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Research for a fairer world

Recherche pour un monde plus juste

Domestic Resource Mobilization in sub-Saharan Africa: Constraints and Opportunities

Presentation to DeFiNe, OECD,
Paris

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DRM Project Objectives

- Actionable menu of country-level DRM policy options
- Donor strategy for engaging with DRM priorities
- Inform AfDB Country level programming

Why enhance DRM in SSA?

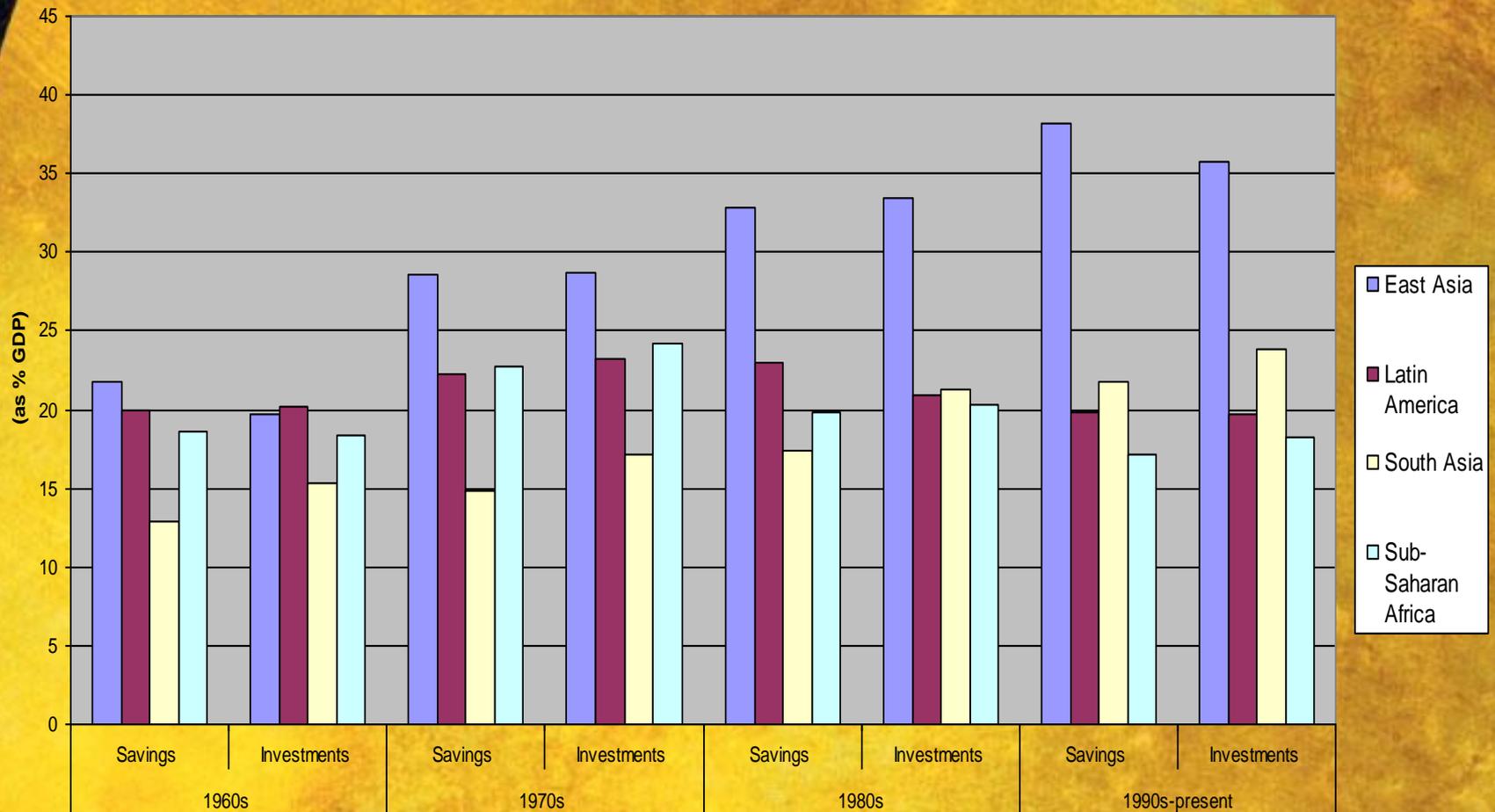
- Elevating domestic savings and investment is fundamental to higher sustained growth and poverty reduction
- It can reduce aid dependence, and increase ownership and policy space
- It can contribute to strengthened governance and democratic accountability



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Why is Enhancing DRM Important?

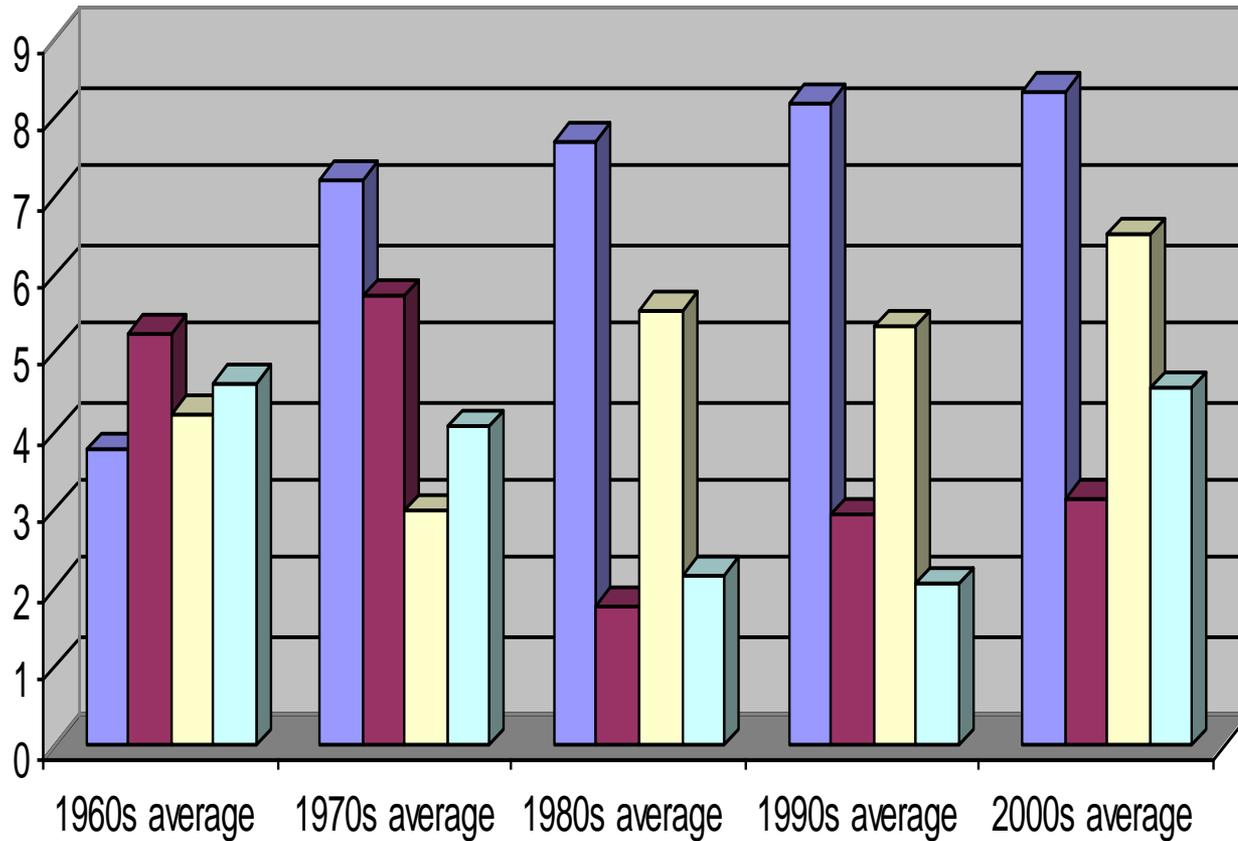
Highly Correlated Savings and Investment





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Why is Enhancing DRM Important?



■ East Asia & Pacific ■ Latin America & Caribbean ■ South Asia ■ Sub-Saharan Africa



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Basic country data (2006)

| | <u>GDP</u> (USD m) | <u>Popula-</u> <u>tion (m)</u> | <u>GNI/cap</u> (USD) | <u>HDI</u> (2005) | <u>Aid/GNI</u> (%) |
|-----------------------|-----------------------|-----------------------------------|-------------------------|----------------------|-----------------------|
| Burundi | 903 | 8.2 | 320 | 0.413 | 47.7 |
| Camer- oon | 18,323 | 18.2 | 2,060 | 0.532 | 9.3 |
| Ethiopia | 13,315 | 77.2 | 630 | 0.406 | 14.7 |
| Tanzania | 12,784 | 39.5 | 980 | 0.467 | 14.5 |
| Uganda | 9,419 | 29.9 | 880 | 0.505 | 16.7 |



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Country Studies matrix

| | Public Sector | Private Sector: formal | Private Sector: informal |
|--|---------------|---------------------------|-----------------------------|
| Binding Constraints | | | |
| Opportunities and recommendations | | | |



Key constraints

| Public Sector | Private sector: formal | Private sector: informal |
|--|---|---|
| <ol style="list-style-type: none">1. Narrow tax base2. High tax rates that incite fraud, evasion3. Loopholes that undermine collection4. Complex tax legislation5. Inefficient and unmotivated tax administration6. Easily available foreign aid7. Corruption | <ol style="list-style-type: none">1. State recourse to bank financing resulting in high interest rates2. Limited competition among banks3. Absence of a capital market4. Highly restrictive monetary policy5. Easily available foreign aid6. High cost of mobilizing rural savings | <ol style="list-style-type: none">1. Non-monetized income of clients2. MFI sector under-equipped and inexperienced |



Key opportunities

| Public Sector | Private sector: formal | Private sector: informal |
|---|---|---|
| <ol style="list-style-type: none"><li data-bbox="227 494 703 708">1. Reform and incentivize tax and customs administration<li data-bbox="227 733 703 893">2. Widen tax base, eliminate loopholes<li data-bbox="227 919 703 1193">3. Simplify tax legislation, eliminate discretionary powers<li data-bbox="227 1219 703 1373">4. Combat corruption and fraud | <ol style="list-style-type: none"><li data-bbox="807 494 1282 654">1. Maintain macroeconomic stability<li data-bbox="807 679 1282 893">2. Increase competition and extend reach to whole population<li data-bbox="807 919 1282 1022">3. Strengthen bank supervision<li data-bbox="807 1048 1282 1150">4. Deepen and widen pension system<li data-bbox="807 1176 1282 1336">5. Use new technologies to lower costs | <ol style="list-style-type: none"><li data-bbox="1387 494 1843 765">1. Deepen regulation and strengthen confidence in MFIs<li data-bbox="1387 791 1901 1005">2. Guarantee mechanisms for small enterprises and farmers<li data-bbox="1387 1031 1901 1302">3. Multidimensional support for MFIs: training, credit lines, audit, guarantees |



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What donors can do (1)

- Recognize DRM as a goal in its own right
- Link to longer-term aid exit
- Support country-led DRM strategies
- Revise budget and program support
- Ensure trade and investment policies are consistent with DRM
- Facilitate remittances
- Identify and repatriate illicit flight capital



What donors can do (2)

| Public Sector | Private sector: formal | Private sector: informal |
|--|---|---|
| <ul style="list-style-type: none">• Help improve tax administration, legislation and enhance public revenue generation. | <ul style="list-style-type: none">• Help deepen the financial sector, improve its efficiency, soundness, regulation and competitiveness. | <ul style="list-style-type: none">• Help MFIs increase borrowing and savings services for the poor, particularly in agriculture sector/rural areas |