Re-thinking Resource Tax Policy to Improve Debt Sustainability in Africa

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Problem of Debt Sustainability and Resource-Dependent Countries
Resource-Backed Loans
### Countries with large known RBL exposure and their debt sustainability (NRGI, 2020)

<table>
<thead>
<tr>
<th>Country</th>
<th>Total RBLs 2004 to 2016 as percent of 2016 GDP</th>
<th>Total government debt stock to GDP (2016)</th>
<th>IMF Debt Sustainability Assessment status for low income developing countries (latest assessment as of November 2019)</th>
<th>Credit rating for market access countries (as of July 2019)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Congo</td>
<td>65%</td>
<td>128%</td>
<td>In debt distress</td>
<td>n/a</td>
</tr>
<tr>
<td>South Sudan</td>
<td>42%</td>
<td>89%</td>
<td>In debt distress</td>
<td>n/a</td>
</tr>
<tr>
<td>Angola</td>
<td>25%</td>
<td>76%</td>
<td>n/a</td>
<td>Highly speculative</td>
</tr>
<tr>
<td>Chad</td>
<td>21%</td>
<td>52%</td>
<td>High risk of debt distress (after restructuring)</td>
<td>n/a</td>
</tr>
<tr>
<td>Ecuador</td>
<td>14%</td>
<td>43%</td>
<td>n/a</td>
<td>Highly speculative</td>
</tr>
<tr>
<td>Niger</td>
<td>13%</td>
<td>44%</td>
<td>Moderate risk of debt distress</td>
<td>n/a</td>
</tr>
<tr>
<td>Venezuela</td>
<td>12%</td>
<td>30%</td>
<td>n/a</td>
<td>In selective default according to two agencies</td>
</tr>
<tr>
<td>DRC</td>
<td>10%</td>
<td>19%</td>
<td>Moderate risk of debt distress</td>
<td>n/a</td>
</tr>
<tr>
<td>São Tomé &amp; Principe</td>
<td>8%</td>
<td>92%</td>
<td>In debt distress</td>
<td>n/a</td>
</tr>
<tr>
<td>Ghana</td>
<td>8%</td>
<td>57%</td>
<td>High risk of debt distress</td>
<td>n/a</td>
</tr>
<tr>
<td>Sudan</td>
<td>3%</td>
<td>100%</td>
<td>In debt distress</td>
<td>n/a</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>2%</td>
<td>54%</td>
<td>In debt distress</td>
<td>n/a</td>
</tr>
<tr>
<td>Brazil</td>
<td>1%</td>
<td>78%</td>
<td>n/a</td>
<td>Non-investment grade speculative</td>
</tr>
</tbody>
</table>
Extractive sector contribution to GDP and revenues in African countries

Source: EITI reports. Data for latest year available.
Substantially Lower Take For Mining than Oil


Average government revenues as a % of the value of exports per sector (2013-2017)
One Dominant Tax Regime for Mining

Fig 1. Theoretical breakdown of mining revenues by instrument, based on ex-ante modelling
The IMF FARI model is based on 5% royalty, 30% CIT, and 10% free state equity.

A Changing Sector & Society

Industry undergoing major technological transition
• Greener, safer, but fewer lower skilled jobs
• Reduced payroll taxes, indirect taxes
• Growth in hard-to-value intangibles
• Opportunities to improve government monitoring

Opportunities & challenges from low carbon minerals
• An uncertain landscape
• Chasing prices is not a recipe for success
• Governance risks
A Changing Sector & Society

International Tax Regime in Flux
- Unfinished business from the OECD BEPS project
- New taxing right / but carve-out for extractives
- Global minimum effective rate
- Separate process needed to review resource taxation

Additional Financial Pressures
- Re-building public finances post-COVID
- Diversifying away from fossil fuel
- A more engaged citizenry
THE FUTURE: of Resource Taxation

1. How can the dominant fiscal regime for mining, based on royalties and corporate income tax, be improved, in design, implementation and effectiveness, especially for resource rich developing countries?

2. Are there alternative options available to resource-rich countries to maximize the revenues from their mineral wealth?
THANK YOU

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INTERGOVERNMENTAL FORUM on Mining, Minerals, Metals and Sustainable Development