

Institutional and Financing Capacity for Domestic Resource Mobilization

The institutional capacity for domestic resource mobilization will exist once the appropriate **processes, rules, and organizational arrangements**, to perform the required tasks adequately, are all in place. Such institutional capacity will ensure that optimal policies to perform the tasks are designed and implementation is as complete as necessary.

The **tasks to be performed**, for domestic resource mobilization, are the nine items of the action plan, namely: 1) addressing corruption resolutely; 2) improving the policy environment for economic growth; 3) stressing private sector development in economic policymaking; 4) addressing some core financial sector development issues; 5) addressing tax policy—both tax structure and tax administration; 6) pursuing legal system reform—both law reform and the functioning of the organizations and bodies of the system of law enforcement; 7) raising government efficiency in project selection and service delivery; 8) cooperating with international organizations and bodies, as well as with foreign governments, focusing on incentive, regulatory and investigative mechanisms, particularly to fight illicit financial flows; and 9) establishing, nationally, a cooperative structure—involving government, business and civil society—to address the above issues on a continuous basis.

The **processes** are extremely important. A crucial characteristic of the processes that get established is the nature of the *cooperation* involved. This, in turn, will affect the *legitimacy* and *societal support* for the processes and hence for the rules and organizational arrangements that ultimately emerge. Elements of process include *decision-making procedures* and the *incentive structures* used to elicit cooperation—in particular, the relative roles of personal self-interest, national pride, and trust.

The **rules** will consist of the laws and regulations that address the elements of the action plan. The **organizational arrangements** will assign tasks and powers to various governmental bodies (ministries, departments, and agencies); spell out the degree and nature of political and fiscal decentralization in performing the tasks; and create national cooperation bodies (councils, committees, working groups, panels, etc.) to oversee the whole institutional process. Providing appropriate resources to do the work will also constitute an element of the organizational arrangements.

The **objective of the country**, then, should be, for each of the nine items in the action plan, to put in place processes, rules, and organizational arrangements that are legitimated by the populace at large and hence are fairly assured of appropriate societal support at the implementation stage. **Legitimation** typically entails citizens' consent (or approval) without coercion. Such consent comes via several procedures, namely, open discussion and deliberation, voting, and overwhelming demonstration of support in parliament, in the newspapers, and in civil society voluntary organizations.

The finance for capacity building will come from **taxation** of domestic income, **saving** of the population, **government reallocation of expenditure**, and **foreign aid**.

Success in governance and in improved economic policies should lead, simultaneously, to spikes in domestic investment, production and national income; an increase in tax revenue relative to taxable income; and a jump in the saving rate. These positive effects, perhaps small in the first few years, will lead to a virtuous circle allowing the financing and the capacity building to increase over time.

To get the process going does not require increased government expenditure, only a reallocation of that expenditure and a re-ordering of priorities. Although all the nine items of the action plan need to be addressed immediately, to get the vicious circle started promptly, particular urgency should be placed on the first three, namely: 1) addressing corruption resolutely; 2) improving the policy environment for economic growth; and 3) stressing private sector development in economic policymaking. Once these get going, the additional tax revenue and saving will begin to be realized.

The additional foreign aid could be mainly in the form of technical assistance financed primarily by grants. Such foreign aid could come from multilateral organizations like the World Bank, the International Monetary Fund, and the African Development Bank. But bilateral aid from countries such as France, Japan, UK, and the US, as well aid from regional organizations such as the Organization for Economic Co-operation and Development, can also be useful. The authorities should decide on the nature of the aid they would like and prioritize them. They should then also decide on which aid agency/agencies they would like to approach to provide a particular type of aid.