



**AFRICA CENTER  
FOR STRATEGIC STUDIES**

# MSRA: Concurrent Session

## **Domestic Resource Mobilization (DRM)**

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# **Africa Center for Strategic Studies: Domestic Resource Mobilization (DRM) – Managing Security Resources in Africa – Professional Development Symposium**

January 2019

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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

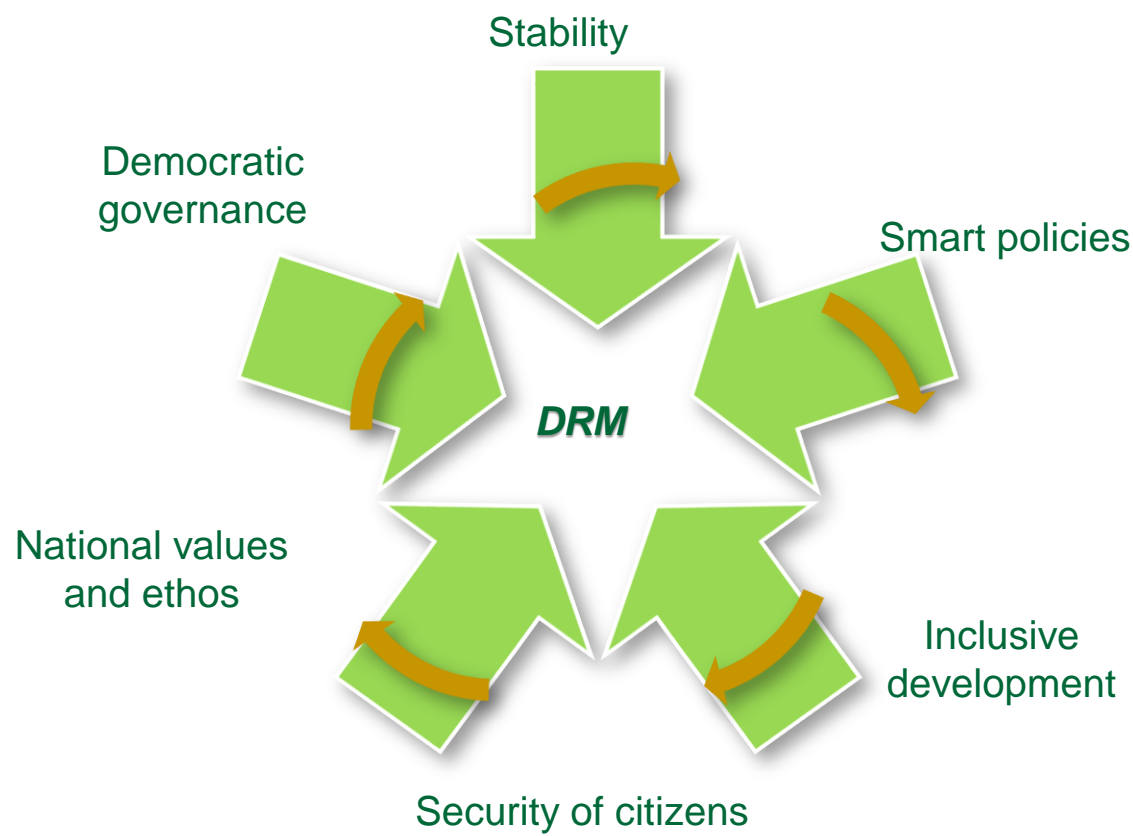
## Importance of DRM

DRM is crucial for sustainable country development. It



Importance of DRM

DRM is crucial for sustainable country development. It is dependent on



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
- Namibia
- Ghana

**Elevated/ high warning:**

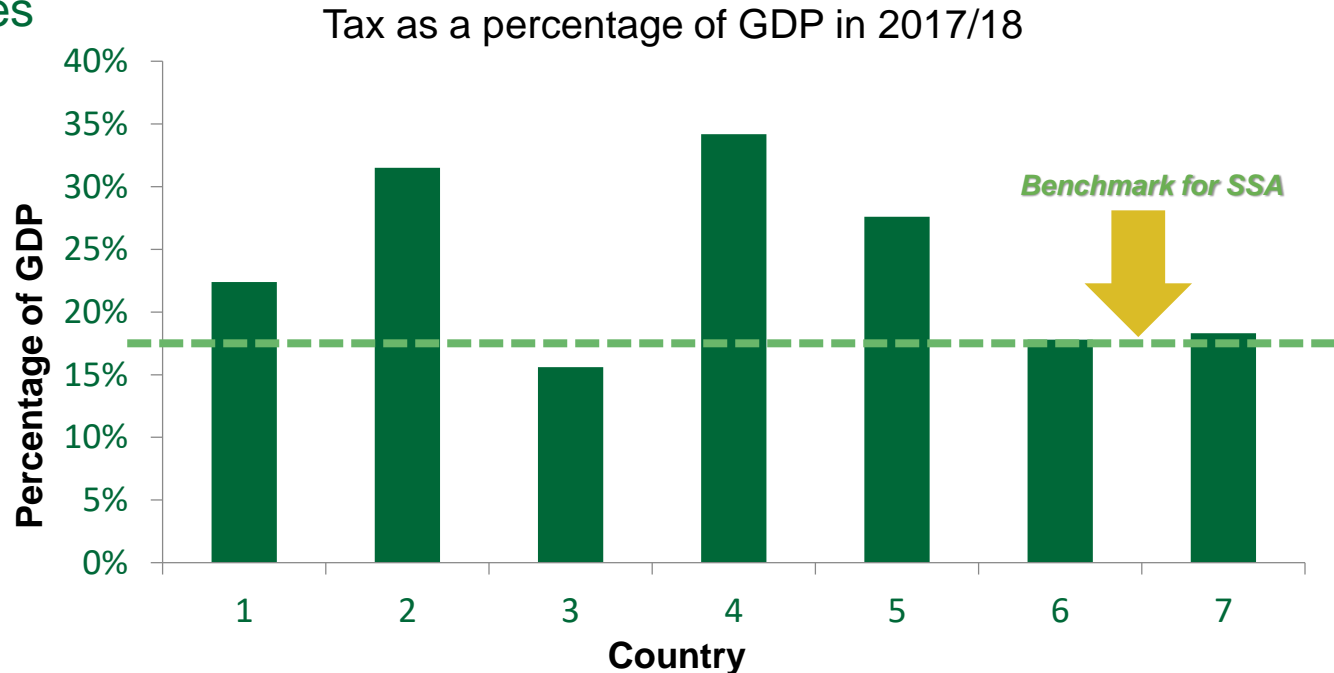
- South Africa
- Rwanda
- Zambia

**Alert/ high alert/ very high alert:**

- Liberia
- Democratic Republic of Congo (DRC)
- Guinea
- Somalia

## Performance of select countries

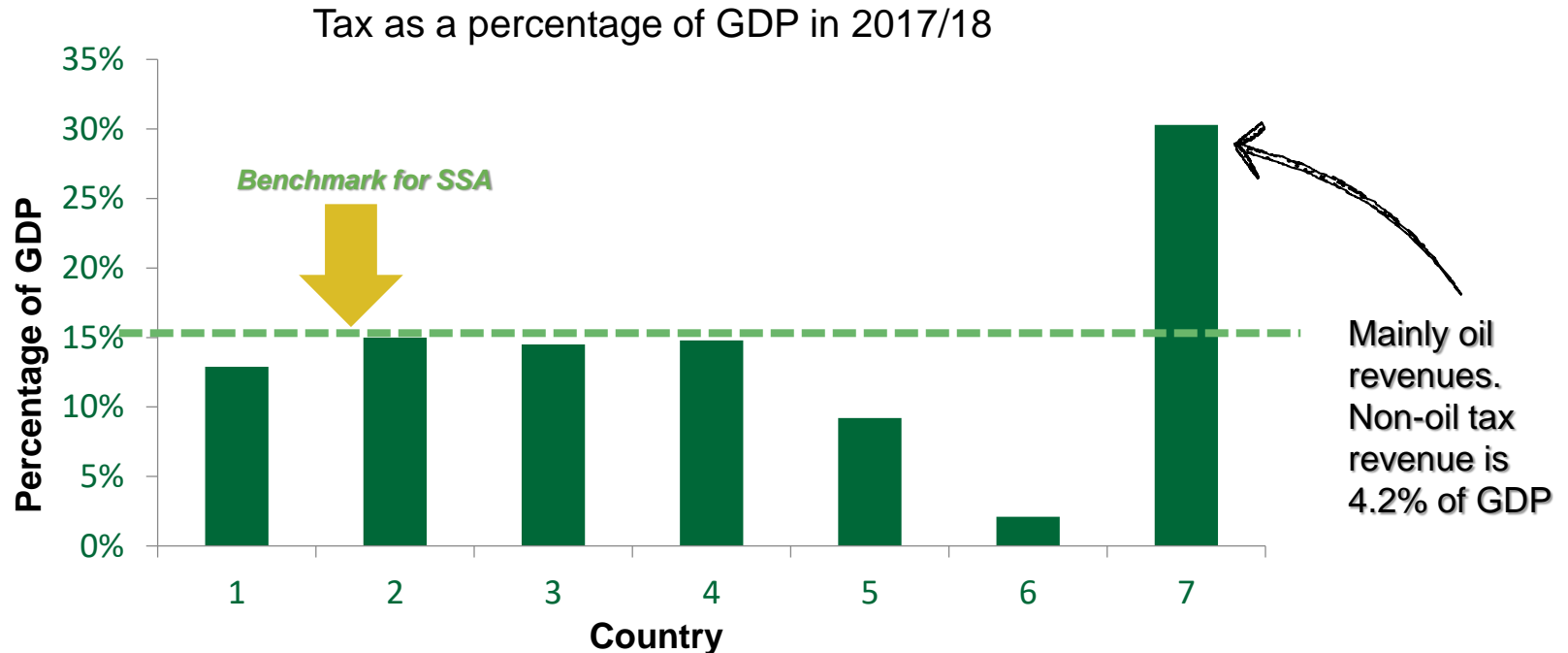
The level of revenue collections as a percentage of GDP tends to be higher in more stable countries. See chart of select more stable, warning and high warning countries



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

## Performance of select countries

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



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

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

Source: AfDB (2011) *Domestic Resource Mobilisation for Poverty Reduction in East Africa: Lessons for Tax Policy and Administration*. Tunis: African Development Bank Group.

Getting the political economy dynamics right

Rwanda'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.*



The National Taxpayers' Day which is graced by the President of Rwanda and/or other top political leaders

The Annual National Leadership Retreat

Sources: AfDB (2011) *Domestic Resource Mobilisation for Poverty Reduction in East Africa: Lessons for Tax Policy and Administration*. Tunis: African Development Bank Group; IMF (2018) *Rwanda: Eighth Review Under the Policy Support Instrument and Request for Extension, and Third Review under the Standby Credit Facility – Press Release; Staff Report; and Statement by the Executive Director for Rwanda*. Washington D.C.: International Monetary Fund.

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

Country	Tax effort	VAT gross compliance ratio (VATGCR)
Namibia	0.71	67.81
Zambia	0.43	45.19
Rwanda	0.37	34.23
Liberia	0.47	-
Uganda	0.33	29.35
Guinea	0.35	-
DRC	0.28	-
CAR	0.28	-

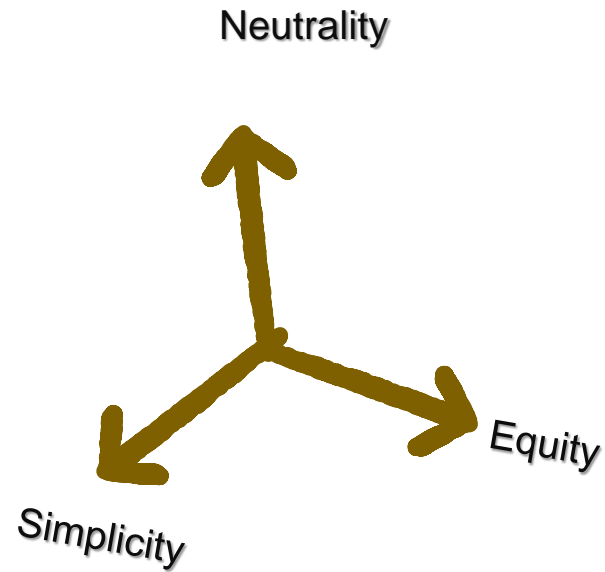
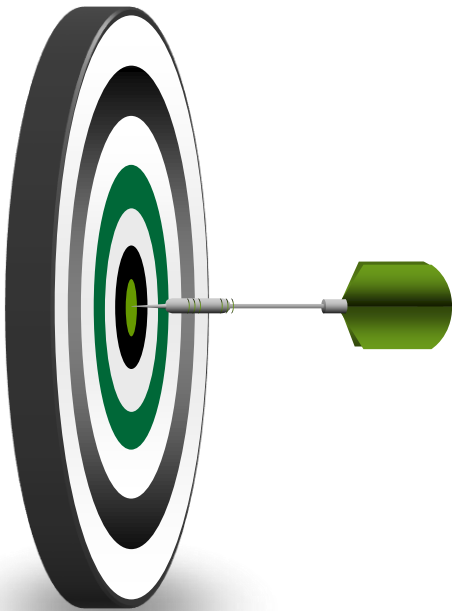
Tax effort - the ratio between the share of actual tax collection (as a percent of GDP) and the predicted tax capacity jointly obtained with tax capacity using the Stochastic Frontier approach. A low tax effort is the case when the index is below one indicating there is substantial scope to raise tax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

Source: <https://www.usaid.gov/what-we-do/economic-growth-and-trade/domestic-resource-mobilization/collecting-taxes-database>

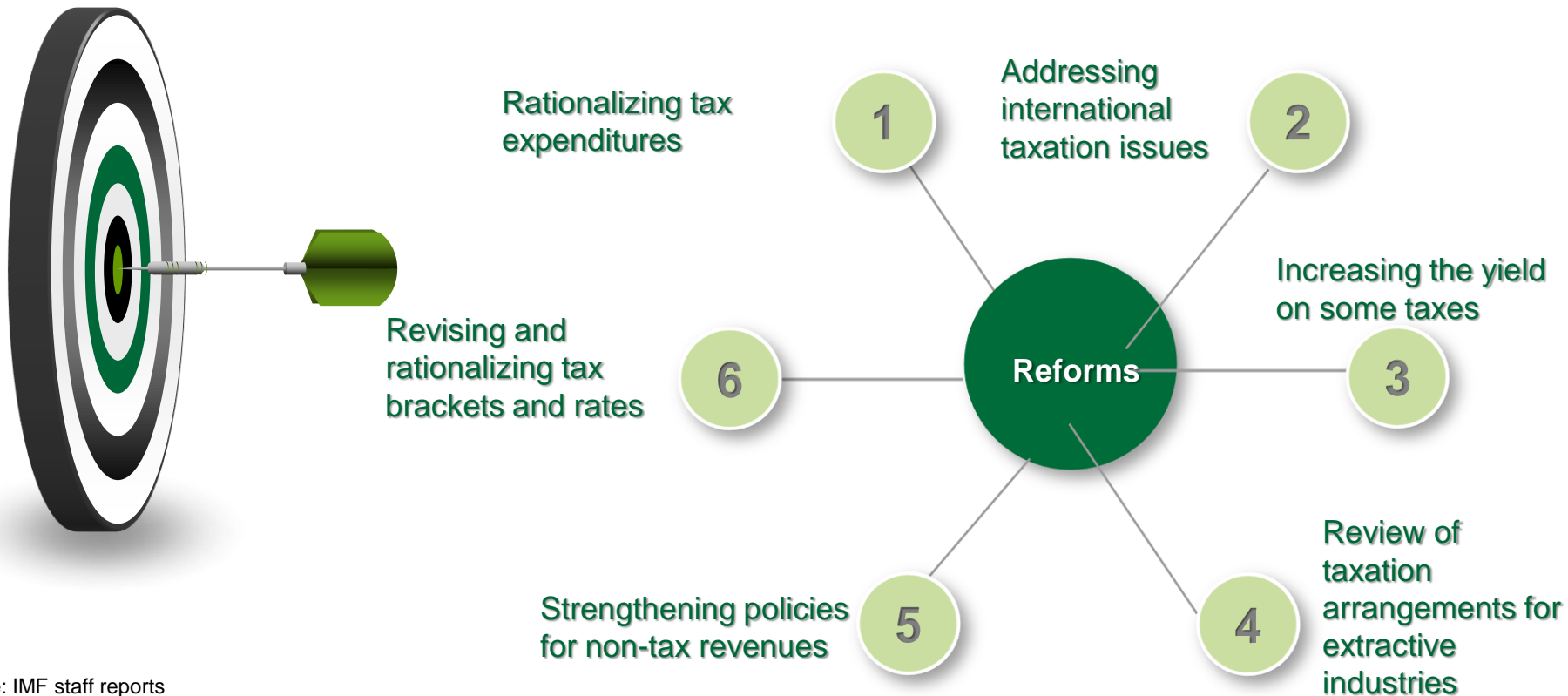
Measures to enhance tax policymaking

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



## 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 – key reform measures include



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

Pillar	Specific intervention
Political leadership and citizen engagement	• Providing strategic oversight of reforms
	• Stakeholder engagement through forums
	• Research and monitoring
	• Harmonization of development partner support
Policy formulation capacity	• Structured tax policy formulation process
	• Periodic reviews of legislation
	• Organizational capacity development
Tax administration	<ul style="list-style-type: none"><li>• Addressing performance gaps identified during the tax administration diagnostic assessment</li><li>• Organization restructuring and strengthening</li></ul>
Customs administration	<ul style="list-style-type: none"><li>• Strengthening classification and valuation</li><li>• Bolstering monitoring, supervision, intelligence and investigation activities</li></ul>

Institutional and administrative reforms

Gaps in institutional and administrative capacities also hinder the performance of a country's tax regime. Reforms evolve around

Pillar	Specific intervention
Customs administration	<ul style="list-style-type: none"><li>• Streamlining port release processes</li><li>• Organization restructuring and strengthening</li></ul>
Non-tax revenue administration	<ul style="list-style-type: none"><li>• Automation of revenue administration in ministries, departments and agencies</li><li>• Development of operational guidelines</li><li>• Organization restructuring and strengthening</li></ul>

Source: IMF staff reports

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*Merci*

**Thank you**

*šukran*

**Asante**

Obrigado



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