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#### Background

Southern Africa's drive to mobilize its vast domestic resources for development is not a new initiative. Indeed, the push for marshalling the mineral, water, forestry and human resources were targeted and key drivers for industrialization and socio-economic development of the sub-region and the continent. What give reasons to revisit these past decisions are the various recent economic shocks that have been buffeting the sub-region. These shocks consist of sharp rises in food and fuel prices, and the global financial and economic turmoil that set in from mid-2008. The economic fallout is impacting the sub-region negatively, slowing or even reversing economic growth, raising unemployment levels and reducing foreign investments and aid flows. If prolonged, these effects may reverse the notable socio-economic gains that the sub-region has made in recent years.

Southern African countries remain economically vulnerable as a result of over-reliance on official development assistance (ODA), foreign direct investments (FDI), and other forms of external sources of finance. These resources of financing development have also had the inadvertent effects of entrenching dependency and taking attention away from the need to design equitable trading systems. Finally, such sources of development finance have not proved adequate and sustainable to meet the socio-economic development needs of the sub-region.

There is now a realization that the sub-region needs to diversify beyond the traditional sources of development, including the taxes, to also look at how the sub-regional can marshal all its natural and human resources to serve as a buffer against future external economic shocks, and accelerate its economic development. A failure to do so will doom the sub-region to perpetual vulnerability due to over-reliance on external sources of finance that are unpredictable and inadequate for financing development.

To be sure, external resources should continue to play an important, but essentially complementary role in development financing while domestic resources should take the lead. The current crisis therefore offers an opportunity to mobilize the sub-region's substantial financial,

natural and human resources in a big push towards industrialization and socio-economic development.

This policy brief outlines the challenges and presents a selection of recommendations aimed at addressing them.

## What are the key challenges for Domestic Resource Mobilization in Southern Africa?

1. The public sector has not been effective in mobilizing and managing domestic resources. There is need to enhance the commitment to implementing national and regional strategies for enhancing domestic resource mobilization, even though several policies and strategies have already been articulated and agreed.
2. The need exists for the formal financial institutions to effectively mobilize savings and allocate them efficiently across the wider spectrum of society. Focus is predominantly on a small segment of the population in the corporate world and high-value taxpayers while paying only a passing attention to the rural, urban poor, women and small and medium scale enterprises. This means that a substantial amount of wealth, including what is held in non-monetized state, is left out of the formal financial system.
3. The proper exploitation and sound management of natural resources, especially for the resource rich countries, remain a challenge. Multinational enterprises usually extract and export minerals in their raw form with no domestic value addition, while the environmental impact of their activities also receives less attention than it deserves. On local participation, indigenous enterprises are in many instances bypassed for investments, including mining outsourcing activities. Most countries do not have the skills to negotiate effectively the mining contracts to ensure that more benefits accrue to the citizens, and they also lack the capacity to monitor and influence the activities of multinational enterprises. There are also several trans-boundary resources such as water,

wildlife and forests that have to be managed regionally for the benefit of all countries sharing such resources.

4. The sub-region suffers from outflows of financial resources through financial capital flight, debt servicing, human capital flight and a rudimentary financial management and enforcement systems. Political instability also makes the holding of domestic assets risky and thus leads to a search for a safer home for these assets elsewhere
5. Limitations in tax policies and administration, the narrow tax base and inequitable tax systems lead to overtaxing of the few and leaving out the hard-to-tax segments such as the self-employed professionals, the consultant industry and the informal sector. Tax evasion, corruption and lack of transparency also constitute a source of serious leakages of resources with the potential to undermine the effectiveness of the entire tax system.

## Recommendations

1. How to enhance the role of the public sector in domestic resource mobilization.?

Review existing fiscal policy with a view to incorporating needed improvements in both revenue collection and expenditure. On the revenue side, the tax base must be broadened to embrace hard-to-tax sectors including the informal sector. The tax administration must be more efficient, transparent and equitable in order to encourage compliance. The tax systems must be strengthened in order to increase capacity to collect more taxes that are due but are not collected. The expenditure of tax revenues also need to be well targeted to address key challenges and development priorities; and must be transparent, which will further encourage compliance. To ensure greater tax compliance, citizens should be able to link their taxes to public services that they receive. Public policy should usher in an environment and institutional mechanisms that will attract the private sector to buttress public sector efforts. Governments have a critical role to ensure good governance that will address citizens in the Diaspora to bring resources home for real investments. In the framework of introducing efficiency in the tax administration for

simplification, compliance, accountability and transparency, the public sector application of e-government through the use of ICT, should be encouraged.

## 2. How to mobilise private savings and investment?

Governments should work with financial institutions in order to provide incentives for institutions to develop a wide range of products that can service excluded sectors of society. Non-bank financial institutions and other financial intermediaries capable of servicing the population segments and informal business sector currently not serviced by commercial banks should be developed. Other supporting measures include fostering second tier institutions that operate as wholesale providers of capital, refinancing other financial intermediaries that currently face capital constraints and establishing credit rating agencies and credit guarantee schemes to mitigate the risks and costs of borrowing. In addition, it is necessary to address the high costs of existing financial services. Reforms to the banking regulatory framework, viable capital markets and microfinance institutions can all contribute to higher savings and investments.

## 3. How to better harness the wealth of natural resources?

Strengthen national frameworks and institutional capacity to manage and exploit natural resources, including by (i) reviewing existing mineral exploitation regimes, (ii) building capacity to be able to negotiate more favorable contracts, (iii) prioritizing value addition through fostering downstream industries and enhanced local content, and (iv) taking a regional collaborative approach especially for the management of trans-boundary natural resources.

## 4. How to contain capital outflows?

Member States should strive to entrench policies and induce the right domestic environment that discourages the repatriation of profits and dividends, and encourages more FDIs. They should also encourage good political and economic governance, sound banking system that are user-friendly to attract remittances and encourage the exchange of skills and expertise.

Further recommended measures to contain capital outflows include sustaining improvements in debt positions resulting from the HIPC completion and multilateral debt relief initiatives by avoiding accumulation of new unsustainable debt. Member States should strive to plough resources freed by debt relief into productive investments and stem leakages from corrupt practices. Countries should develop capacities to audit multinationals and monitor their accounting and revenue reporting practices. Mining contracts should also contain provisions for the employment of local labour and value-addition before export. The international community should also support the anti-corruption measures by for example supporting the United Nations resolution against corruption.

## 5. How to harness the contribution of the Diaspora?

Since the remittances have grown to exceed official development assistance in many cases, the sub-region should strive to reverse the negative effects of human capital flight by developing coherent national and regional policies on migration, develop mechanisms and incentives to facilitate remittances and channel them into savings and investments. Countries should also foster the development of sub-regional skills and more knowledge exchange through establishing skills networks; including using virtual networks to access professionals in the Diaspora and establishing short-term return schemes.

## Conclusion

To ensure that the above recommendations are implemented, the role of national parliaments is of paramount importance. The effective participation of parliaments at all levels of the development process will ensure that the natural resources are harvested to benefit all the citizens. They will also safeguard against impropriety either by the governments or private sectors participants.

**For further reading**

Text on further reading can be obtained from our website: [www.uneca.org](http://www.uneca.org)



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