

AFRICAN DEVELOPMENT BANK GROUP



DOMESTIC RESOURCES MOBILIZATION

The Cornerstone of a Broad-Based Development

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Joint ATAF-KOREA and ADB Conference on Domestic Resource Mobilization

Challenges to African Tax Policy and Administration

AFRICAN TAX ADMINISTRATION FORUM

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Dear Chairperson Oupa Magashula,
Dear ATAF Executive Secretary,
Dear commissioners,
Distinguishes guests, ladies and gentlemen,

It gives me great pleasure to deliver the introductory remarks at this important Conference on Domestic Resource Mobilization here in Cape Town. **From an idea of a few visionary policy-makers, ATAF has become a reality and I wish to commend you for your leadership in turning this idea into a reality.**

In the past three years, since your founding meeting in South Africa, the international environment has changed. The global economic crisis has changed the way we must think about financing our development. The challenges of domestic resource mobilization and, more fundamentally, the governance of domestic revenues have acquired renewed traction.

Because the international development assistance environment will continue to change, I am here today to advocate with you a vision of a **Fiscal-Self-Reliant Continent** through a sustained growth process and stronger tax administration for effective domestic resources mobilization.

I am personally gratified that the African Development Bank has been your partner since your very first steps. This solid partnership is reflected in our hosting of the 2nd Council meeting of the African Tax Administration Forum held in Tunis, on 15 – 16 November 2010 as guests of Dr Donald KABERUKA, the President of the African Development Bank (ADB) Group.

The ATAF Council adopted by majority the final texts of the ATAF Agreement and the Rules and Procedures through the signing of a resolution at the Tunis meeting that paves the way for ATAF's member countries to proceed with the approval of the ATAF Agreement in accordance with their domestic legal requirements. This will result in ATAF being established legally as an international organisation.

In the above context, and wishing to cement our already-existing strong relationship since the ATAF Inaugural Conference, we are reiterating our firm intention to strengthen our cooperation, demonstrating our shared commitment to mobilising domestic resources more effectively and increasing the accountability of our states to our citizens. To this end, the African Development Bank intends to become an associate member of ATAF in accordance with its Agreement and its Rules and Procedures.

We too, at the Bank, have also over the past three years increased our support to improve policies, strengthen institutions and build capacity for better taxation. About 35% of the Bank's governance

programs now include components supporting tax reform and tax capacity.

Ladies and gentlemen, I personally believe that an effective domestic resource mobilization is essentially the Cornerstone of Broad - Based Development. Today I would like to share three key messages with you if the continent is to become fiscal-self-reliant.

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First key message: Promoting sustained growth in Africa to broaden the fiscal base. Historical records show a broad range of outcomes in countries achieving sustained economic growth. Economic studies have emphasized this trend in some countries, particularly in East Asia countries, which have recorded very rapid rates of growth, capital accumulation and remarkable domestic resources mobilization and are catching up already with industrialized countries.

The lesson I draw from Asia is that there is a need to develop a sound Private Sector to fuel the process of Sustained growth and higher income. In Africa the dual challenge lies in generating an increasing stream of domestic resources, and efficiently channeling them to development ends for increased productive capacity and to lessen the supply-side constraint. Such a scenario requires an environment conducive to private savings, efficient mechanisms for allocation of public expenditure and adequate room for private initiative.

In Sub-Saharan Africa, the mobilization of domestic resources has been constantly much lower than in the newly industrialized Asian countries (Hong Kong, Indonesia, Korea, Malaysia, Singapore, Taiwan and Thailand), during the past decades, and the trend has been persistent. Moreover, savings rate in the developing Asian region is even higher, about double that of Sub-Saharan Africa countries. Asian countries have remarkably increased their savings rates and at the same time experienced astonishingly high growth rates.

It is therefore fundamental to promote and catalyze the process of sustained growth to generate sustainable higher income, which broadens the fiscal space and creates predictable revenue flows for Governments, indispensable for effective service delivery to the citizens.

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Second key message: building capable states. Mobilization of domestic resources is the foundation for self-sustaining development. Domestic resources play the main role in financing gross domestic product and social programs. This also leads to greater predictability in Budget Management and Public Investment Programs (PIP).

Taxes are without a doubt the foundation for the making of capable states. Improving tax administration and domestic revenues are therefore means to build a path towards fiscal-Self-reliance, hence effective socioeconomic service delivery.

Aid and mutual accountability will remain inextricable though, notwithstanding, taxes are more reliable than donor aid and the current volatility of aid flows underlines the fact that long term predictable finance is best achieved through domestic revenues.

While Africa's resource mobilization has improved over the last decade, it remains insufficient to address the daunting challenges and below potential of the region's taxable capacity. Most African countries do not raise sufficient domestic resources to finance their own development.

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Third and lastly: Taxes, citizens and institutions. Because Taxation is essential to sustainable development, all sectors of society should work together to promote fair and efficient tax systems and administrations that will ensure that each citizen receives and contributes to the fruits of economic achievement and, at the same time, demands greater accountability.

Effective institutions and conscious citizenship institutions, however, must also grow from within and be adapted to the challenges of each country. Building institutions to increase domestic revenues of governments is a defining challenge. Nevertheless, there is still room among other things for simplified tax systems that improve predictability of tax revenues.

Closing remarks

Let me conclude with how the Bank is intending to respond to this critical challenge of helping our member countries become fiscally independent.

- Today, the Bank intends to scale up its support to our member countries to reform tax systems and strengthen tax administrations for improving domestic resources mobilization.
- Today, the Bank is committing to scaling up its support to domestic resource mobilization for effective development financing and poverty reduction **through an increased focus of our policy based lending and institutional support projects.**
- As we seek more effective ways of improving taxation and domestic revenues, I wish to assure you of the Bank's unreserved support so that we can perform this role effectively towards **a Fiscal-Self-Reliant Africa.**

Thank you very much!