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Building Capacity for Domestic Resource Mobilization: The Role of the Civil Society

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The Issue

With the recent adoption of the Sustainable Development Goals (SDGs), and the commitment of Africa to implement Agenda 2063, which is the continent's development blueprint, domestic resource mobilization becomes a crucial issue. Given the background that most African countries did not fully achieve the Millennium Development Goals (MDGs) due to over- reliance on donor resources, enhancing domestic resource mobilization in Africa becomes a necessity. Domestic resource mobilization has two elements to its definition: the generation of savings and taxes on one hand and their allocation to economically and socially productive activities. Accountable states and institutions are crucial for the success of domestic resources mobilization initiatives and the curbing of illicit financial flows[1].

However, while it is widely agreed that domestic resource mobilization is the way to go, the **2015 Africa Capacity Report**[2] shows that this may not be achieved because of one missing link: the capacity to do so. It highlights that the civil society, which consists of organized groups and institutions that are independent of the state[3], can play a leading role in bargaining with Government on behalf of the people around effective strategies for mobilizing domestic resource and curbing illicit financial flows in Africa.

The Study

The 2015 Africa Capacity Report, is based on a survey from 45 African countries. It measures and examines capacity in relation to the development agenda in African countries, surveys the state and trends in domestic resources mobilization and illicit financial flows across the continent, and puts together good practices in this area from countries that have been successful in their initiatives.

Key Emerging Issues

State of Domestic Resources Mobilization in Africa: Most countries in Africa are now able to increasingly mobilize domestic resources to finance their own development. For example, African countries collected $503.3 billion in tax revenue in 2013, compared to $123.1 billion in 2012 which is more than a four-fold increase. However a significant proportion is made up of resource rents which are not stable due to volatility of international commodity prices. Resource rents are basically the high taxes governments get from corporations for extracting natural resources in their countries. Due to volatility of global prices for natural resource commodities, the revenues from resource rents also become very volatile. Tax performance in African countries was found to be inefficient and costly with a significant amount of revenue lost due to tax exemptions and tax avoidance. The efforts made in mobilizing domestic resources as proxied by the tax effort index shows that most African countries are not efficient enough, as evidenced in box 1.

Box 1: Tax Collection Effort

The analysis done for 45 African countries illustrated that most countries collected less tax revenue than their potential. Specifically, 27 out of the 45 countries surveyed are regarded as low-tax-effort countries regardless of the fact that some of these countries are rich in resources. This is largely attributed to the structural challenges in these countries, which reduce the capacity of the governments and tax authorities to maximize tax revenue collection. Notably, 97% of the countries surveyed had tax exemptions dedicated to investors which did not really match with the growth in taxes collected over time from the firms being exempted.

The 2015 Africa Capacity Report also finds that citizens are largely reluctant to pay taxes due to lack of transparency in the use of tax revenues, high levels of corruption in government and the lack of awareness on the use of tax revenue. The watch-dog role of the civil society hence becomes critical.

Curbing Illicit Financial Flows: Illicit financial flows from Africa represent a significant loss of taxes that could be used to finance development programs, build infrastructure and finance social services. The Report points out that more financial resources are lost from Africa than the amount of development aid received. From 2005, illicit financial flows (IFF) from Africa were higher than the amount of aid received annually, and grew over time. The IFF total over the period 2003-2012 was estimated at $603.4 billion, against $421.6 billion in official development assitance (ODA). As a share of GDP over the period, IFFs were higher in countries in Sub-Saharan Africa (5.5 percent) than in other continents. Most of the IFFs in Africa emanate from trade misinvoicing (68.2%) while the rest is in the form of illicit "hot money[4]" flows. IFFs are found to be high in countries rich in resources where corruption is also high. Ten countries rich in resources in Africa, which includes Nigeria and South Africa, accounted for 80 percent of the continent's total IFFs in 2012.

Capacity Challenges For Africa In Domestic Resource Mobilization: According to the *2015 Africa Capacity Report*, the key capacity areas that need particular attention for effective domestic resource

1 Illicit financial flows are also discussed because they are a huge loss of domestic resources for Africa.

2 African Capacity Building Foundation, (2015). Africa Capacity Report 2015: Capacity Imperatives for Domestic Resource Mobilization in Africa. ACBF: Harare

3 The civil society refers to a wide array of organizations that is community groups, NGOs, labor unions, indigenous groups, charitable organizations, faith-based organizations, professional associations and foundations. It is a social sphere separate from both the state and the market and these sometimes advance their common interests through collective action (World Bank. 2013. Defining the Civil Society. Available at http://web.worldbank.org/WEBSITE/EXTERNAL/TOPICS/CSO/0,contentMDK:2011499 accessed on 14 January 2016).

4 Refers to illegal transactions like drug selling and money laundering.

mobilization in Africa are around fighting illicit financial flows; improving tax revenue collection; improving financial sustainability; and fighting corruption.

Capacity in the context under discussion has three overriding determinants. First, capacity is determined by the ability of the relevant economic agents (in particular, government and financial sector operators) to perform the necessary intermediation tasks that result in tax receipts and savings. National income and output, being determinants of tax revenue and saving, constitute the second set of determinants of resource mobilization capacity. This, in turn, implies that investment and the efficiency of investment and production matter greatly for resource mobilization capacity. Third, a major determinant of resource mobilization capacity is the willingness of the population's income earners to save and to pay taxes. In this process, the civil society acts as the watchdog of the state activities and advocates that citizens realize the importance of paying taxes.

Capacity challenges in domestic resources mobilization should be understood at all levels of society in African states to curb illicit financial flows. Weak public management structures impede the progressive realization of corruption control initiatives that might be set up to deal with domestic resource mobilization leakages. The civil society has a prominent role to play in creating conducive environments for economic growth by ensuring that there is transparency of the programs implemented in order to ensure efficient tax collection systems. To begin the process of removing these capacity constraints there is need for strong will on the part of the political leadership and resolute support and cooperation of the populace at large.

Governments face challenges in raising finances to implement programs on financial development. As a way of averting the financial challenges, governments could engage the civil society as potential partners in enhancing their capacity in improving domestic resource mobilization policies and in harnessing resources that could be tapped upon.

Box 2:
Selected Country Specific Civil Society Activities

The Trade, Tax and Justice Initiative in South Africa has been mounting national and international educational campaigns that involved local populations. The campaigns were targeted towards the mining sector as a way of advocating for the full payment of taxes. It was also aimed at curbing huge financial outflows from the South African banking sector to the western countries by some of the diamond mines. This advocacy campaign was carried out to enable the local population, the government, and the private sector to understand the bad side of tax avoidance by corporations.

Ghana has adopted a comprehensive National Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Strategy and Action Plan. This is to be used as a framework for strengthening the legal, institutional, and enforcement mechanisms for the prevention of financial crimes. It's also aimed at combating money laundering and the financing of terrorism. The Trade and Debt in Africa Forum, a civil society grouping in Ghana, has been playing a leading role in the advocacy campaigns in the country in order to ensure that society understands the framework.

Civil Society Initiatives in Domestic Resource Mobilization: Several efforts have been made by the civil society in curbing illicit financial flows and creating a conducive environment for domestic resource mobilization. However, the focus has largely been on illicit financial flow advocacy, as opposed to domestic resource mobilization. The box below highlights some of the efforts[5].

Box 2 is an illustration of the advocacy roles that the civil society in Africa can play in supporting their countries to design, implement effective domestic resource mobilization strategies as well as curbing of illicit financial flows. This includes holding governments accountable for fairness in revenue collection and usage.

Recommended Options for Civil Society

For effective domestic resource mobilization and mitigation of resource leakage, the **2015 Africa Capacity Report** recommends that civil society organizations should take action by working closely with Governments and other stakeholders in:

- Undertaking resources audits in all African countries so that the citizens may have an understanding of the available national resource pools and disseminate such statistics freely to the public.
- Advocating for transparency around foreign direct investment – highlighting the incentives and how domestic players are beneficiaries, and how the value-chain of production around societies' natural resources endowments are harnessed to benefit citizens.
- Revealing how seriously government customs services are collecting mandated official import duties/tariffs and how domestic businesses are protected from unfair competition.
- Requesting accountability by all state actors especially those holding public offices where decisions around taxes and resource rents are made.
- Lobbying for access to information on expenditure of resources mobilized by the nation through taxation.
- Developing capacity for the citizens in Africa to demand transparency on revenue collection and expenditure, through advocacy trainings and workshops.
- Advocating for political independence on revenue collection agents and increased accountability.
- Creating awareness campaigns to the citizens on the importance of tax compliance. Civil society organizations can partner with the national revenue authorities to create awareness to the taxpayers of their rights and obligations
- Advocating for stronger legal frameworks against the dangers of corruption, tax evasion and illicit financial flows for tracking, stopping and recovering illicitly flowing resources.

Implications

It seems clear that most countries in Africa are now able to increasingly mobilize domestic resources to finance their own development. However, the potential for mobilizing more remains huge. Some of the challenges to achieving optimality relate to reluctance to pay taxes due to lack of transparency in the use of tax revenues, high levels of corruption in government and the lack of awareness on the use of tax revenue. This calls for the need for capacitating the civil society with the knowledge and advocacy skills around the designing of strategies that will optimise revenue collection in a fair manner while holding governments accountable in the utilisation of revenues. Such advocacy would have to be built on well researched findings.

Relatedly, there is need for governments to recognize civil society groups as important players in the designing and implementation of policies aimed at enhancing domestic resource mobilization and curbing illicit financial flows. This partnership will enable credible, open systems of policy making in Africa. This calls for strong leadership ethos in government as resource mobilization strategies are about developing sound systems of public administration and democratizing the process of resource use in their countries.

5 Source: African Capacity Building Foundation, (2015), Unpublished Country Profiles for the African Capacity Report 2015: Capacity Imperatives for Domestic Resource Mobilization in Africa, ACBF: Harare.