MSRA: Concurrent Session

Domestic Resource Mobilization (DRM)

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Agenda

Importance of DRM
Performance of select countries
Getting the political economy dynamics right
Measures to enhance tax policymaking
Institutional and administrative reforms
Importance of DRM
Importance of DRM

DRM is crucial for sustainable country development. It

Enhances stability

Funds urgent development needs

Spurs inclusive growth

Promotes greater ownership of the development agenda

Is a barometer of state capacity and legitimacy
DRM is crucial for sustainable country development. It is dependent on:

- Stability
- Smart policies
- Inclusive development
- Security of citizens
- National values and ethos
- Democratic governance
Performance of select countries
The level of revenue collections as a percentage of GDP tends to be higher in more stable countries.

**Very/more stable:**
- Mauritius
- Seychelles

**Warning:**
- Botswana
- Ghana
- Namibia

**Elevated/ high warning:**
- South Africa
- Zambia
- Rwanda

**Alert/ high alert/ very high alert:**
- Liberia
- Guinea
- Democratic Republic of Congo (DRC)
- Somalia

Source: Fund for Peace – 2018 Fragile States Index
The level of revenue collections as a percentage of GDP tends to be higher in more stable countries. See chart of select more stable, warning and high warning countries.

Key: 1=Mauritius; 2=Botswana; 3=Ghana; 4=Namibia; 5=South Africa; 6=Zambia; 7=Rwanda

Source: IMF staff reports
The level of revenue collections as a percentage of GDP tends to be higher in more stable countries. See chart of select alert, high alert and very high alert countries.

**Benchmark for SSA**

Mainly oil revenues. Non-oil tax revenue is 4.2% of GDP.

Key: 1=Liberia; 2=Uganda; 3=Guinea; 4=DRC; 5=Central African Republic; 6=Somalia; 7=South Sudan

Source: IMF staff reports
Getting the political economy dynamics right
Getting the political economy dynamics right

Creating an enabling political economy environment is fundamental to achieving and sustaining high performance in DRM

- Forging a fiscal contract and engendering tax morale
- Ensuring full managerial autonomy of the revenue administration by the political leadership
- Holding revenue administrators effectively accountable against agreed realistic targets

Rwandan’s DRM capacity and performance has rapidly improved in recent years. This is reflected in the growth of Rwanda’s domestic revenue to GDP ratio, which moved from 14.2% in 2008 to an estimated 18.1% in 2018. Its political leadership

On assuming power, the Rwanda Patriotic Front regime did not lose much time in realising that major institutional reforms, beginning with the establishment of an autonomous revenue collection agency.

Measures to enhance tax policymaking
Measures to enhance tax policymaking

The tax system in many countries in the region is a patchwork of ad hoc policy measures. This contributes to the poor performance of key taxes

<table>
<thead>
<tr>
<th>Country</th>
<th>Tax effort</th>
<th>VAT gross compliance ratio (VATGCR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Namibia</td>
<td>0.71</td>
<td>67.81</td>
</tr>
<tr>
<td>Zambia</td>
<td>0.43</td>
<td>45.19</td>
</tr>
<tr>
<td>Rwanda</td>
<td>0.37</td>
<td>34.23</td>
</tr>
<tr>
<td>Liberia</td>
<td>0.47</td>
<td>-</td>
</tr>
<tr>
<td>Uganda</td>
<td>0.33</td>
<td>29.35</td>
</tr>
<tr>
<td>Guinea</td>
<td>0.35</td>
<td>-</td>
</tr>
<tr>
<td>DRC</td>
<td>0.28</td>
<td>-</td>
</tr>
<tr>
<td>CAR</td>
<td>0.28</td>
<td>-</td>
</tr>
</tbody>
</table>

Tax effort - the ratio between the share of actual tax collection (as a percent of GDP) and the predicted tax capacity jointly obtained with tax capacity using the Stochastic Frontier approach. A low tax effort is the case when the index is below one indicating there is substantial scope to raise tax revenues.

VATGCR - The ratio of actual VAT collections in the country to the potential revenues that would be derived from applying the standard VAT rate to Private Consumption Expenditure. In principle, a VAT with no exemptions, a single rate, and full compliance should result in efficiency ratios of close to 100 percent.

Measures to enhance tax policymaking

The tax system in many countries in the region is a patchwork of ad hoc policy measures. There is need to reform it to incorporate principles of sound policy.
The tax system in many countries in the region is a patchwork of ad hoc policy measures. There is need to reform it – key reform measures include:

1. Rationalizing tax expenditures
2. Addressing international taxation issues
3. Increasing the yield on some taxes
4. Review of taxation arrangements for extractive industries
5. Strengthening policies for non-tax revenues
6. Revising and rationalizing tax brackets and rates

Source: IMF staff reports
Institutional and administrative reforms
Gaps in institutional and administrative capacities also hinder the performance of a country’s tax regime. Reforms evolve around:

<table>
<thead>
<tr>
<th>Pillar</th>
<th>Specific intervention</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political leadership and citizen engagement</td>
<td>• Providing strategic oversight of reforms</td>
</tr>
<tr>
<td></td>
<td>• Stakeholder engagement through forums</td>
</tr>
<tr>
<td></td>
<td>• Research and monitoring</td>
</tr>
<tr>
<td></td>
<td>• Harmonization of development partner support</td>
</tr>
<tr>
<td>Policy formulation capacity</td>
<td>• Structured tax policy formulation process</td>
</tr>
<tr>
<td></td>
<td>• Periodic reviews of legislation</td>
</tr>
<tr>
<td></td>
<td>• Organizational capacity development</td>
</tr>
<tr>
<td>Tax administration</td>
<td>• Addressing performance gaps identified during the tax administration diagnostic assessment</td>
</tr>
<tr>
<td></td>
<td>• Organization restructuring and strengthening</td>
</tr>
<tr>
<td>Customs administration</td>
<td>• Strengthening classification and valuation</td>
</tr>
<tr>
<td></td>
<td>• Bolstering monitoring, supervision, intelligence and investigation activities</td>
</tr>
</tbody>
</table>

Source: IMF staff reports
Institutional and administrative reforms

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<td>Customs administration</td>
<td>• Streamlining port release processes</td>
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<tr>
<td></td>
<td>• Organization restructuring and strengthening</td>
</tr>
<tr>
<td>Non-tax revenue administration</td>
<td>• Automation of revenue administration in ministries, departments and agencies</td>
</tr>
<tr>
<td></td>
<td>• Development of operational guidelines</td>
</tr>
<tr>
<td></td>
<td>• Organization restructuring and strengthening</td>
</tr>
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Source: IMF staff reports