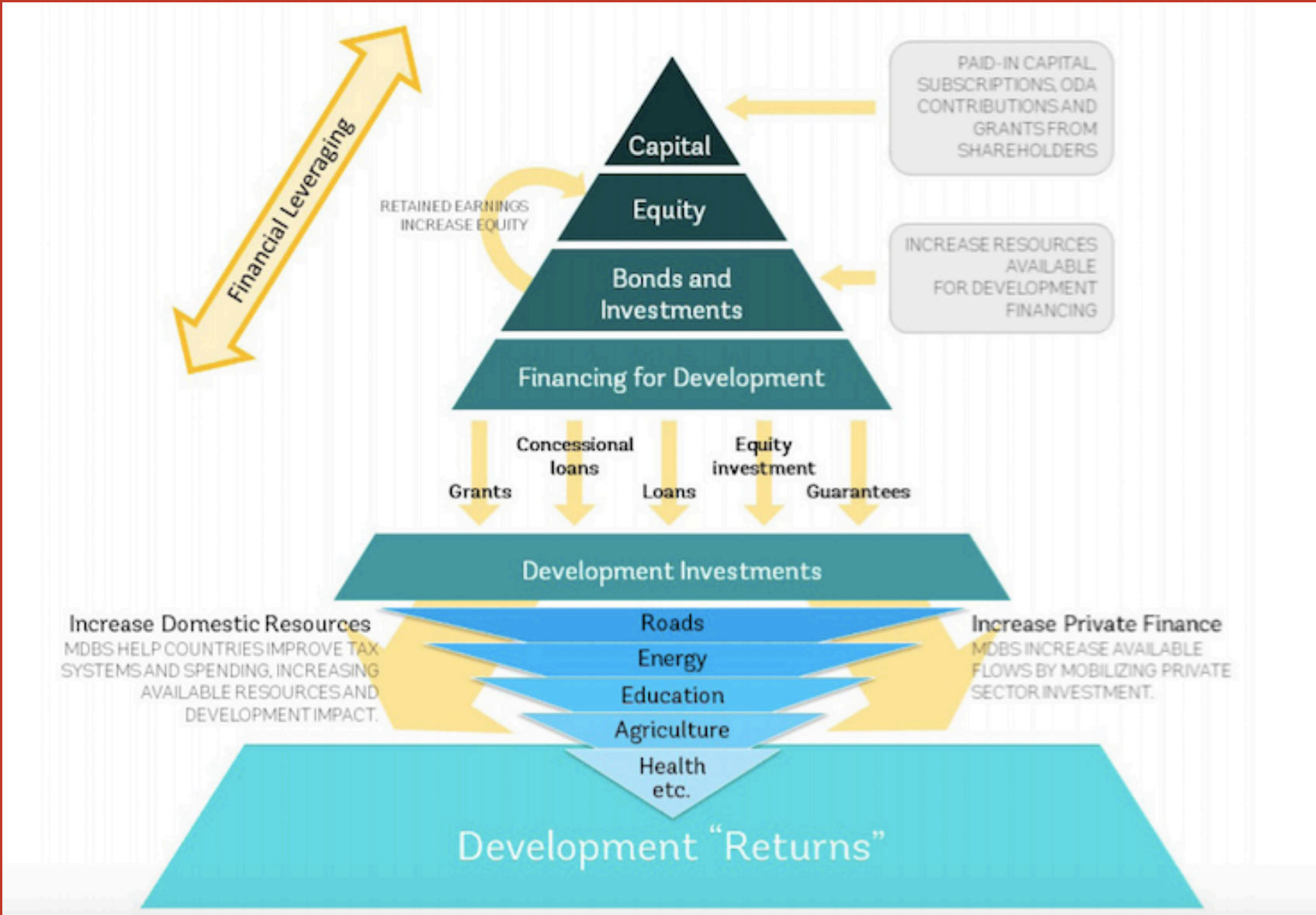
- Public domestic resources are more likely than external resources to trigger transformative structural change of the economy and redistribution, leading to higher equality, inclusion and social protection, in particular in the case of taxation and social contributions.
- This relates to the links with social policy, democratization and rights that emerge from revenue bargains between citizens and states.



Greater Focus Towards Public DRM

- For most countries, tax income is the most important national revenue source, accounting for 85 percent of government revenues in high-income countries of the OECD, and around 70 percent in developing countries.
- However, for a number of countries, in particular LDCs, other revenues such as ODA are equally or even more important, with aid exceeding tax revenue in countries such as Liberia and Malawi.





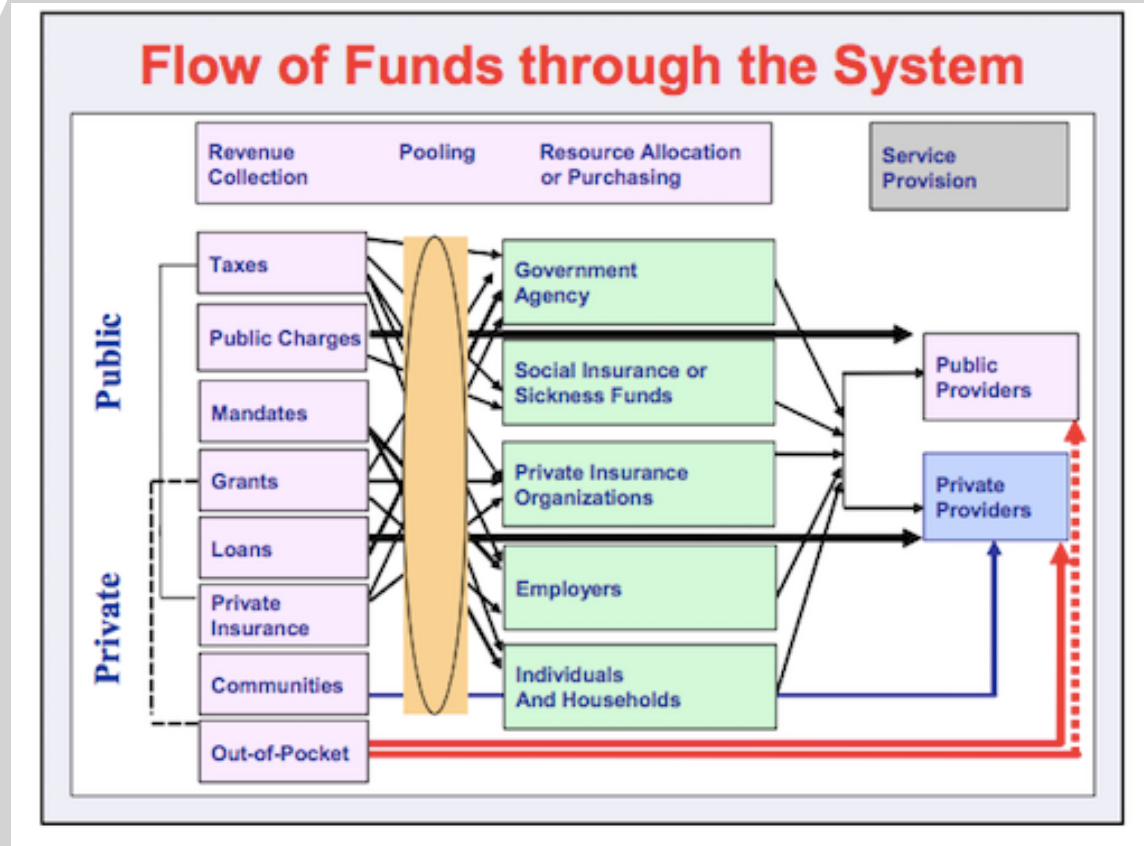
Leave No One Behind Principle

- To advance the required policy reforms which will “leave no one behind”, countries will need to design their own financing strategies according to their economic and political structures and specific needs.
- While aid will continue to be crucial, scaling up domestic public revenues will make the difference.



Role of Private Sector and Local Communities?

- Boost savings. Savings rates in SSA are lowest
- Remittances – important inflow of resources yet development potential remains untapped
- SACCOs
- Harnessing technology and digital business models



Effectiveness of DRM as a Development Tool to work following a Bespoke DRM Design

- The combination of sources and instruments—external and domestic, public and private—as well as their weights in the overall financing mix will differ between countries.
- Some will be able to attract greater amounts of private investment (such as upper middle income countries/UMICs), others will rely more on aid transfers, foreign debt, resource rents and remittances (least developed countries/LDCs and lower middle-income countries/LMICs), and others—mostly middle-income countries (MICs) and high-income countries (HICs)—will be able to finance a larger part of their budgets with proceeds from domestic tax systems and national capital markets.



Challenges

1/5

- Wealth and property are forms of DRM, what is the poverty level? Who are buying properties? What kind of properties? Should affordable housing be subject to the tax next? High net, what is high net in a country that does not earning power as the OECD, should high net have a different criteria? Anyone earning over 3000?



Challenges

2/5

25

- What constraints can you identify with regard to DRM in your country?
 - insufficient growth performance,
 - informality and unemployment,
 - tax losses due to tax optimization,
 - low national savings rate,
 - lack of accessible and affordable banking systems and underdeveloped capital markets,
 - financial crises, per capita income level, sector specific economy, MNC tax avoidance (IFF- Rwanda 2008-2012, IFF outflows 20.4% of country's GDP)



Challenges

3/5

- Increase tax base – export taxes?
- Think of DRM – environmental taxes, PPP, global funds – implementation has been either slow or fraught with problems



Challenges

4/5

- How can countries increase DRM?
 - fair tax system? Progressive tax system?
 - anti trust legislation – breaking up monopolies, remove tax exemptions
 - Uganda, tax system relies heavily on a small number of taxpayers, mostly MNCs with around 35 top taxpayers accounting for 50% of revenues collected by URA
 - divest natural resource rents out of the hands of the politicians
 - decentralisation/devolution of revenue – Kenya county level fiscal autonomy

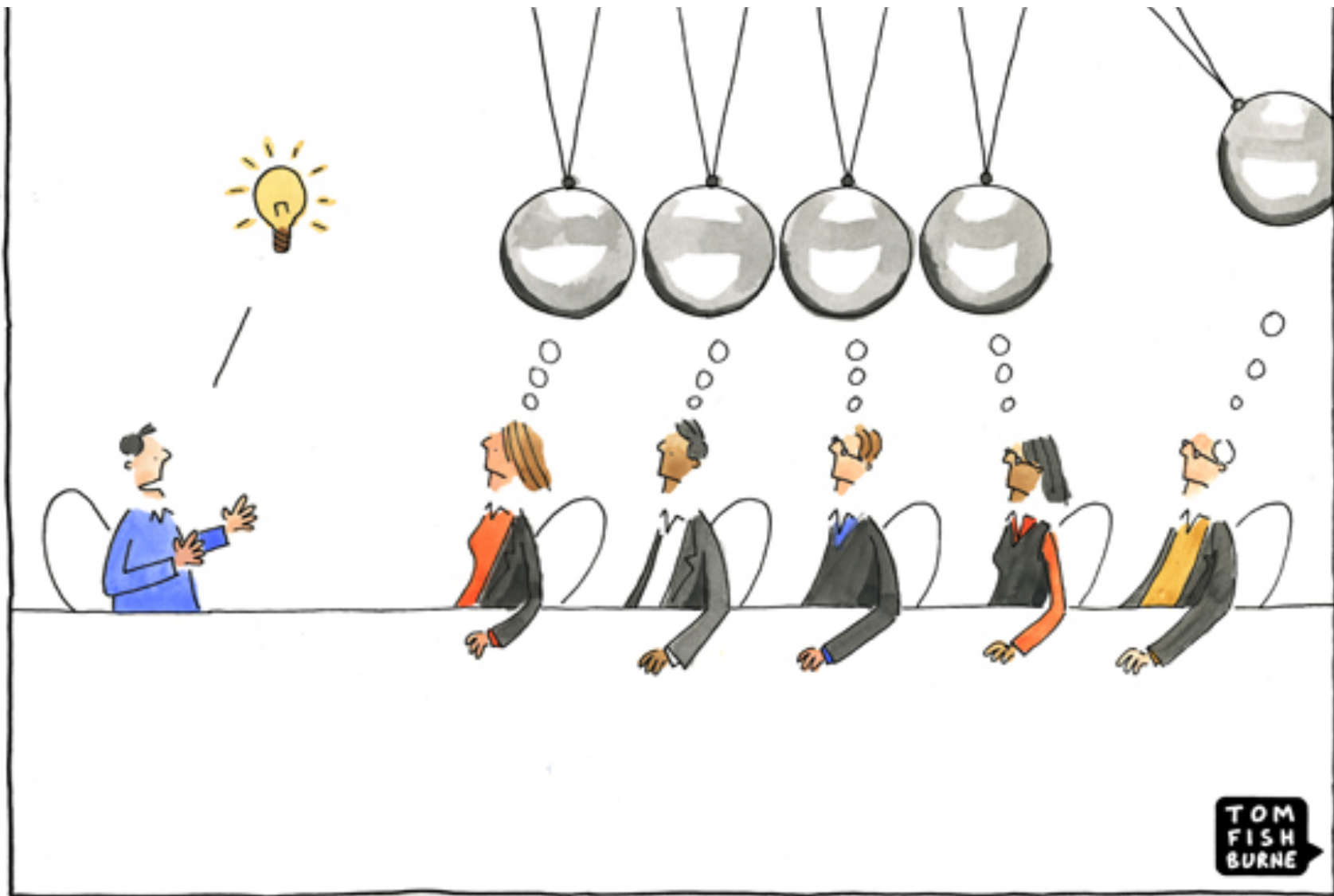


Challenges

5/5

- Do political factors influence resource mobilisation?
- DRM require financial resources that are sustainable in economic, social, environmental and political terms
- Mandate – tax bargain- fiscal contract
- Negotiation between tax payer and government where the former agree to comply with tax obligations in exchange for the effective provision of public services.





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03

Towards Designing a Principle Based DRM Strategy

Designing DRM



Designing the DRM Strategy – ‘Trading Services for Revenue’

31

- Important so as to avert a regressive tax system in which poorer people and women spend a higher share of their income on consumption goods (VAT)
- DRM – purpose to finance planned expenditures while honouring debt obligations
- Ensuring solvency in the medium to long term



Designing the DRM Strategy – ‘Trading Services for Revenue’

32

- Not only about mobilising the necessary quantity of resources or safeguarding financial stability
- Quality of revenue, measured in terms of their transformative impact on production and employment, redistribution, gender equality, sustainable use of natural resources and inclusion



Designing the DRM Strategy – ‘Trading Services for Revenue’

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- Financing and expenditure policies need to be designed in an integrated way, based on principles of:
 - efficiency, equity, fairness, social justice and human rights while ensuring political processes related to financial issues are:
 - inclusive and participatory.
- Ensure institutional capacity to deliver services and transfers, control deviation of resources through corruption, clientelism or rent seeking practices or bottlenecks, bureaucracy.

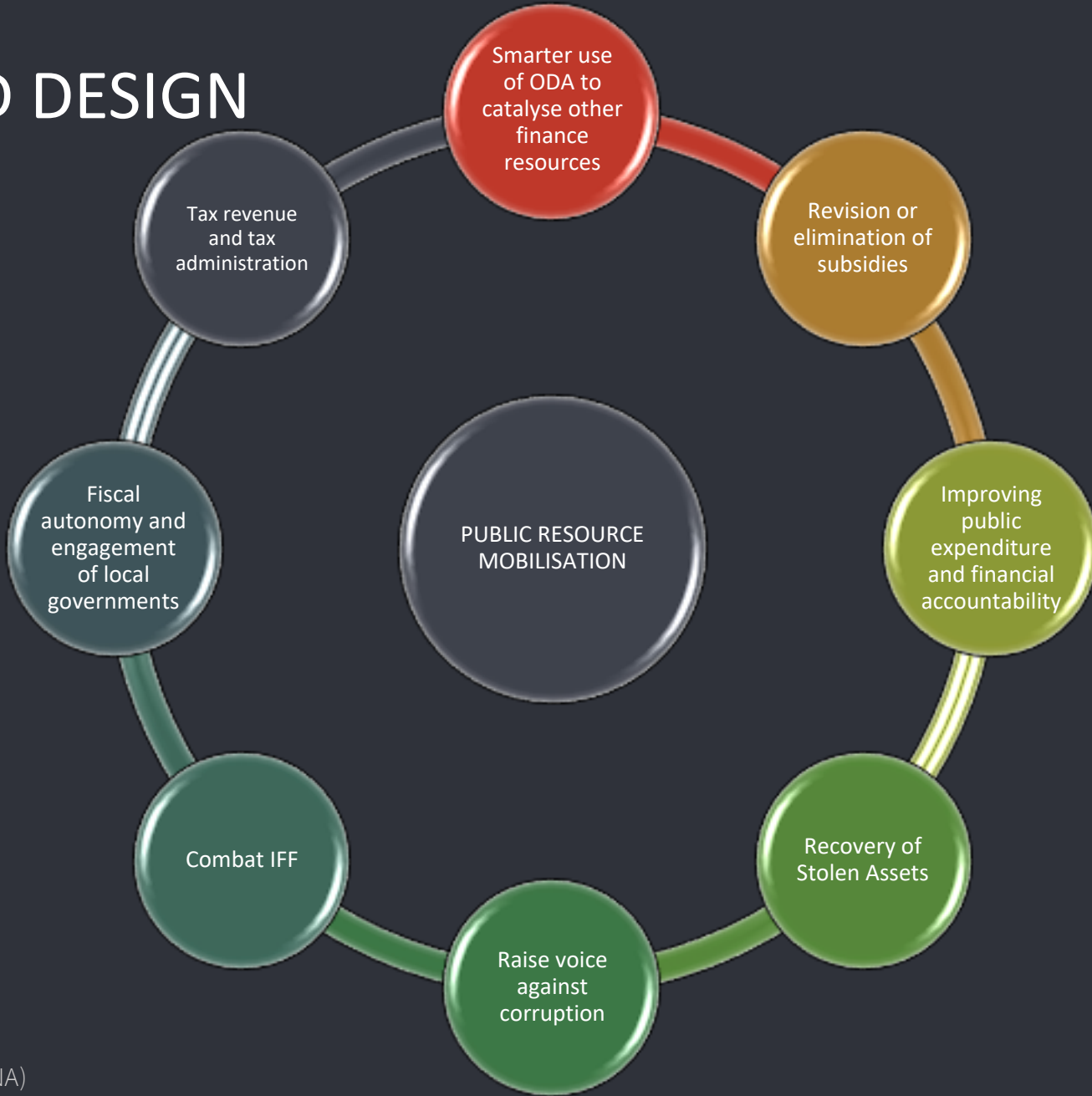


Designing the DRM Strategy – ‘Trading Services for Revenue’

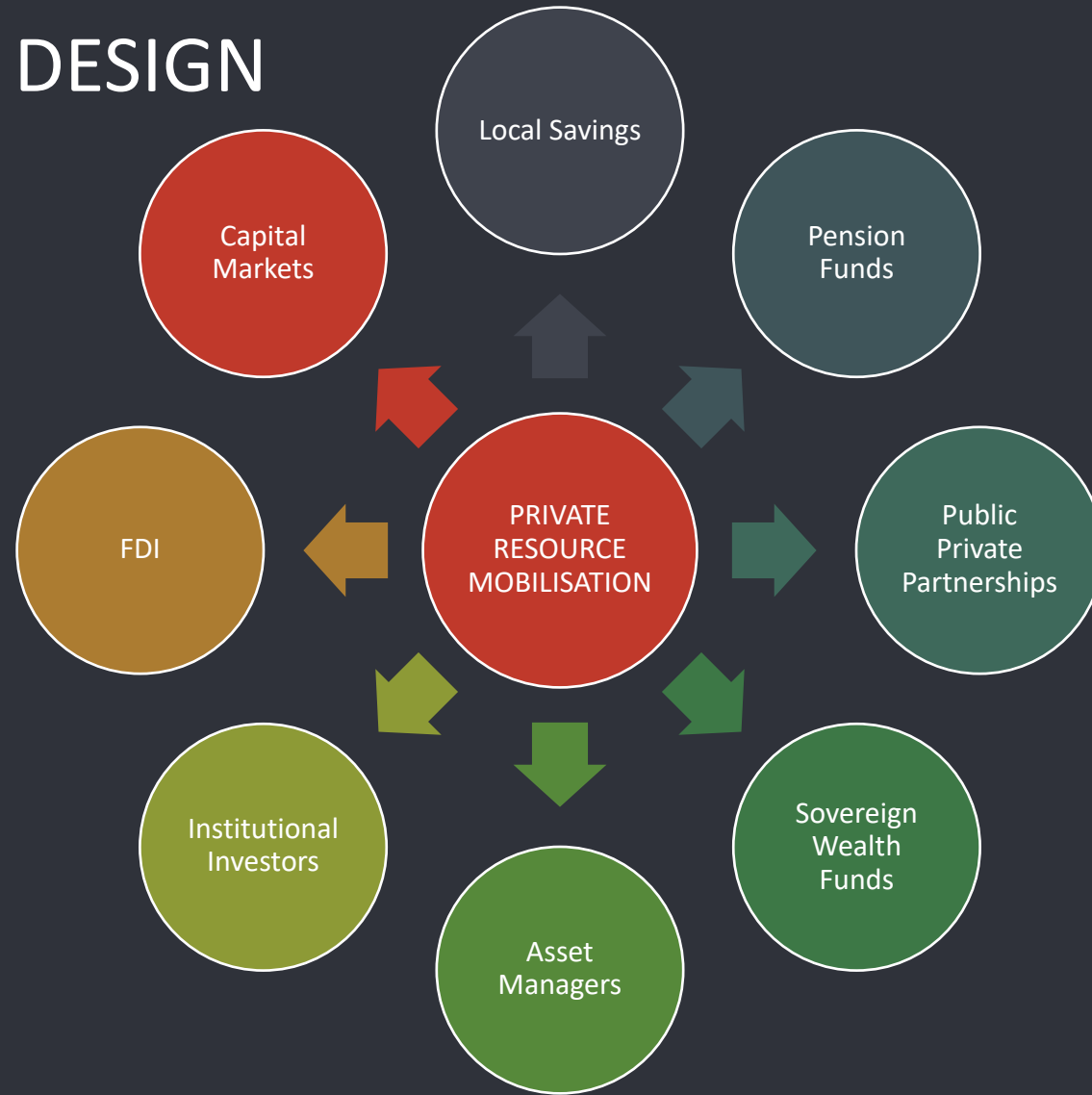
- Look at the economic strategies and economic crises – result in low growth, increase in inequalities and low employment creation
- Most countries need to mobilize more resources to cover spending gaps; this leads to the question of how to increase the quantity of revenues. The quality of revenues in terms of their potential to trigger transformative change toward greater economic, social, political and environmental sustainability differs, and the question is how to increase revenue quality in this broad sense.



PROPOSED DESIGN



PROPOSED DESIGN





In team work silence isn't golden, it's deadly

CONCLUSION

Establish a common understanding of what constitutes DRM

Understand what are the structural and political constraints to increasing DRM

Explore what multidimensional measures are best suited to track efficiency and distributional impact of DRM

Assess the effectiveness of policy advice, financial support and technical assistance for DRM from multilateral and bilateral financial institutions

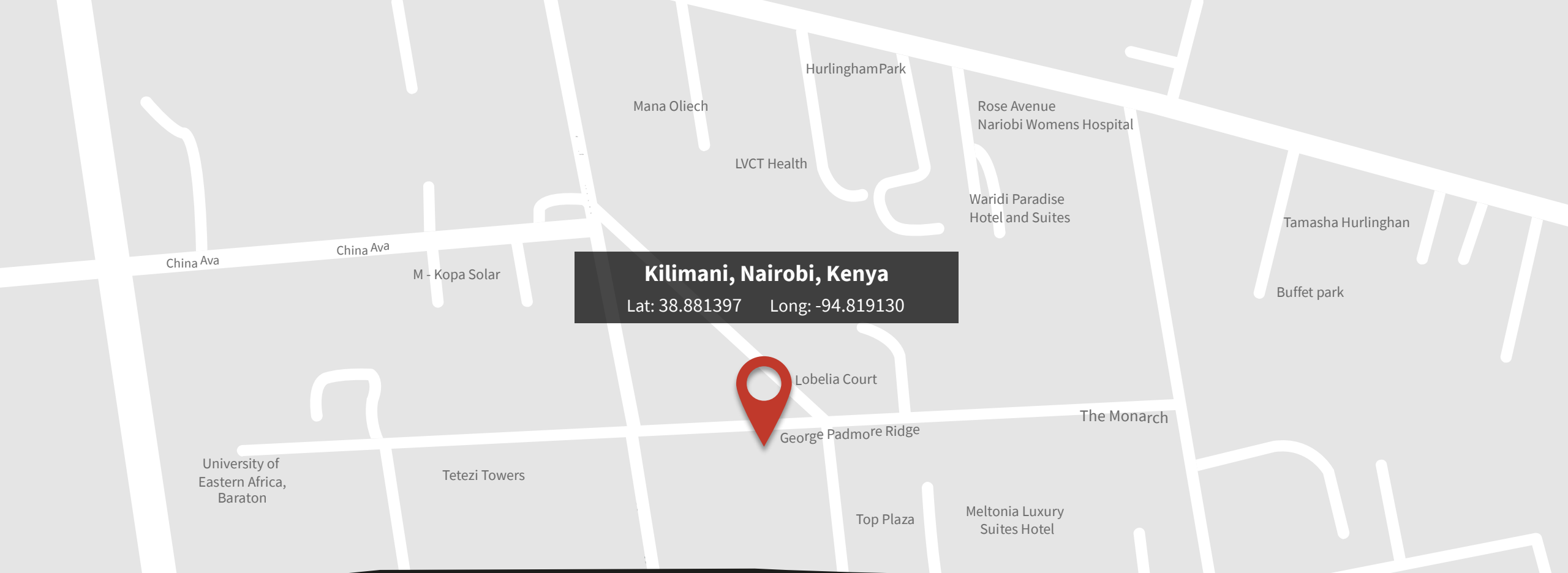
Develop an agenda of new ideas and actions to enhance DRM support and effectiveness





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