9th African Development Forum
Marrakech, Morocco

Panel 3: Domestic resource mobilization: Opportunities and challenges
14 October 2014, 14:30-16:00

Suggested speaking points for Mr Aeneas C. Chuma, ILO Assistant Director-General and Regional Director for Africa

[Greet chair, panellists and audience]

Allow me first to thank the organizers, the Economic Commission for Africa, and especially Dr Lopes, for inviting the ILO to the 9th African Development Forum and for associating us with this particular panel, which addresses a key developmental issue for Africa.

- **From the ILO's perspective, we clearly see domestic resource mobilization as an avenue for developing countries to access needed revenues to invest in infrastructure and social services.** This is even more pressing given the stagnation of Official Development Assistance (ODA) or traditional "aid" over recent years. Sub-Saharan African countries, in particular, will need to mobilize more resources domestically to cover funding gaps in infrastructure, health and education.

  An increasing number of ILO member States commit resources from their own public budgets to partner with the ILO in achieving national Decent Work goals. Whilst external development assistance continues to allow the ILO to provide significant technical cooperation to countries, ultimately the commitment of ILO's national constituents and the allocation of domestic financial resources are essential for achieving and sustaining such goals. This is especially the case, moreover, for countries that have moved to middle-income status.

- **Increasingly, ILO member States entrust the ILO with domestic financial resources to deliver technical assistance, over and above the regular support we can can provide.** Typically, this targets national policy priorities that have been agreed between the ILO and constituents – governments, employers' and workers' organizations – through Decent Work Country Programmes, with clear deliverables and budgets.

  As an example, South Africa has a long-standing partnership with the ILO on employment intensive investment programmes. The ILO contributes technical advisory services and support to innovative public work programmes in South Africa, leveraging the creation of jobs. The flagship "Expanded Public Works Programme" in the Northern Province of South Africa is the largest government programme of its kind to combat persistent unemployment and contribute to poverty reduction. It is indeed one of the largest public employment programmes in the world. The programme relies on annual public infrastructure investments. The ILO is then funded to provide international expertise, capacity development of government officials and private sector practitioners, and support to enhancing procedures and processes for application of employment intensive methodologies. On 1 April 2014, the programme transitioned to its third 5-year phase and is expected to create 6 million jobs, specifically targeting decent work opportunities for women, youth and persons living with disability. The programme is expected to inject over USD 4.5 billion in the form of wages into community workers in boosting local economic development.

- **The African region must continue to explore innovative sources of domestic finance for its development programmes and projects.** Against tightening ODA budgets, the future of the region lies in its ability to generate its own development finance.

  Africa is on the path to sustainable long-term growth. It is today the fastest growing region globally with six of its economies amongst the top ten fastest growing economies in the world. The continent has the resource base to support the development and implementation of viable domestic finance instruments. Notable amongst these are social security and pension funds, diaspora remittances and earnings from minerals and mineral fuels.

Let me highlight a few areas, however, that I believe require particular attention if Africa, as a region, is going to achieve the goal of moving away from aid, which undermines capacity to own its development agenda and processes.

- **First, in many African countries there are still severe gaps in tax revenue collection (although it has improved since the 1990s).** In low-income countries, tax revenue is still below 15 percent of GDP – the conventional threshold for satisfactory tax performance. The International Monetary Fund has estimated that an increase in tax revenues of about 4 percent of GDP is attainable in many low-income countries if more effective and transparent tax systems were introduced.

  This is indeed an area where development partners can act as a catalyst for domestic resource mobilization. Investing in building tax systems can yield impressive returns. For example, a modest investment of USD 10,000 on transfer pricing adjustments in Kenya led to additional tax revenue of a staggering USD 12.9 million (according to OECD).

  Other initiatives that are working to support tax revenue administration in developing countries include supporting tax authorities in undertaking tax analyses and designing tax systems that are appropriate for their countries' conditions. Development partners can help by building the technical capacity these countries need to make their tax systems more reliable.

- **Multinational firms** often avoid tax by assigning profits to branches located in lower tax jurisdictions. Although this is a challenge for both developed and developing countries, such schemes can result in larger tax revenue losses for developing countries because of their weaker tax administration capacity.

  The Africa Progress Report for 2013 highlights the lack of transparency amongst companies, particularly in the extractive sector, which is a significant concern given their role in handling large revenue flows. Even small amounts of diversion can have significant impacts on government budget planning and spending on basic services.

The ILO is working to engage multinational companies in dialogue on such issues, particularly through the ILO Declaration of Principles concerning Multinational Enterprises and Social Policy (the so-called MNE Declaration), which provides companies with guidance on social policy and responsible labour practices. The MNE Declaration contains recommendations for both governments and companies to maximize the positive contribution that companies can make to socio-economic development.

Development partners can also assist by promoting transparent reporting by multinationals and tax havens to tackle cross-border tax evasion.

- **The informal economy** makes up about 40 percent of GDP in many developing countries and the lack of formal financial records for businesses operating in the informal sector presents numerous challenges for revenue authorities. Supporting formalization of the informal economy – an area in which the ILO is closely involved – may not only lead to legal recognition and protection of workers, along with the rights and benefits of being formally employed, but may also contribute significantly to tax revenue.

- **Capital flight is amongst the main contributors to the erosion of the tax base in Africa.** Though accurate estimation is difficult to obtain, various studies do indicate that African countries have lost significant amounts of resources to capital flight. UNCTAD estimates that Africa's cumulated stock of capital flight for the period 1970-2004 was USD 607 billion, which is almost as much as three times the region's external debt. While the severity of the problem varies from country to country, UNCTAD estimates that Sierra Leone's accumulated capital flight was worth 425 percent of the country's GDP in 2004. The comparable figures were 344 per cent in both the Congo and Zimbabwe and 312 per cent in Burundi. Some of the causes of such flight are:
    - Weak financial management and enforcement systems;
    - Political instability, which makes the holding of domestic assets risky and therefore leads to a search for a safer home for these assets;
    - Search for better returns on investment outside the country;
    - Financial liberalization which has made it easier to externalize financial resources;
    - Limited financial instruments in the domestic market which limit the available investment opportunities in the local market.

- **By some estimates, illicit flows from Africa each year could be as much as double what ODA allocate to Africa** and this estimate may well be short of reality as accurate data do not exist for many African countries. Illicit financial outflows drain hard currency reserves, heighten inflation, reduce tax collection, cancel investment, undermine trade, worsen poverty, and widen income gaps.

  A recent study by Global Financial Integrity concluded that:
    - Total illicit financial outflows from Africa, conservatively estimated, were approximately USD 854 billion during the period 1970 to 2008;
    - Sub-Saharan African countries experienced the bulk of illicit financial outflows with the West and Central African region posting the largest outflow numbers;

    - Illicit financial outflows from the entire region outpaced official development assistance going into the region at a ratio of at least 2 to 1.

  Curtailing illicit financial outflows from Africa can produce the largest source of new funds for poverty alleviation and economic growth in the near future. The key to achieving success is adopting laws, regulations and policies that encourage transparent financial transactions.

This brings me to my final point.

- In order to enhance domestic resource mobilization in Africa, **domestic and regional stakeholders have to work together on a broad agenda**. A number of instruments have been proposed to step up the mobilization of domestic resources in Africa for the implementation of national and regional development programmes. Some of these include:
    - Establishment of an African Infrastructure Development Fund;
    - Development of an African Credit Guarantee Facility;
    - Establishment of Africa-owned Private Equity Funds;
    - Promotion of Regional Stock Exchanges.

  To tap such resources and generate substantially more development finance for the implementation of national and regional development programmes, Africa needs to devise new and innovative domestic resource mobilization instruments and strengthen the effectiveness and efficiency of existing ones. It also needs to revisit issues of governance, institutional and macroeconomic policy reforms, as well as legal and regulatory frameworks, which provide the overarching enabling environment for investment and efficacy of instruments for the mobilization of domestic resources. In addition, there is a need to accelerate regional integration, reform specific laws governing investment of public funds such as public pension funds, and build requisite capacity to design and implement reforms for an effective domestic resources mobilization drive.

Thank you for your attention.