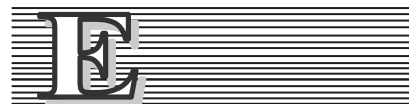




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Enhancing Domestic Resource Mobilization: Challenges and Opportunities in Southern Africa

Summary

Southern Africa is reeling under the adverse effects of the ongoing global economic turmoil, with the slump in external demand slowing the sub-region's exports and hurting their hitherto healthy external positions. These effects have further spawned, *inter alia*, rising unemployment and reduced the flows of foreign investments and aid. There is thus a looming potential for this external shock to reverse the notable socio-economic gains that the sub-region has made in recent years.

All is not lost however. Southern Africa is well endowed with a myriad of natural resources that could be harnessed to weather this, and any other future, economic storm. Indeed, it is an opportune moment for the sub-region to reflect on how best to harness its regional resources for development. Such an action perforce requires that countries should move speedily to implement the slew of national laws and regional protocols for the sound management of such resources as shared water, forestry, fisheries, mining and its people to vastly benefit all the Southern African citizens. A keen focus on improving the manner in which natural resources are harvested should be supplemented by revisions to mining contracts given to extractive companies to ensure that these contracts are congruent with poverty-reducing goals and programmes. Furthermore, value-adding activities to raw agricultural and mining resources by local entrepreneurs should be energized; while institutional and political environment should be re-calibrated to enhance the contribution that citizens can make to the combined sub-regional resources, including through remittances. Pursued resolutely these measures will pave a smoother path to towards achieving the MDGs, and a realisation of a deeper and mutually beneficial regional integration process.

The ICE is requested to provide its views on how best Southern Africa can utilize all its resources (financial, natural and human) as a strategy of deepening, broadening and expediting the sub-region's development process. The ICE is further requested to provide practical guidance about the roles that various national, sub-regional, continental and international stakeholders may assume in executing this strategy.



I. INTRODUCTION

1. The paper examines the vast potential that Southern Africa possesses in mobilizing financial resources for its development and particularly to meet the Millennium Development Goals (MDGs). To date, the sub-region has done commendably well compared to other African sub-regions in marshalling its own resources for development. Nonetheless, given the vast need, the sub-region is encouraged to re-energize its efforts given that it has more internal resources at its disposal to further reduce dependency on donors. The paper takes the view that external resource mobilization, mainly in the form of Foreign Direct Investment (FDI) and Official Development Aid (ODA), should be encouraged and welcomed; however these resources should complement rather than supplant domestic resources. Therefore, the paper's approach departs from past approaches to mobilizing development finance, which stressed the role of the donor community in raising resources needed for Africa's development including such initiatives as the Monterrey Consensus, the Gleneagles Summit Declaration and the Paris Declaration on Aid Effectiveness. The paper is presented under the headings and sub-headings that follow.

II. KEY ISSUES IN DOMESTIC RESOURCE MOBILIZATION

2. The Southern Africa sub-region is made up largely of countries with small economies of which South Africa is the largest economic unit contributing more than 60% to the sub-region's GDP. The average GDP per capita levels is growing slowly, which means that the pace of lowering poverty, with current estimates putting 40% of people living in poverty, will similarly be slow.

3. To its credit, the region has since the enactment of MDGs exhibited great commitment to reducing poverty and uplifting the standards of living of its people, but the socio-economic gains have thus far been small. With the halfway mark towards the target date for achieving MDGs of 2015 now passed, concerns abound about the sub-region's potential to achieve these goals. Of particular concern is the region's ability to close the financial resource gap that it needs to in order reduce poverty levels and meet the other MDGs. The estimates of the required finances needed for development vary; however, the general consensus is that the sub-region needs to raise resources far in excess of what it is currently doing. Some estimates suggest that the region needs to grow at an average GDP rate of 7% per annum, and for investments to rise by 25% per annum up to the target date of 2015 for it to achieve the MDGs. In monetary terms, the region needs resource injections of between US\$445 billion and US\$813 billion per annum up to 2015 for it to have any chance of attaining the goals (Table 1).

4. Clearly, on their current levels of GDP growth only few countries will manage to reach the minimum GDP growth rate of 7%, and even with them there are doubts about their capacity to sustain this level during the entire period. The capacity of the region to achieve these goals is premised entirely on whether or not the countries of the region can scale up their resource mobilization efforts to the extent of closing the identified resource gap.

Table 1: Additional Resources Needed to Achieve MDGs by SADC

	2008	2009	2010	2011	2012	2013	2014	2015
Per Capita MDG investment needs <i>Low case scenario – in constant terms(US\$)</i>	82	87	92	97	102	108	114	120
Per Capita MDG investment needs- <i>High case scenario- in constant terms(US\$)</i>	98	106	113	121	130	139	149	160
SADC GDP in current terms(US\$ billions)	445	485	529	576	628	685	746	813
Per Capita MDG investment needs <i>Low case scenario- in current terms(US\$)</i>	101	110	119	130	141	153	167	181
Per Capita MDG investment needs <i>High case scenario- in current terms(US\$)</i>	121	134	147	163	180	198	219	242
Aggregate volume of resources required to reach MDGs- <i>low case scenario in current terms(US\$ billions)</i>	24	27	30	34	37	41	46	51
Aggregate volume of resources required to reach MDGs- <i>High case scenario in current terms(US\$ billions)</i>	29	33	37	42	47	53	60	68
Aggregate volume of resources required to reach MDGs- <i>Low case scenario in current terms(% GDP)</i>	5.50	5.61	5.73	5.82	5.93	6.04	6.15	6.26
Aggregate volume of resources required to reach MDGs- <i>High case scenario in current terms(% GDP)</i>	6.59	6.82	7.06	7.30	7.54	7.80	8.07	8.35

Source: ECA, 2008

5. The traditional approach to resource mobilization for development has stressed external sourcing of the resources through Official Development Assistance (ODA) and Foreign Direct Investment (FDI) as opposed to internal mobilization of resources because of the assumption that the capacity for domestic mobilization is subject to internal constraints which are not easy to overcome. Additional to being inadequate relative to development needs, and falling far shorter than the donors' undertakings (Table 2 and 3), it is also evident that both the ODA and the FDI also have their own constraints, which limit their contribution to the region's resource basket for development. The use of ODA as a viable source of development finance is limited by the fact that the greater proportion of aid goes to humanitarian and emergency assistance and not to financing development. Furthermore, resource flows themselves are inadequate because of the failure by donor countries to meet their development assistance pledges. Another shortfall of the ODA relate to its tendency to concentrate in fewer countries, congruent with the geopolitical agenda of the donor country. Also, the ODA is criticized for reducing the policy space for recipient countries, entrenching dependency, and taking attention away from the need to design a more equitable international trading system from which Africa stands to benefit more than from aid.

TABLE 2: ODA Flows into SADC

Country	Official Development Assistance(US\$)		Net Official Development Assistance(% of GNI)	
	Pre- Monterrey (1998- 2001)	Post Monterrey period (2002-2006)	Pre- Monterrey (1998- 2001)	Post Monterrey period (2002-2006)
Angola	327	623	6	4
Botswana	57	46	1	1
D.R. Congo	170	2561	4	44
Lesotho	46	83	4	6
Madagascar	384	771	10	17
Malawi	433	493	25	26
Mauritius	31	20	1	0
Mozambique	913	1442	25	30
Namibia	155	144	5	3
South Africa	493	619	0	0
Swaziland	27	31	2	12
Tanzania	1069	1550	12	14
Zambia	529	825	17	17
Zimbabwe	211	235	3	5
Total	4845	9443		

Source: ECA/AU Economic Report of Africa, 2008

6. Similarly, the FDI as a source of development finance is limited because, in absolute terms and relative to GDP, it remains small in most countries, and, secondly, it tends to concentrate in resource rich countries, where due to the extractive nature of the activities that it promotes, it has very little linkages to the rest of the economy of the host country. Both the ODA

and the FDIs have one additional shortcoming in that they are unpredictable and completely subject to developments in the developed countries. The complete absence of control over this source of development finance leaves the recipient countries highly vulnerable.

TABLE 3: FDI Flows into SADC

COUNTRY	FDI Inflows		
	2005	2006	2007
Angola	-1 304	-38	-1 500
Botswana	281	489	495
DR Congo	-76	-116	720
Lesotho	57	92	106
Madagascar	86	294	997
Malawi	27	30	55
Mauritius	42	105	339
Mozambique	108	154	427
Namibia	348	387	697
South Africa	6 644	-527	5 692
Swaziland	-50	36	37
Tanzania	568	522	600
Zambia	357	616	984
Zimbabwe	103	40	69
Total	7191	2 084	11 218

Source: World Investment Report, 2008

7. Neither ODA nor FDI, individually or in combination, seem to generate adequate resources needed for the development of the region (Tables 1, 2 and 3). Consequently, the focus of this paper goes to the question of how the mobilization of domestic resources can be scaled up so that domestic resources become the significant source of development finance, which are then complemented by external resources. The question of the capacity of the countries to raise these resources internally against the background of evidence that Africa has the weakest capacity for domestic resource mobilization among all the developing regions of the world is seen as a call for a comprehensive review of attitudes that govern approaches to resource mobilization and not a call to despair that it cannot be done. The attitude of giving priority to external sources of finance has undermined efforts towards internal resource mobilization as reflected in the inadequate resources, at both national and regional levels, allocated to internal resource mobilization and the absence of well articulated national and regional strategies for enhancing internal mobilization.

8. To achieve a substantial success in mobilizing domestic resources, it is necessary to address internal conditions, which are supportive of that effort. This paper identifies a wide range of related issues, which impact on the capacity to enhance the mobilization of domestic private and public savings and productive investment, increase human capacity, reduce capital flight and build a strong financial system. All these together with accountable and efficient public sector, transparency in the use of resources and the rule of law combine to make for a conducive environment under which resource mobilization can be undertaken with some success in the region.

III. MOBILIZING PRIVATE SAVINGS AND INVESTMENT

9. One potentially huge source of domestic resources is private domestic savings. Traditionally, the African region has had the lowest saving rates in the entire developing world (Tables 4 and 5). The challenge faced by the sub-region is, therefore, how to change this so that the sub-region can exceed its current average savings ratios of about 16% of GDP to rates approximating levels of East Asia where the rise in savings has been one of the driving forces of economic development.

TABLE 4: SADC Domestic Savings (as % of GDP)

COUNTRY	YEAR				
	2003	2004	2005	2006	2007
Angola	19.2	25.10	34.1	36.7	29.4
Botswana	50.7	49.80	47.4	44.2	43.2
DR Congo	5.0	8.50	2.2	3.0	6.9
Lesotho	-6.1	-11.8	-17.6	-13.8	-1.2
Madagascar	6.4	8.30	8.4	13.4	12.2
Malawi	-0.12	-0.10	-0.13	-0.06	0.06
Mauritius	24.7	22.0	16.5	15	14.4
Mozambique	10.1	8.50	5.9	11.3	11.0
Namibia	33.0	36.30	24.7	30.8	32.8
South Africa	115.8	14.5	14.5	18.0	16.6
Swaziland	28.3	27.4	24.5	15.0	14
Tanzania	14.5	13.6	11.7	10.5	10.6
Zambia	13.1	16.0	16.4	25.7	30.5
Zimbabwe	-21.1	-3.70	-6.7	8.4	17.1
Average excluding Zimbabwe	16.5	16.8	14.5	16.1	16.1
Average all SADC	13.8	15.3	13.0	15.6	16.2

Source: ECA, 2007

10. Admittedly, it is inherently difficult to change, in the short and medium term, such factors as income levels, rate of economic growth and the ratio of the unproductive segments of the population to the total population, all which are known to influence the population's capacity to save. At the same time, it can be assumed that the population's willingness to save can be manipulated much more easily than the capacity to save by examining how the financial sector interacts with the population in the process of mobilizing savings.

11. The commercial banks, which are dominant in the formal financial sector, generally focus their savings mobilization effort and channel their investment of financial resources predominantly to a small segment of the population in the corporate world and high value individuals while paying only passing attention to the rural, urban poor, women and small and medium scale enterprises, which in some countries are thought to make up about 80% of the population. This means that a substantial amount of wealth, including what is held in non-monetized state, is left out of the formal financial system. The failure of the formal financial institutions to effectively mobilize savings and allocate them efficiently has to do with a number of factors, which include the following ones:

- a) As a matter of policy, commercial banks in some countries do not actively seek to collect deposits from the rural population, urban poor and other segments of the population which are considered as having little financial resources at their disposal.

TABLE 5: SADC Domestic Investment (as % of GDP)

COUNTRY	YEAR				
	2003	2004	2005	2006	2007
Angola	12.7	9.1	8.1	15.0	13.7
Botswana	41.5	38.4	30.1	25.3	25.8
DR Congo	12.2	12.8	13.9	13.4	16.6
Lesotho	45.1	34.6	28.0	26.2	26.4
Madagascar	17.9	24.3	22.6	24.6	30.8
Malawi	10.8	14.4	13.7	15.7	1.63
Mauritius	22.6	21.6	21.4	24.4	24.1
Mozambique	25.9	20.1	21.3	24.4	24.1
Namibia	29.0	25.2	28.3	29.4	31.9
South Africa	15.9	16.2	18.6	20.3	20.4
Swaziland	23.6	22.7	22.9	17.3	16.9
Tanzania	18.5	21.0	22.2	23.4	24.5
Zambia	25.6	23.0	22.5	22.6	25.0
Zimbabwe	-13.0	5.1	4.4	11.0	17.5
Average excluding Zimbabwe	23.2	21.8	21.0	21.5	21.7
Average all SADC	20.6	20.6	19.9	20.7	21.4

Source: ECA, 2007

- b) Commercial banks in a number of countries lack a strong rural network, making it difficult for customers to reach banks easily.
- c) Commercial bank procedures are sometimes considered too complicated by the unsophisticated segments of the population and there are no attempts made to simplify them.
- d) Commercial banks tend to have a restricted number of financial instruments and products that address the financing needs of a small segment of the population.
- e) Commercial banks focus on short term and not long term lending.
- f) Interest rates paid on savings may be too low while the interest charged on loans is too high, discouraging in the process both saving and borrowing.
- g) Transactional costs charged by commercial banks in some countries are too high, thus discouraging bank based transactions.

- h) Commercial banks in some countries do not actively seek to lend to small and medium enterprises, rural based populations and enterprises and the informal sector. Consequently, their role as intermediaries is limited to the corporate customers and high value individuals.

12. A number of non-bank financial institutions and other non-formal and informal groupings are used in some countries to mobilize resources and to channel them into credit. However, the informal arrangements often fail to convert the resources raised into productive investments and to adequately take the place of commercial banks to service the segments of the population, which they are unwilling or not able to service. This is mainly due to the fact most non-bank financial institutions such as microfinance institutions are poorly capitalized, lacking in staff competence and in some cases not regulated.

13. In order to increase the capacity of financial institutions to mobilize resources more effectively and thus contribute more significantly to the resource basket, the following measures should be considered for implementation:

- a) Building strong and effective financial institutions, such as postal, community and savings banks, micro-finance institutions, development banks, venture capital institutions, pension funds, capital markets, collective investments and commercial banks that are capable of playing their specialized functions effectively. Such a deeper financial system will deflect the need to rely on commercial banks to intervene in segments of the markets in which they are not the best service providers.
- b) Improving better coordination by building strategic relationships among different financial institutions with each bringing their strengths and expertise into the relationship.
- c) Developing tailor-made financial products that meet the financing needs of various segments of the population. This will make them more effective in driving the resource mobilization effort.
- d) Setting up of second tier institutions that operate as wholesale providers of capitalization and refinancing of other financial intermediaries which currently suffer from capitalization constraints.
- e) Comprehensively reviewing the cost of financial services since the current pricing system for financial services presents a major disincentive for many to operate in the formal financial sector.
- f) Establishing credit rating agencies as a strategy for reducing the risk and cost of borrowing.
- g) Establishing credit guarantee schemes to spread the risk of credit failure.

IV. MOBILIZING AND UTILIZING DOMESTIC RESOURCES THROUGH THE PUBLIC SECTOR

14. This section acknowledges the central role of public finance in growing the domestic resource basket for development. It examines the direct and indirect roles that the public sector can play in enhancing the mobilization of domestic resources. With respect to its direct role, this section looks at how revenue maximization can be achieved through the operations of a taxation regime that is effective in collecting taxes, reducing leakages through tax avoidance and evasion, corruption and the implementation of regulations and tax administrative procedures that do not discourage private sector activity.

15. The levels of tax collected are firstly related to the capacity of the population to pay these taxes. Consequently, the GDP per capita, levels of urbanization, the relative importance of mining, agricultural and industrial sectors in the economy, and the country's volume of trade all combine to determine what tax can be raised. But these factors are not susceptible to change in the short- and medium-term. Therefore, in order to effect changes that are likely to result in improvements to the levels of taxes, focus needs to shift to administrative-related issues where there is a better chance of making gains in a relatively short time. In this respect, the issues in the next few sub-paragraphs need more examination.

A. Efficiency of the tax administration system

16. There are a number of specific and general concerns about the levels of efficiency of tax administration systems in Southern Africa. A survey conducted by the ECA (2005) of experts and household opinions on aspects of tax administration revealed that the majority of those questioned considered the tax administration systems in most Southern African countries as inefficient.

B. Inequitable tax system

17. The perception about the tax administration in the sub-region is that it is highly inequitable. The basis of this perception is the narrow tax base found in most of the countries, which leads the tax authorities to identifying easy targets for tax and basically overtaxing them while the informal sector and the hard-to-tax segments are left out.

C. Tax evasion, corruption and lack of transparency

18. Tax evasion and corruption are seen as widespread in the sub-region and constitute a source of serious leakages of resources with the potential to undermine the effectiveness of the entire tax system. Yet, most countries (for example Lesotho, Namibia, South Africa and Zambia) have demonstrably taken measures to reform their tax institutions for efficiency and effectiveness, while rigorously prosecuting to varying degrees of success the instances of tax violations.

19. In order to register more successes in improving tax revenue collection levels in the face of these difficulties a number of measures can be proposed, including the following:

- a) Achieving a broadening of the tax base in order to increase revenue and enhance equity: this will be achieved by bringing a substantial part of informal sector activity within the tax bracket. Where the cost of collecting from the informal sector is considered too high, tax authorities should consider introducing other measures, including weighing the balance of taxation in favour of indirect taxes and less on direct tax.
- b) Simplifying and rationalizing the tax systems by removing exceptions and discretions which provide the basis for leakages in tax collection.
- c) Dealing with the hard-to-tax groups such as the self-employed professionals who may be high earners but at the same time difficult to tax. For these groups, a consideration should be given to the introduction of presumptive taxes.
- d) Dealing with tax evasion and corruption by strengthening detection and subsequent prosecution of wrong doers to send a strong message that this behaviour is not acceptable. Since tax evasion can be in the form of companies transferring resources from resource rich countries to tax havens abroad, tax evasion should be tackled at the international level using regional and national organs, and may require enacting new laws and regional protocols to combat the problem.
- e) Establishing regional coordination facility on tax administration to be used to harmonize tax practices in the sub-region and share experiences among the various authorities. International and regional organizations like the SADC, and the ECA Southern Africa Sub-region Office should play a role in building this capability.

20. The public sector expenditure is inextricably interlinked with resource mobilization and investment. Effective government spending can stimulate private sector activity through its investment in infrastructure, crowd in private sector savings and investment and reduce poverty by spending on poverty-sensitive projects. Equally important is the role of government in ensuring that the broad policy framework and general economic environment is conducive to resource mobilization.

21. Governments can act to consolidate and broaden the environment that is conducive to resource mobilization, attending to various issues including the following ones:

i. Budget deficits

22. The budget deficit position in the sub-region is mixed even though there has been an overall improvement in the fiscal deficit position of most countries. The fact that collectively the sub-region is running a deficit means that for most countries there has been a reduction in spending on basic services such as health and education. With an estimated average expenditure on education and health of between 3% and 4% of GDP, the region is way behind the benchmarks of 20% for education and 15% for health, which are needed for achieving MDGs. Furthermore, deficits have meant reductions in capital expenditure in favour of recurrent

expenditure. The region therefore faces the challenge of finding resources to forestall fiscal instability which poses a threat to private investment and human development capital formation. Short of huge inflows from external resources, the region must find these resources from within by enhancing domestic resource mobilization, a shift that calls for an improvement in the current fiscal position.

23. To improve this position a number of governments in the region are seeking to realign investment to the productive sector by adopting the Medium Term Expenditure Framework (MTEF). Though the full impact of MTEF has not been established, it is evident that if adhered to it has the capacity to provide the broad framework within which the mobilization of resources for development can be achieved and the appropriate investments undertaken.

ii. Inflation

24. Inflation levels in the sub-region vary extensively from country to country with some countries below the agreed 5% benchmark while others are way above these benchmarks. As a region its average rate of inflation is above the African average, meaning that inflation is a problem in the region; hence more needs to be done to improve this situation especially by controlling money supply and containing the impact of future oil price hikes. High inflation rates serve to discourage domestic resource mobilization by discouraging savings and investment.

iii. Foreign exchange policy

25. In terms of its foreign exchange regime, the region has increasingly become more open as can be deduced from the convertibility of most currencies in the region. The number of countries with very strict exchange controls has dropped significantly with Zimbabwe being the exception because of its current difficulties. This has positive influence on its capacity to encourage remittances of money into the region and retaining resources within the region.

iv. Governance and political stability:

26. With regard to governance, despite notable overall improvements, there are still some lingering concerns about the issues of transparency and accountability in government business and about the perceptions that the actions of the executive in majority of countries are shielded from public scrutiny. Corruption and the abuse of power are also considered as other problems, which need to be tackled in some countries to improve the environment for resource mobilization. The need to improve governance, therefore, is a critical element in improving the overall environment for resource mobilization. What is encouraging is that in all these areas there is a gradual movement away from autocracy towards the acceptance of more open societies in which leaders are accountable and subject to probity.

27. To be sure, increasing democratization of the sub-region and recourse to elections to resolve power succession issues has reduced the incidences of wars and political instability. This has a positive influence on the environment for resource mobilization.

V. MOBILIZING DOMESTIC RESOURCES THROUGH THE EFFECTIVE USE OF NATURAL RESOURCES

28. This section presents a brief on the natural resource endowments of Africa and the Southern African sub-region in order to underscore the extent of the inherent wealth that the sub-region possesses (Tables 6 and 7). It makes the point that the sub-region, as with the rest of Sub-Saharan Africa, has a large scope to channel mineral wealth into development notwithstanding the outstanding examples (Botswana, in particular) that have avoided the ‘natural resource curse’. In some instances resource rich countries (even if there are less of these in Southern Africa than elsewhere) have tended to have weaker long-run economic growth characterized by high levels of poverty and inequality referred to as “paradox of poverty” The main reasons behind the failure of resource rich countries to effectively utilize their mineral wealth for development has to do with the following:

29. First, the investment incentives negotiated by mining companies in the form of Mining Development Agreements and may include tax holidays, accelerated depreciation, tax credit, current expensing of exploration and development costs, duty exemptions on imports of equipment, the unlimited carrying over of losses, and others, vastly reduce resources that could be used as a payment to the country.

Table 6: Africa’s Mineral production and reserves of a number of selected minerals

Mineral	Africa’s % of world production	Rank	Africa’s % of world reserves	Rank
Platinum	54	1	60	1
Gold	21	1	42	1
Chrome	40	1	44	1
Manganese	28	2	82	1
Vanadium	51	1	95	1
Cobalt	60	1155	1	
Diamonds	78	1	88	1

Source: US Geological Survey, 2006

30. Second, most of the mining policies devised with the support of the multilateral institutions reflect an overly pro-private sector bias of the 1970s, and do not give due consideration to benefits going to the country supplying the resources. Where these policies are presented as conditions, the government’s capacity to negotiate for a fair deal is undermined and in the final analysis the country loses more financial resources than it ought to. In some instances the poorly-crafted agreements acceded to by governments reflect the lack of capacity among its own negotiators to ensure that the government gets a fair deal.

31. Third, the unfavourable Mining Development Agreements sometimes reflect the narrow interest of a small group of people who stand to benefit through side agreements with the mining companies. The resource outflows from these deliberately poorly negotiated agreements, in some instances leave the country with only marginal returns on its wealth.

32. Fourth, another way of reducing the amount paid out by the multinational companies in the form of tax to the government is to inflate the cost of production, understate the revenue from sales, service non-existent or inflated external loans or carry out any number of manipulations to

reduce the taxable income. The failure by authorities to carry out independent audits on revenues denies them the benefit of factual information on which to base assessment of revenue due to the state.

Table 7: Minerals and Countries of Origin in Southern Africa

Mineral	Countries where they are found
Uranium	Namibia, South Africa
Gold	South Africa, Tanzania, Zimbabwe, Congo D.R.,
Platinum	South Africa, Zimbabwe
Diamonds	Botswana, South Africa, Congo D.R., Angola, Namibia
Chrome	South Africa, Madagascar, Zimbabwe
Iron ore	South Africa, Zimbabwe
Phosphate	South Africa
Manganese	South Africa, Namibia
Fluorspan	South Africa
Copper	Zambia, Congo D.R., Namibia, South Africa
Nickel	Botswana, Zimbabwe, South Africa, Zambia, Tanzania
Zinc	Namibia, Congo D.R., Zambia, Namibia

Source: African Development Bank, 2007

33. Fifth, most mining agreements neither impose on the companies the obligation to accept equity participation from the indigenous people nor to employ local people at the decision making level. This means all decisions have little or no consideration to the needs of the country and also makes it easier to conceal the manipulation of financial information where this is taking place.

34. Last, the nature of mining activities in Southern Africa is that they are almost exclusively confined to the primary level with very little beneficiation taking place.

35. To therefore improve the prospects of retaining more from the resources that are generated from mineral extractive activity, countries should expedite the implementation of recommendations of the Big Table on *Managing Africa's Natural Resources for Growth and Poverty Reduction*. In 2007 the ECA and the ADB organized this conference with the view to encouraging a frank discussion of the role of natural resources in development and poverty reduction in Africa. It came up with a number of agreements and recommendations on how natural resources can be effectively harnessed. The Southern Africa sub-region should welcome the outcomes of this conference and accept the challenge of implementing some of these, which have been modified for the sub-region as outlined below:

- a) The governments in the sub-region must own the process of developing their own natural resources.
- b) There must be a strengthening of government systems and institutional capacity for dealing with mineral extraction issues including the all important aspect of negotiating fairer contracts.

- c) National governments should seek to prioritize more value addition, down streaming and higher local inputs in the extraction of natural resources.
 - d) Ensuring that natural resource wealth is invested in the creation of knowledge for economic innovation, socio and physical capital such as infrastructure.
 - e) National governments in the region should mainstream the issue of natural resource management and incorporate it in wider poverty reduction initiatives. This process should be subjected to oversight by parliament and independent committees. This will ensure that the regime under which these resources are exploited is transparent and subject to probity.
 - f) The ECA undertook to establish an international study group to review mining regimes in Africa and build Africa's capacity to negotiate natural resource extraction contracts that are favourable. The ECA Southern Africa Sub-regional Office should follow up on this commitment by engaging national governments directly or working in cooperation with relevant SADC organs to set up SADC specific study groups.
 - g) The ECA was also tasked with the responsibility of establishing a peer-learning group on natural resource management. The specific functions of the learning group would include holding seminars, workshops, compiling compendia of best practices and policies in resource management for sharing by African states. Given the importance of resource extraction in the Southern African sub-region, ECA Southern Africa Sub Office should take up the challenge of establishing these learning groups working in cooperation with the SADC relevant organs.
 - h) The ECA Southern African Region Office should engage the SADC relevant organs to coordinate regional effort at building a complete inventory of the region's natural resources and carrying out comprehensive geological mapping of the region so as to improve the information and knowledge base available to national governments which is critical in negotiating mineral extraction contracts with multinational corporations.
36. Outside the framework of the Big Table Conference, other measures to be considered by the sub-region include:
- a) Establishing a natural resources management framework incorporating fiscal policies that promote the sustainable exploitation of resources and ensures commitment to implementation and enforcement.
 - b) Broadening the participation of nationals by encouraging investment in small scale mining and improving the ease of entry into mining extractive activity for the small scale sector.
 - c) Introduce transparency in the system of giving incentives such as tax holidays, duty exemptions to mining extracting companies.

VI. CONTAINING CAPITAL OUTFLOWS AND IMPROVING REMITTANCES

37. The section considers the various ways in which the sub-region suffers from outflows of financial resources through financial capital flight, debt servicing and human capital flight. It attributes the cause for each and considers appropriate interventions as shown below.

A. Financial capital flight

38. Financial capital flight manifests itself in the form of tax evasion and avoidance by multinational corporations, corruption and theft by nationals, offshore corporate and personal investments and, repatriation of profits and royalties by companies. The main causes of capital flight are:

- a) Weak financial management and enforcement systems, which make it possible to repatriate resources through theft and tax evasion.
- b) Political instability, which makes the holding of domestic assets risky and therefore leads to a search for a safer home for these assets.
- c) Search for better returns on investment outside the country.
- d) Financial liberalization which has made it easier to externalize financial resources.
- e) Limited financial instruments in the domestic market which limit the available investment opportunities in the local market.
- f) Macroeconomic instability manifested in the form of high inflation, exchange rate volatility and the high cost of borrowing.
- g) Heavy and capricious taxing of investments and deposits, which make the option of investing in markets where such taxes do not exist attractive.

39. The basic challenge faced by the region is to create an economic environment and financial system, which encourages both individuals and companies to invest in the sub-region. The issue is how to structure incentives, which remove the attraction of repatriating financial resources.

40. The elements that the region should focus on are to ensure that political stability and economic stability are entrenched to assure investors that their money is safe. The building of capacity to deal with leakages of resource from the activities of criminal elements calls for concerted action at the regional level. The ECA-Southern Africa Sub-regional Office, cooperating with SADC secretariat, should target the building of national and regional capacities to deal with the problem of capital loss through corruption and tax evasion and avoidance.

B. External debt servicing

41. Debt servicing has been one of the major sources of financial resource outflows from sub-Saharan Africa. This is the direct result of the unsustainable debt position that most of the countries have found themselves in. However, as a result of various debt-relief initiatives, sub-Saharan Africa and the Southern Africa sub-region are showing signs of improvement in their debt sustainability ratios. Debt as a percentage of GDP and debt servicing as a percentage of GDP show that region is better able to handle its debt obligations.

42. The critical challenge that the region faces is that of ensuring that countries do not accumulate new unsustainable debts. The region must focus on adopting governance structures that ensure effective parliamentary oversight over new debts incurred.

C. Human capital flight

43. The loss of qualified professionals to the developed countries every year represents a form of capital flight to the extent that the productive knowledge that is embodied in people leaves the sub-region. Similar to its financial equivalent, human capital flight has had a negative impact on the growth and income levels of countries from which these professionals migrate. It is difficult to estimate the monetary value represented by this flight but it has several outcomes on the economy including loss of the country's investment in educating the emigrant, possible reduction in the rate of economic development due to reduced productivity, reduction in rate of growth of human capital among the population that remains and reduced capacity to utilize FDI.

44. The sub-region can address the challenge of human capital flight using a number of interventions, including:

- a) Devising sub-regional strategies for improving capacity to train and retain skilled manpower. This will enable the region to replace skills that it loses.
- b) Freeing the movement of persons within the region to make it easier to exchange labour within the sub-region.
- c) Professionalizing the public sector to make the service both open and attractive to professionals.
- d) Strengthening sub-regional collaboration among professionals through the creation of strong networks of professionals.
- e) Supporting the sub-regional research and training networks as they serve as ideal instruments for pooling and sharing of limited regional skills.
- f) Repatriating professionals from the Diaspora by revisiting the ECA and International Organization for Migration (IOM) administered "Return of Qualified African Nationals Program," which operated between 1993 and 1999.

- g) Making use of professionals in the Diaspora without them giving up their residence and jobs in their adopted countries.
- h) Use of African migrants in technical assistance programs.

D. Worker remittances

45. The remittances from migrants abroad represent a reversal of the negative effect that is generally associated with the emigration of professionals from the continent. Estimates of monetary transfers into Africa from developed countries are varied. But what is evident is that these inflows can make huge contributions to the resource base of the continent.

46. In the face of the increasing importance of remittances and clear benefits that they can bring to the economy, the region faces the challenge of firstly increasing the flow of remittances, and secondly utilizing these resources to support productive investment. Approaches that should be considered at the regional and national levels that can help to make these inflows benefit the countries of destination include the following:

- a) Increase the levels of remittances flowing into the region following the recommendations of the Global Commission on International Migration (GCIM) Summit, which called for countries to encourage nationals in the Diaspora to remit more so that this resource becomes significant in absolute and relative terms.
- b) Encourage remittances through the formal financial system so as to increase benefits accruing to countries.
- c) Create incentives specifically targeted at attracting remittances into savings and investment.
- d) Setting up money transfer services among migrant communities an innovation can be considered at the sub-regional level in Southern Africa.
- e) Develop coherent national policies on migration and economic development.

VII. WAY FORWARD

47. This paper proposes the need to create a framework within which the various recommendations for enhancing the mobilization of domestic resources can be effectively implemented at the national and regional levels. It argues that resource mobilization cannot be accomplished successfully if it is done on an *ad hoc* basis and structured manner at the national levels. It therefore recommends actions that should be taken at the national levels and those that are best addressed as the collective effort of the region.

A. Broad interventions required at the national levels

1. Prioritizing sources of domestic resource mobilization

48. Member states should identify areas where their resource mobilization effort is likely to yield the most benefit and prioritize based on that. Each country in the sub-region must carry out a detailed analysis of its unique position and on the basis of that analysis work out a prioritized approach to increasing the generation of domestic revenue using the different sources of financial resources. This prioritization should be done within the context that all of the different sources of finance can potentially yield more resources with the right interventions. However, some are more amenable to producing results quicker and with less resource application than others depending upon the country.

2. Adopt a structured approach to resource mobilization

49. Success in improving domestic resource mobilization from the various sources considered in the report will be enhanced if the resource mobilization effort is carried out in a structured and no *ad hoc* manner. Member states should attempt to determine resource mobilization targets over a defined period. Setting targets relating to how much the country intends to raise from a particular source puts pressure on the country concerned to seek and implement strategies that will yield the results. Open-ended commitments to raising additional domestic resources do not create the right environment for committing resources required to succeed.

3. Incorporation of resource mobilization into other national programs

50. The resource mobilization effort should link with other national programs and instruments as the national budget. An uncoordinated effort that stands alone from other government programs risks marginalization and consequently poor results.

4. Assignment of the responsibility of coordinating resource mobilization efforts

51. A particular ministry or government department should, at the national level, be assigned the task of coordinating the resource mobilization effort. In the absence of this coordination the effort is likely to be disjointed with different agencies of government tackling only issues relating to them.

5. Promotion of economic and political stability

52. The continued improvement in economic and political stability and governance are core responsibilities of governments, which they must continue to consolidate in order to create or bolster a conducive environment for improved mobilization of resources at the national level.

B. Broad interventions required at the sub-region and Africa region levels

53. Organizations like the UNECA and the SADC Secretariat can render valuable support to national governments, which will improve their capacities to raise resources internally. Among the support that these organizations should consider rendering are:

- a) Supporting the development of relevant national policies.
- b) Supporting the development of national capacities. These may range from developing skills to negotiate better mineral extraction contracts, detection and control of revenue losses through fraud or tax evasion, etc.
- c) Supporting the building of sub-regional institutions needed to coordinate regional resource mobilization effort.
- d) Supporting the preparation of resource mobilization programs at national or regional levels.
- e) Supporting reform and deepening of the financial sector in the region should be considered as a priority by all countries because of the unique role that finance plays in the economy.
- f) Supporting the right fiscal and monetary policies, governance structures and institutional arrangements for resource mobilization are maintained by all members at the national level and the sub-regional level.

54. In conclusion the sub-region can achieve tremendous increases in its resource basket for development by taking a formal and structured approach to domestic resources mobilization. This will require firstly appreciating the vast potential that has previously not been tapped into and secondly building the conviction at the national and regional levels that member states can convert this potential into actual resources.

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