Resource Mobilization in Sub-Saharan Africa

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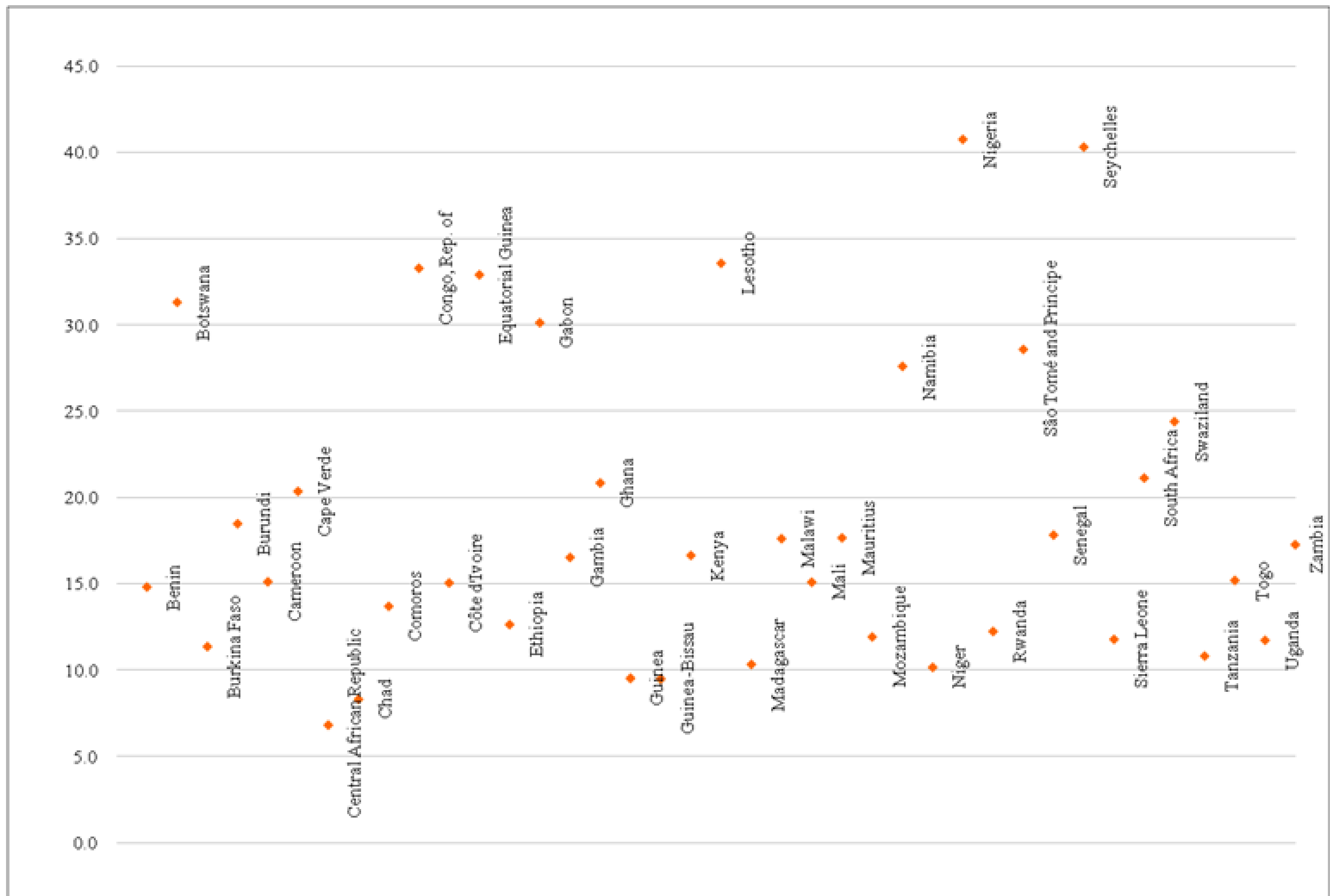
April 28, 2010

Views are those of the author; they should not be attributed to the IMF, its management or executive board

Tax/GDP ratio in most SSA countries is below 20%; 15 out of 39 are below 15%, and few below 10%.

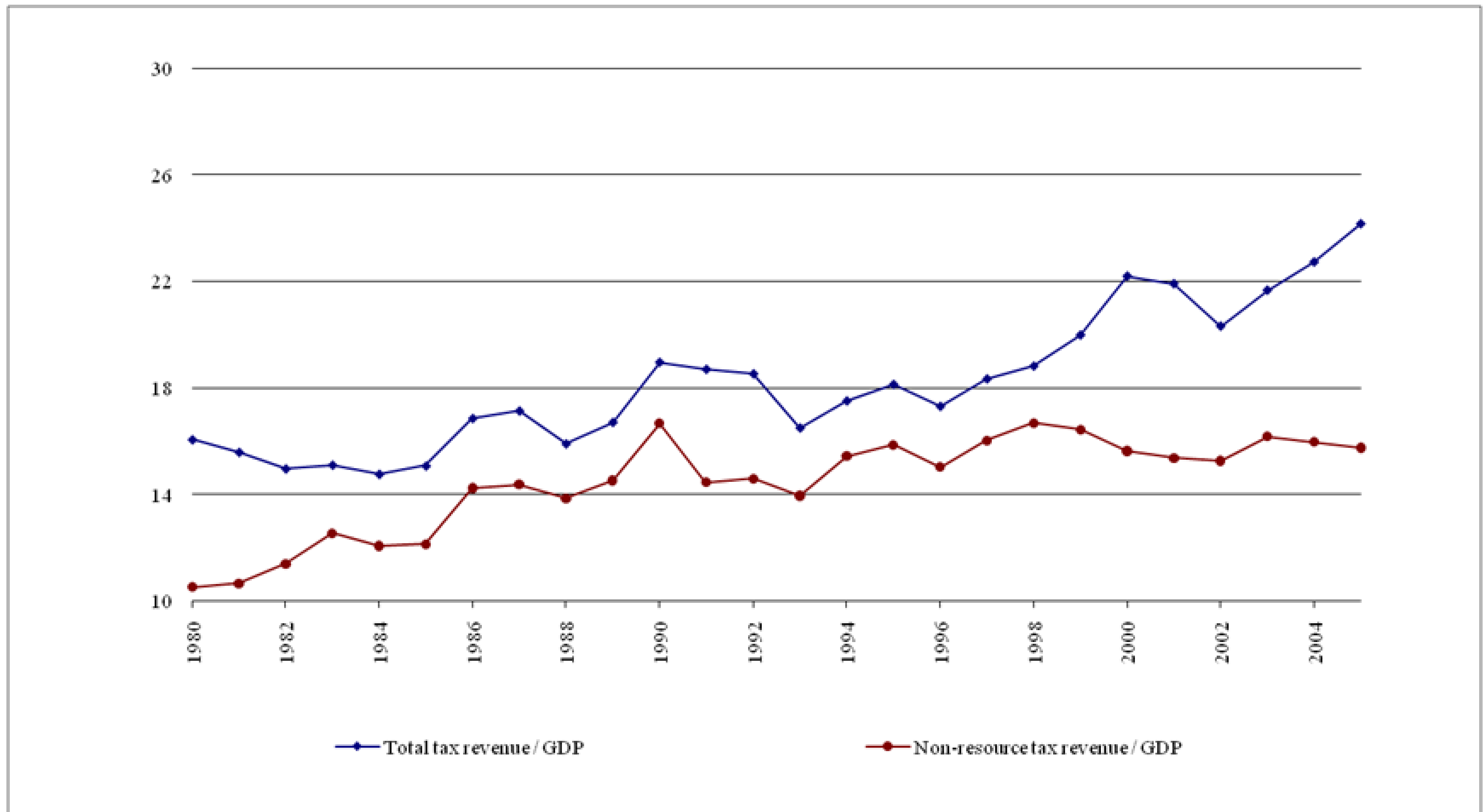
Countries above 20% are resource-rich countries, very small economies (Sâo Tomé & P, Seychelles, Cape Verde), have high tariff revenues and high average tariff rates (Lesotho), or all of this (Namibia). Only exception in the sample is Ghana (slightly over 20%).



What happened since the 1980s?

Tax ratios increased substantially in the 1980s: mainly non-resource income and indirect (cascading sales) taxes.

Since the early 1990s, increase in tax ratios is (on average) a resource rent phenomena; non-resource tax revenues have stagnated, especially in LICs. **BUT country experiences vary widely**.



What does this mean?

- Effective resource taxation for those who have natural resources
  - But not necessarily lower non-resource taxes --- international financial crisis provides lessons about the costs of a non-diversified revenue structure.

- Need to raise non-resource taxes, especially for those who don’t have natural resources

Characteristics of natural resources

- High economic rent
- Uncertainty: quantity and quality of resource—value—and timing of revenue
- Instability: volatile international prices
- Time inconsistency: high sunk costs and long production periods
- Asymmetric information: between firms and governments

SSA economies

- Higher political risk
- Resource often located in highly unstable regions
- Inadequate central-regional coordination—an additional risk
- Governance issues
- Weak institutional capacity – tax policy, tax administration, and policy coordination with Ministry in charge of natural resource management

- **An effective tax system for natural resources should take into account all this – not easy to do**

Taxes for natural resources

- Some general principles
  - Individual taxes matter less than the overall regime
  - Key is government share of net revenues, and timing of revenues
  - Neutrality does not mean same tax burden as non-resource sector
- Royalty: most common is proportion of value
  - Compensates owner for extracting resource now rather than later
  - Provides upfront revenue, irrespective of profitability
  - 5 to 10% are prevalent for oil and diamond; 3% for other minerals
- Corporate tax:
  - Imposed almost everywhere – sometimes at higher rates than non-resource activities (e.g. Cameroon)
  - Could be more efficient to capture additional rent from sudden commodity price rise

Taxes for natural resources

- Other taxes
  - Import duties on materials and intermediates
  - Export duties: have virtually disappeared
  - Sales taxes: often a VAT, and should have no impact if properly designed
  - Withholding tax on payments for services rendered by non-residents

- Additional taxes: all have as a main objective a higher share of revenue to government when certain conditions are met
  - Rent tax: on cash flows exceeding a specified rate of return over the life of a project
  - Variable corporate tax and royalty (according to profits/revenues)
  - Price participation/windfall taxes: change the sharing of the proceeds when commodity prices break a specified level
  - Formulary profit sharing