FINANCING POVERTY ERADICATION: DOMESTIC RESOURCE MOBILIZATION AND OFFICIAL DEVELOPMENT ASSISTANCE

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What is DRM?

Agenda 2063 defines domestic resources mobilization as “the savings and investments generated by households, domestic firms, and governments…. DRM offers the advantages of greater domestic policy ownership and greater coherence with domestic needs”

OSAA report 2023: *Financing for Development in the Era of COVID -19: The Primacy of Domestic Resource Mobilization* adopted a holistic definition that covers both of the revenue and expenditure sides of DRM. Besides ensuring ownership, this definition provides a broad scope for understanding DRM and the challenges and opportunities of both sides of revenue and expenditure in the continent.

What is DRM?

DRM is not only finances, but also more effective and inclusive means of channeling funds (including financial institutions and markets, and banking financial services) to where they can be more effective, and where there is failure in harnessing an efficient allocation of the needed resources.

DRM means increasing efficiency of public expenditures and better use of resources to achieve high quality results and outcomes in education, health, food production, social protecion, employment and job creation, etc

Concerns and Commitments

Concerns on financing poverty eradication in Africa can be traced back to the MDGs era 2000-2015. Assessments undertaken on implementation of the MDGs show:

1. **Slow progress on achievment of the MDG**
2. **More actions are needed on national ownership and fostering of pro-poor and socially inclusive sustainable economic growth**
3. **Encouraging DRM and delivering on ODA**

Concerns and Commitments

Agenda 2030 and SDGs have:

1. Expanded scope and scale of financing for development. **The Addis Ababa Action Agenda have emphasized the need to mobilize domestic resources**

2. The cost to achieve the SDGs in Africa by 2030 has been estimated by UNECA at $ 1.3 trillion a year and could increase to $19.5 trillion as a result of high population growth

Resources mobilization strategy for Agenda 2063

According to the first ten-year implementation plan 2014-2023, domestic resource mobilization is "meant to contribute at least 75% to 90% of the financing of Agenda 2063 on average per country" namely through:

1. **enhanced fiscal resource mobilization,**
2. **maximization of natural resource rents**
3. **leveraging of the increasingly important pool of African institutional savings – pension funds, central bank foreign exchange reserves, sovereign wealth funds and capital market development;**
4. **enhanced retail savings mobilization through financial inclusion;**
5. **curbing of illicit financial flows;**
6. **reduction of inefficiency and governance/corruption-based financial leakages and wastages – government, infrastructure services, agriculture value chain, etc.**

Resources mobilization strategy for Agenda 2063

The external sources of finance for Agenda 2063:

1. **FDI, official development assistance (ODA);**
2. **financial cooperation from emerging development partners such as BRICS countries, Arab world, etc.;**
3. **Public private partnerships and other forms of investment partnerships;**
4. **leveraging of Diaspora remittances and savings;**
5. **Improved access to the international financial markets**

<u>How *COVID-19 impacted on DRM and ODA in Africa? What are the Future Prospects?*</u>

1. **COVID-19 has reshaped the landscape of finance for development in Africa. While it has weakened the sources of finance and widened the finance gaps, it has opened new opportunities for recovery.**

2. **Real GDP growth have declined by an average of 2.2% in 2020. It has recovered to 3.8% in 2021 and is projected to reach 3.6% in 2023. Africa requires additional funds of about $ 285 billion to increase spending to counter the impacts of the pandemic**

3. **The pandemic have negatively impacted on domestic (revenues, private savings, etc.) and external financing (FDI and ODA). However, domestic financing remained the largest source of finance in the continent.**

How *COVID-19 impacted on DRM in Africa? What are the future prospects?*

4. low tax to GDP ratio (16% in 2019), which means the continent have limited financial resources to spend on education, health and social protection
5. Inefficiencies in the tax revenue systems in the continent are reflected in high levels of tax avoidance and tax evasion, weak linkages of taxes to development activities, and weak administration of taxes. Also, tax collection is expensive.
6. Public expenditure suffers from considerable waste. The average efficiency score of public spending in Africa is 0.585 compared to 0.825 for developing countries.

How *COVID-19 impacted on DRM and ODA in Africa? What are the Future Prospects?*

7. **domestic savings remained steady at 20.1% of GDP, but are much below other developing regions There is high potential to increase domestic savings through increasing the use of mobile technology to extend financial services to a large number of people, especially the poor and vulnerable ones**

8. **Stock market shares have reached $1.43 trillion in 2021 and pension funds have reached $1.1 trillion in 2020. However, both these two sources of finance are low compared to Asia and the Pacific. While participation rates in pension funds are low, partly because of high informality of the economies, the market shares are constrained by the inefficient banking systems.**

How *COVID-19 impacted on DRM and ODA in Africa? What are the Future Prospects?*

9. **Africa's share of global FDI flows is marginal (4% in 2020), and the total FDI flows to Africa have declined to $ 39.8 billion due primarily to the pandemic. FDI flows to SDGs related sectors fell considerably in 2020. There are opportunities for increasing FDI flows to Africa, and for directing FDI to high growth sectors (industrial sector, infrastructure, energy and human resources development).**

How *COVID-19 impacted on DRM and ODA in Africa? What are the Future Prospects?*

10. **External debt is growing rapidly. As a percentage of GDP, external debt have increased from 20% in 2010 to 45% in 2020, and external debt service have jumped from 3.5% to 6.3% for the same years, respectively. Rapidly growing debt is a cause of shrinkage in the fiscal space. In other words, the debt service could have been invested in the production sector to support economic growth, and to financing SDGs related sectors such as health, education and social protection.**

How *COVID-19 impacted on DRM and ODA in Africa? What are the Future Prospects?*

11. **Africa is the largest recipient of ODA, which reached $42.9 billion in 2020. However, this financial disbursement is below the 0.7% target of gross national income, and insufficient for meeting the huge financial needs of the continent. There is need to unlock the resource potentials of ODA to support economic growth and DRM.**

How *COVID-19 impacted on DRM and ODA in Africa? What are the Future Prospects?*

12. **The African diaspora, who have doubled in size from 14.6 million in 1990 to 40.6 in 2020, are an important source of finance for poverty eradication in the continent. Total remittances to Africa were $67 billion in 2016 and $87 billion in 2019. They have declined by 4% in 2020 due to the pandemic. However, they have increased to $91 billion in 2021. However, the flow of remittances to Africa are constrained by high transaction cost of about 8%, which is higher than target of 3% (SDG10.c).**

How *COVID-19 impacted on DRM in Africa? What are the future prospects*

13. **Illicit financial flows pose serious challenge to domestic resource mobilization in Africa. The financial outflows from Africa are estimated at $129 billion in 2012. Throughout the period from 1970 to 2018 Africa lost a total of $2.0 trillion. The annual financial outflows from Africa far exceed the annual inflows of FDI ($54 billion) and ODA ($48 billion).**

How *COVID-19 impacted on DRM in Africa? What are the future prospects*

14. **DRM needs to be strengthened by innovative partnerships at the regional and international levels, to create more fiscal space for financing the SDGs, especially poverty eradication.**
15. **Domestic partnerships have been described in Agenda 2030 and the SDGs: in the form of a new social contract between government and people.**

How *COVID-19 impacted on DRM in Africa? What are the future prospects*

16. **The regional partnerships mentioned in Agenda 2063 include free movement of people and goods, open skies agreements, African Continental Free Trade Area, and African financial institutions, among others. The regional partnerships will facilitate domestics resource mobilization across the continent**
17. **international partnerships are needed to improve the international tax cooperation and stemming of illicit financial flows. They are key for securing concessional financing and for ensuring debt sustainability, besides accelerating technology transfer and knowledge sharing, all of which will enhance the production capacity in Africa.**

Recommendations

1. **Efforts must be taken to strengthen domestic resource mobilization and improve the alignment of national budgets and strategies with the Sustainable Development Goals**

2. **fast-track the adoption of e-procurement services and e-government in general by 2026, to promote transparency and accountability and improve overall efficiency**
3. **African countries must digitize their revenue collection system by 2024 to build strong domestic resource mobilization systems**

Recommendations

4. **Addressing income poverty must be a national development priority. African countries need to succeed in increasing the income levels of the poor people, and in uplifting more and more of them out of the poverty trap.**

5. **DRM for financing poverty eradication should be multisectoral, mainly because poverty is multidimensional and the SDGs framework covers the whole spectrum of development policy.**

6. **The DRM financing strategies should cover sector-related development dimensions such as food production, hunger, poor health, homelessness and inability to meet basic human needs (humanitarian assistance).**

Recommendations

7. it is important to ensure that all financing strategies are friendly and do not hurt the poor and vulnerable people. Ensure that financing for development contributes to building the resilience of the poor and vulnerable to the multiple repercussions of unexpected shocks and crises.
8. Besides the need for financial planning and strategies to address emergencies when they occur, building resilience of the poor and vulnerable people will help to stop deterioration and to sustain the gains made in the development agenda

Thank you