

Peacebuilding Commission Working Group on Lessons Learned

The PBC's role in resource mobilization: Domestic resource mobilization

Chair's Summary

I. Introduction

1. On 10 July 2013, the Working Group on Lessons Learned (WGLL) of the Peacebuilding Commission convened a meeting to discuss the role of domestic resource mobilization in post-conflict countries and the possible role of the PBC as a platform to help mobilize these resources in the countries on its agenda.

2. The Commission has focused its attention on the mobilization of external resources since its inception. In this context, the WGLL has recently organized a meeting (3 April 2013) on the organization of donors/partners conferences and, last year, it held a discussion on mapping aid flows to identify overlaps and gaps in funding. Furthermore, the PBC is also in the process of identifying ways to strengthen its partnerships with the private sector in order to promote responsible investments in the countries on the Commission's agenda.

3. However, as noted by the Chair in his opening remarks, it is also important to focus on internal and domestic resource mobilization in order to 1) allow a country to identify and pursue predictable and sustainable sources of funding; and 2) allow a country to use the revenue raised in a way which strengthen the social contract and the trust between government and citizens. In order to gain a better understanding of the challenges and opportunities of internal revenue collection, the Chair noted that the discussion would focus on three main issues:

- The potentials of an improved domestic revenue collection system, with particular attention to the most recent experience in Burundi and in Rwanda;
- The impact of a strategic approach to sustainable public expenditure in key peacebuilding priority areas, such as the security sector, building on the case of the Public Expenditure Review in Liberia;
- The role that development partners can play in the strengthening of government institutions and ensuring sustainability.

4. The Chair invited the following panelists to reflect on the subject:

- Mr. Kieran Holmes, Commissaire General, Office Burundais des Recettes.
- Ms. Jariya Hoffman, World Bank, Liberia (via video-link).
- Ms. Eri Komukai, Japan International Cooperation Agency.

Respondents

- Mr. Gjermund Saether, Ministry of Foreign Affairs, Norway.
- Ms. Judy Cheng-Hopkins, Assistant-Secretary-General, PBSO.

II. Presentations by Panelists

5. **Mr. Kieran Holmes** opened his presentation by identifying the importance of post-conflict reconstruction through efficient tax collection. He noted that of the three important revenue flows, i.e. aid flows, diaspora remittances, and tax revenues (both fiscal and non-fiscal), countries have the most to gain by mobilizing domestic revenues. Mr. Holmes also reflected on the successes that were attained in Rwanda, which included a 700% increase in revenues between 2002 and 2010. He noted that the main factors in this success were: (i) donors' commitment for the long term, (ii) strong political support from Rwandan top leadership, and (iii) budget support received from external partners for 19 years. This strategy was, therefore, transferred to Burundi in 2010.

6. Mr. Holmes illustrated the different steps undertaken to improve tax revenues in Burundi. He spoke of the requirements faced during the establishment of the *Office Burundais des Recettes*, such as the human resources needs, infrastructure requirements as well as outreach campaigns aimed at involving the population. He noted that a first crucial challenge they faced was the drafting of new tax laws which would be more simple and harmonized. Subsequently, the Office focused on building local capacities by organizing trainings for officers in a newly built Center of Excellence. Mr. Holmes underlined that another important element considered in the work done in Burundi was regional integration, in particular by trade facilitation and customs between Burundi, Rwanda and Tanzania.

7. Regarding the way forward, Mr. Holmes listed a number of key activities which Burundi should continue focusing on:

- Engage the donor community in order to get the revenue needed;
- Enforce the national zero-tolerance to corruption policy;
- Support harmonization and regional integration by identifying and breaking non-tariff barriers;
- Modernize the human resources policies and procedures;
- Enlist the support of the IMF and World Bank;
- Engage the population at the local level, and further increase transparency.

8. Mr. Holmes concluded his presentation by stressing that: (i) domestic revenue collection enhances national ownership, which is a central component of successful peacebuilding; (ii) it is important for the international community to focus on supporting the capacity of post-conflict countries in fiscal independence; and (iii) it is important to link external assistance to objective indicators for proper public financial management, revenue mobilization and trade enhancement.

9. **Ms. Jariya Hoffman** spoke about the rationale, process and findings of the Public Expenditure Review (PER) that the World Bank (WB) and UNMIL conducted in Liberia in 2012. She noted that, since the end of civil war in 2003, UNMIL have played an important role in supporting SSR in Liberia. In financial terms, UNMIL's assistance to Liberia (peacekeepers, security logistic and equipment, technical assistance) amounts to about \$500 million per annum. However, the planned drawdown of UNMIL could impact Liberia's security capability, due to weak capacity of Liberian security agencies, and the

high cost of maintaining security. Therefore, WB and UNMIL have conducted a PER for the security sector in order to identify financial needs and gaps and provides recommendations to inform the Government of Liberia and the donor community.

10. Ms. Hoffman noted that one of the key findings of the PER was a significant financing gap after UNMIL's initial drawdown in 2012. However, due to the limited resources, needs should be prioritized and scaled down. She also indicated that the recommendations from the PER for the government included allocating resource based on the government strategic priority, prioritizing security needs, and strengthening strategic policy decision making at the National Security Council that include Ministry of Finance.

11. Ms. Hoffman listed three emerging issues:

- An efficient public finance management (PFM) is critical for the security sector;
- Importance of having a robust macro framework to define realistic overall resource envelope and sector ceilings;
- Medium Term Expenditure Framework (MTEF) process requires long-term engagement to strengthen security strategic policy as well as PFM capacity.

12. She also highlighted the impacts of PER:

- Increased budgetary allocation for the security sector in FY2012-13 (from \$68 million in 2011/12 to \$81 mil in 2012/13, and \$83 mil in 2013/14).
- Creation of Security Sector Focal Point in the Ministry of Finance to liaise with security sector agencies during the MTEF process;
- Recognition of the need to strengthen budget, financial management and procurement capacity within security institutions.

13. Ms. Hoffman stated that securing funding from UN-WB Trust Fund and the involvement of a broad segment of stakeholders in the process was critical for the success of the PER. She lastly explained that a major challenge was continuing dialogue with the Ministry of Finance and security sector stakeholders on the need to increase fiscal space not only through increasing budgetary allocation but also by improving efficiency through progress in implementing security sector reform.

14. **Ms. Eri Komukai** presented the effective approaches to enhancing government functions, in particular local capacities, in conflict-affected states. She stated that the challenges for resource mobilization in conflict-affected regions are: (i) Lack of credible plan or strategy which forms a basis for budgeting and (ii) Limited capacity or no resource distribution system from the central to local government. She noted that the inability of the government to deliver services on the ground can create distrust by the community towards the government, and thus undermine revenue collection potentials.

15. Ms. Komukai identified four approaches from JICA's experience which contributed in paving the ground for effective domestic resource mobilization:

- Invest in systems and in enhancing administrative capacities of local government for functioning service delivery, through clarifying the division of labour and

- institutionalizing the system of resource transfers between central and local governments, restructuring and rationalizing the administrative machinery, and providing training for policy formulation, budgeting, resource allocation, and programme management;
- Inclusive project planning based on thorough consultation with various categories of people, as well as fair and equitable distribution of services, which enhance national reconciliation;
 - Capacity building for border and customs management: The customs service is a practical entry point to levy stable revenue in the post conflict period as in the case of East African Community(EAC), since collecting income or corporate tax requires much broader efforts;
 - Using development assistance projects to create a “vanguard” effect of vitalizing private sector activities: for example, a paved road increased access to the market, direct-sales of agricultural products, bike-taxi business, etc.

16. Ms. Komukai concluded that domestic resource mobilization effort should be conceived in a wider perspective by taking into account the above mentioned elements, namely, service delivery, national reconciliation, and economic vitalization. She suggested that while development partners assist in enhancing national capacities in these areas, the PBC could take the lead in pointing to gaps in and supporting the progress made by agenda countries in these areas.

III. Respondents

17. Mr. Gjermund Saether identified “transparency” as a cross-cutting requirement in public financial management. Looking at the experience of Norway after the discovery of oil in the 1970s, he noted that natural resources management should be seen not only as a possible source of political interference and tension but also as another important element of domestic resource mobilization. In this regard, he stressed that transparency, disclosure of transfers and an accurate system of checks and balances are crucial elements to ensure that natural resources management will have the desired impact on national domestic revenues.

18. Ms. Judy Cheng-Hopkins said that the PBC has an important role to play in assisting countries mobilizing domestic resources. Some of the countries emerging from conflict are potentially rich and, in addition to financial aspects, a culture of taxation is also good for democracy. Building on the previous presentations, and referring to the case of Rwanda, she stressed that transparency is of crucial importance if a government wishes to attract donors. With regard to natural resources, she noted that Indonesia represents another good example of how oil revenues can be used for develop human capital.

IV. Member States’ views

19. The majority of Member States agreed that harnessing domestic revenue will improve the financial situations in countries emerging from conflict and that proper collection and management of revenue and resources can be achieved through transparency and accountability. Members focused their interventions on the following themes:

- **Resource Mobilization and the role of the PBC:** Several speakers noted that domestic resource mobilization represents a core element of peacebuilding and that the PBC's engagement should contribute to improved political stability in the country concerned, as well as support national authorities in strengthening their legal framework which promote private investments. One delegate noted that the Commission could also help ensure the transparent use of natural resources.
- **Transparency:** Delegates agreed that transparency is a key element in the management of revenues.
- **Sustainability:** A number of delegates recognized that domestic resource mobilization is a crucial element to ensure sustainability of peacebuilding and development assistance for the long-term.

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Directory: C:\Documents and Settings\Husain.Salah\Desktop\PBC
Template: C:\WINDOWS\Application
Data\Microsoft\Templates\Normal.dot
Title: Peacebuilding Commission
Subject:
Author: Aisien
Keywords:
Comments:
Creation Date: 24/07/2013 12:36:00 PM
Change Number: 5
Last Saved On: 24/07/2013 4:18:00 PM
Last Saved By: 外務省
Total Editing Time: 7 Minutes
Last Printed On: 25/07/2013 5:44:00 PM
As of Last Complete Printing
Number of Pages: 5
Number of Words: 1,847 (approx.)
Number of Characters: 10,528 (approx.)