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Catalyzing the SDGs through Expanded Domestic Resource Mobilization

1. Africa's Resource Mobilization Challenge

As the global community pushes towards achieving the Sustainable Development Goals (SDGs) by 2030, it is crucial to leverage sources of alternative development finance, particularly through domestic resource mobilization (DRM) efforts. Although an important source of finance, DRM - the revenues that a country generates internally - has not always been given the attention it deserves in the African and global development framework. At present, African governments have the following key means of raising domestic resources:

• Taxation is the main source of revenue for most African governments and it comes in the form of direct, as well as indirect, taxes levied on companies and individuals. For governments to realize enough income through taxation, the country needs robust expansion in its taxable economic activities. As such, there is a close linkage between economic growth and the expansion of the tax base. Nevertheless, many developing African countries perform sub-optimally on the tax collection front, with tax-to-GDP ratios significantly lower than their global peers and with an over-reliance on consumption taxes.

• Private business activity such as investment and innovation are also major economic drivers with the potential to promote productivity, inclusive economic growth and job creation. Private businesses also contribute to wealth creation through the development of infrastructure such as roads, buildings, schools and hospitals.

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• Appropriation in aid is money paid to governments in the form of user fees for public services as well as fines in courts. However, user fees in essential services are known to deny poor people, especially women and girls, access to essential services such as health care and education.

• Trade is an important tool for development as it cuts across every facet of life at the household, national, regional, and international levels. At the household level, trade enables families to build assets while international trade in local products such as milk, coffee, tea, and cotton earn a country foreign currency.

• Natural resources, if well managed, are a major source of revenue for national governments. Africa has large quantities of natural resources that include diamonds, salt, gold, iron, cobalt, uranium, copper, bauxite, silver, petroleum, cocoa beans, forests and water, among others. However, the continent's overall development prospects are dimmed by the entrenched challenge of the "resource curse", namely the mismanagement of Africa's natural wealth, little value addition and the poor record of optimizing the development finance opportunities offered by these natural riches.

All of these means, properly harnessed and managed, are promising sources of finance for implementing the SDGs in Africa. Yet, given this broad base of DRM sources, why have governments failed to effectively mobilize and manage resources raised locally? There are two key reasons. First, widespread underdevelopment means that African governments are often unable to mobilize revenues on the scale that is needed. This challenge is exacerbated by global economic and financial headwinds such as trade imbalances, fluctuations in oil prices and currency swings, together with the attendant economic instability that confront many African countries.

Second, leakages and loss of public funds through corruption, tax avoidance and illicit financial flows (IFFs) further aggravate the situation. Kenya alone loses almost USD 6 billion a year through corruption, while the African continent is believed to lose around USD 50 billion a year through IFFs. The scale of this challenge prompted African civil society representatives and some African states, during the Financing for Development (FfD) conference in Addis Ababa in July 2015, to call for the creation of a global tax body within the UN to curb illicit capital flows and to track diverted funds. This idea remains a bone of contention in the Addis Ababa Action Agenda (AAAA). Notably, the Organization for Economic Co-operation and Development (OECD) countries feared that such a global tax body might single out and constrain their corporate players who continue to face criticisms over their perceived tax avoidance activities in developing countries. African states and the African Union (AU), however, failed to speak with one voice on the issue of illicit financial flows. Furthermore, in an attempt to attract foreign direct investment (FDI), many African countries have encouraged unhealthy tax competition as well as granted undue tax incentives to multinational companies such as tax holidays. These practices result in loss of government revenues and are unlikely to provide a stable base for the accumulation of public finance on the scale needed to realize the SDGs across all of Africa's fifty-five countries.

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Overcoming these challenges is critical for African countries leverage more domestic resources and to make progress on the SDGs. In this context and given, for instance, the dim prospect for a global tax body, African policymakers should move forward in two key areas: 1) Strengthen the role of the private and philanthropic sectors in fostering sustainable development and 2) push for greater regional alignment in Africa to spur sustainable economic activity.

1.1. The Role of the Private and Philanthropic Sectors in Sustainability and Expanded DRM

Private sector contributions are crucial for achieving the SDGs. However, there needs to be a rejection of the notion that the private sector is only an engine of growth, a repository of latent development-enabling innovations, and a source of expertise and funding that governments and multilaterals can tap into. This is not enough. Rather, it is imperative for the private sector to proactively alter its own DNA and the way it operates by adopting sustainability- and development-focused business models. Companies should go beyond the ad-hoc budgetary allocation to corporate social responsibility (CSR) and corporate social investment (CSI) initiatives and instead look for opportunities within their core operations to consistently deliver sustainability gains within the company and for the benefit of populations in the surrounding communities. For example, expanding corporate provision of seed capital and market opportunities for local producers of goods and inputs required by companies can boost local productivity and sustainable supply chains. This corporate transformation calls for a "new normal" mindset among corporate executives which prioritizes CSI interventions, equitable corporate tax contributions, sustainable labor policies, enhanced public-private-partnerships (PPP), and other similar levers at the disposal of the corporate sector.

Furthermore, there is a need to better target philanthropic contributions and similar innovative financing sources to upgrade to newer generation CSI interventions and SDG-supportive public-private-partnerships. These can deliver lasting benefits in areas like optimized regional energy pools and augmentation of other shared infrastructures at both the transregional and domestic levels.

Advances in these areas have already been made through initiatives like the United Nations Global Compact. However, there remains ample room for improvement, for example through the adoption of corporate sustainability principles within the leading global corporations. On the ground, individual philanthropic organizations, which are increasingly well-resourced, must coordinate more closely with governments to ensure greater alignment and synergies between philanthropic activities and the overall national development blueprint and vision.

1.2. Enhanced regional alignment

A vital catalyst for greater domestic resource mobilization will be Africa's push towards a more regional mindset in governments' collective efforts to address key economic and sustainability challenges. This vital dimension remains a key step for developing countries as whole in their journey towards a more sustainable future. The potential catalyzing effects of a more regional outlook on sustainable development are apparent on many levels, especially in areas such as more open borders and better integrated regional economies.

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Furthermore, meaningful regional and continental policy alignment and collaborative action will also help to discourage countries from adopting lower investment standards which lead to a race to the bottom, promote closer alignment in areas such as corporate taxation, enable the establishment of clearer standards, lift barriers to commerce, and enhance Africa's attractiveness to corporate leaders seeking a bigger market. Alignment on a regional level can also help to optimize private sector contribution to the SDG in areas such as cross-border infrastructure investments, sustainable energy planning and others.

2. Policy Recommendations

To achieve greater domestic resource mobilization and, in turn, the realization of the SDGs, African countries should focus in particular on 1) overcoming underdevelopment and promoting sustainable development through enhanced regional alignment; 2) fostering private and philanthropic resource mobilization towards the SDGs; and 3) addressing corruption, tax avoidance and illicit financial flows.

Overcome underdevelopment and promoting sustainable development through enhanced regional alignment

• African governments should adopt a broader approach to sustainability, including addressing more seriously the regional dimensions of policy-coherence to create synergies, for example, within more integrated regional energy pools that can support accelerated achievement of SDGs energy targets.

• Bring to fruition the proposed African protocol on Freedom of Movement and Right of Settlement.

• A strengthened intra-African framework, in complement to the above, is needed to lead activities on monitoring and transparency around the issue of domestic resource mobilization and the appropriate use of resources. Transparency-promoting measures such as the Africa Extractive Governance Monitoring Framework led by the UNECA, among others, should be expanded and strengthened with the full participation of civil society organizations (CSOs) to ensure that governments and corporates actually comply with existing regulatory frameworks.

• Global FDI flows, which were near USD 3 trillion in 2014, have seen a perceptible dip in the aftermath of the global commodity crisis since mid-2015. When global FDI flows resume, as market indicators suggest, they need to be more strategically channeled in partnership with private sector players to increase the quality of FDI coming into Africa, particularly in ways that are more supportive of Africa's progress on the SDGs.

• African countries should work more closely together to identify and communicate best practices from across the region on how foreign direct investments can better contribute to sustainable development. Setting up a technical advisory body with a clear mandate from the AU to monitor and advise governments on competitiveness and investment best practices may help to improve outcome for many African states.

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Foster private and philanthropic resource mobilization towards the SDGs

• Companies and philanthropies should be incentivized, especially by the African public, to mainstream a sustainability focus at all levels of policies, planning, and execution to aid SDG progress. A positive example in this respect is how shareholder pressure led to Exxon's abandonment in December 2017 of its long-standing opposition to publishing an annual assessment of the impact of climate policies on its business.

• Companies should elevate development and sustainability experts into the highest echelon of business decision-making and, in doing so, promote a more meaningful, systemic, and impactful focus on sustainability in the long-term.

• Businesses with good practices in this area should actively demonstrate the links between sustainable business approaches and superior long-term business performance and returns and, at the same time, try to quantify these accordingly.

Address corruption, tax avoidance and illicit financial flows

• A more inclusive global partnership for greater DRM is needed, particularly in areas such as addressing IFFs. This requires clearer commitment and measurable action plans towards reducing illicit flows by governments, corporates and diverse stakeholders.

• The AU should bolster intra-African capacity to effectively address IFFs on the African continent in order to demonstrate Africa's resolve on this issue and to help prepare the ground for more meaningful cooperation with partners such as OECD countries. In particular, African governments should speak strongly with one voice on the need for a global tax body within the United Nations to curb illicit capital flows and to track diverted funds, as recommended during the Financing for Development conference in Addis Ababa.

• African governments should pursue shared standards on corporate taxes at the African sub-regional levels as a first step towards reaching broader continental agreements on tax harmonization and curbing IFFs.

There is a need to aggressively expand multilateral and industry-led efforts to more effectively tackle corrupt practices and IFFs associated with big corporate players. These have undoubtedly hobbled the capacity of many developing countries to mobilize financing towards the SDGs.

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