FICCI BUSINESS DIGEST

Building capacity for Domestic Resource Mobilization-Learning from Indian experience

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The currentdevelopment agenda is driven by five transformative shifts, first to leave no one behind; second, to put sustainable development at the core, third to transform economies for jobs and inclusive growth, fourth, to build peace and effective, open and accountable institutions for all and fifth, to forge a new global partnership. The 17 specific goals with 169 targets recently adopted by the member countries across the globe binds the nations together under the universal framework of Sustainable Development Goals (SDGs).

According to the African Development Board (AfDB), the transformative vision of the SDGs is to meet the dual challenge of overcoming poverty and protecting the planet, which requires an estimate of 7 trillion USD per year globally out of which around 3 to 4 trillion USD per year will be required for developing countries only to meet basic infrastructure, food security, climate change mitigation and adaptation, health, and education.

Economists across the world advocate that with such large financial implications the world especially the developing part must find ways to raise funds in addition to the available aid. While the debate continues on the financial commitment by the developed countries through Official Development Assistance (ODA) to meet SDG targets, it is recognized that Domestic Resource Mobilization (DRM) will play an important role in achieving the upcoming Goals.

Several studies point that reliance on internal resources through DRM rather than aid ensures better accountability of public policy towards citizens. It is estimated, that every additional money raised through domestic taxation reduces external debt liability up to an equivalent amount, thereby helping to constrain the growth of debt to sustainable levels (Culpeper and Kappagoda, 2007: 16). In the face of these considerations, DRM is inevitable in developing countries.

Most African countries like India are at a critical juncture in their development and steps towards reducing dependency on foreign aid needs to be taken in parallel to increasing public investment in development initiatives. India has been successful in mobilizing domestic resources mostly after the economic liberalization carried in the 1991. India's dependence on the Net ODA has dropped from 1% in 1991 to 0.13% in 2013, (World Bank 2014). The gradual turnaround in the economic situation of India provides for great learnings to Africa, who is experiencing similar conditions which India faced during 2000's.

Some critical steps that African countries must take to enhance DRM are in the areas of 1) Policies through Tax Reforms; Savings; and Pro-Business Reforms; 2) Administrative prudence including measures like Capacity Building & Institutional Strengthening; and lastly 3) Effective Implementation supported by Private Sector; CSOs; Regulatory and Monitoring Bodies.

The Indian story in improving domestic savings can prove to be instrumental in fueling Africa's overall economic growth and poverty alleviation. In India, the biggest source of savings is the household sector, followed by the private corporate sector and the public sector. The Self Help Group (SHG) Model, which promotes - thrift and credit, financial literacy, financial inclusion amongst women living in poor communities who otherwise do not have access to savings provides an opportunity to also enhance the share of Household savings. Recently, under the Knowledge Partnership Programme, IPE Globalfacilitated the development of an action plan to adopt a SHG based empowerment program, called Kudumabshree, in two regions of Ethiopia.

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Taxes are an important domestic resource and have a role to play that is distinct and complementary to the role of household and private savings. Most importantly, taxes and other government revenues should fund the provision of essential public goods such as education and health services, infrastructure development and maintenance, law and order, and efficient public administration. In India, tax reforms involving lowering of tax rates, broadening the tax base and reducing loopholes are undertaken and are successful in raising the tax ratio in the case of personal and corporate income taxation.Most African countries collect only a fraction of potentially available taxes. While some countries such as Botswana have a high tax revenue to GDP ratio (27% in 2012), there are many African countries whose performance is closer to Chad's tax ratio of 4% of GDP. Hence, the efficiency and effectiveness of the tax system can be considerably improved in many countries through tax policy innovations. Instruments like Technology Transfer and Knowledge Sharing in areas of tax reforms provide the developing countries with opportunities to engage with each other in addressing domestic issues.

For the post-2015 agenda, one of the key building blocks of governance are fiscal accountability and transparency. For both, India and Africa to be able to successfully manage their own resources to their best interest, there is a need to provide a mechanism to guide against mismanagement and misallocation of scarce resources. At the same time, in the drive for good governance, in order to promote transparency and reduce corruption, civil society organizations (CSOs) can play an important role in planning, monitoring and evaluation processes in India and Africa. CSOs can contribute to SDG-based poverty reduction strategies in at least four ways: publicly advocating for pressing development concerns, helping design strategies to meet each target, working with governments to implement scaled-up investment programs, and monitoring and evaluating efforts to achieve the Goals. Under the aegis of South – South Cooperation both the regions can benefit by sharing experiences and helping each other in achieving common goals. ■

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