

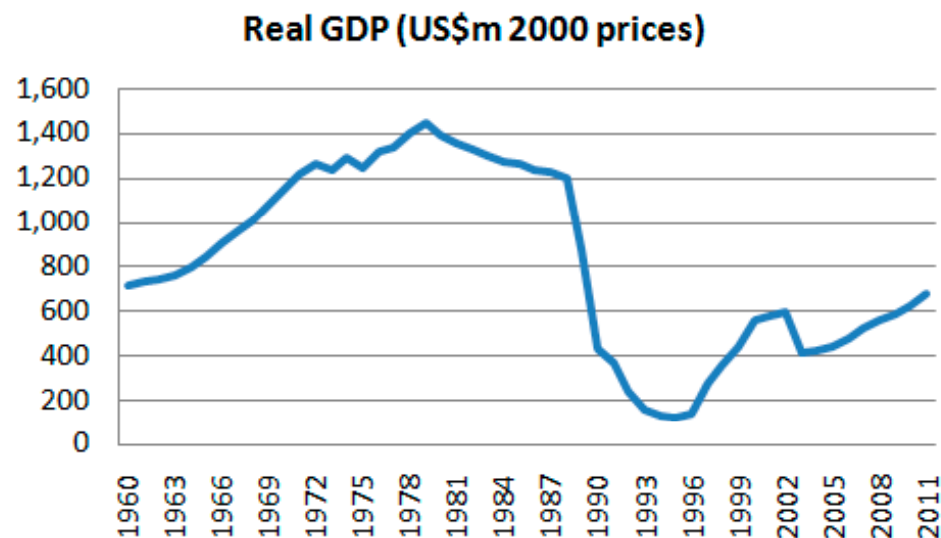


Taxing Natural Resources Experiences in Liberia

Minister Elfrieda Tamba, Deputy Minister for Revenue
Ministry of Finance, Liberia
21st March 2011

NATURAL RESOURCE CONCESSIONS SINCE 2006

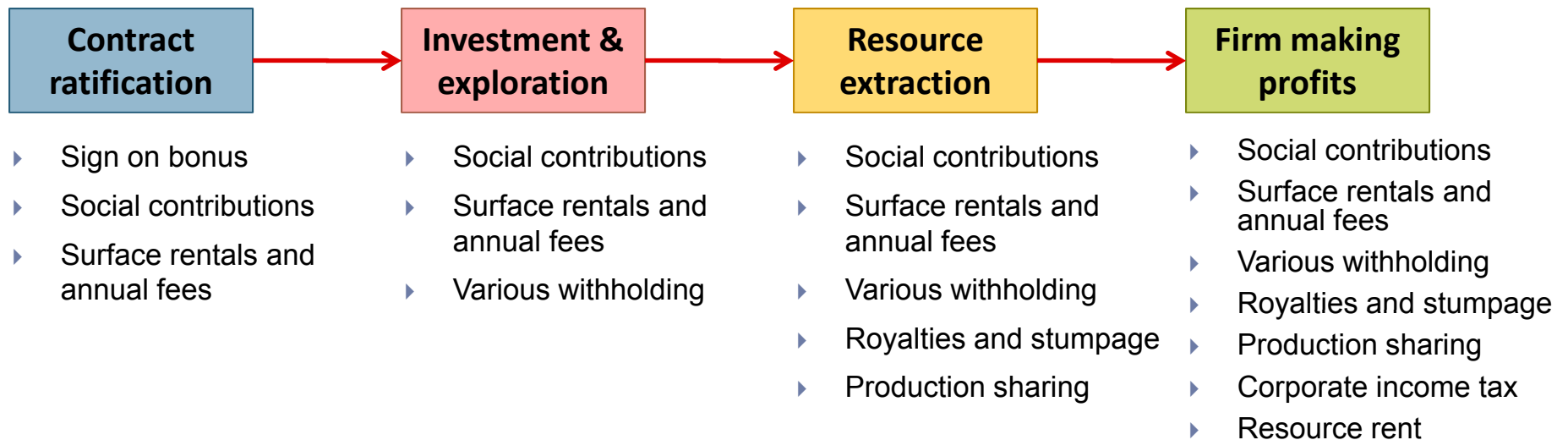
- ▶ Civil crisis had a devastating impact on economy and investment.
- ▶ Full review of key contracts after civil crisis.
- ▶ Over 20 major natural resource agreements negotiated.



- ▶ Increase transparency, accountability and better revenue outcomes for country:
 - ▶ *Public Procurement and Concessions Act 2005* – required competitive tendering, due diligence and inter-ministerial negotiating teams;
 - ▶ Development of model contracts for each sector;
 - ▶ Attempts to standardize incentives on a sector-specific basis; and
 - ▶ Greater use of financial modeling in negotiations.
- ▶ Despite improvements and attempts to standardize fiscal terms, each project largely remains governed by its own contractual fiscal regime.

NATURAL RESOURCE TAX STRATEGY

- ▶ Revenue strategy is to have a mix of up front payments, royalties, profit-based taxes and social development contributions directly to counties. This ensures Government receives revenues earlier than just using profit-based taxes and local communities benefit.
- ▶ Royalties and production sharing guarantee revenue streams for Government as soon as resource extraction begins and over the life of the project.

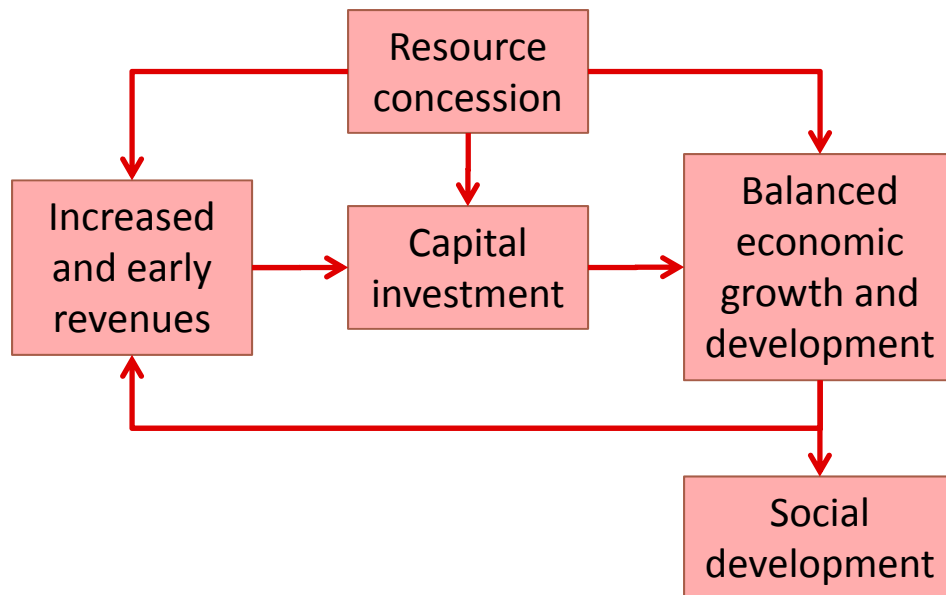
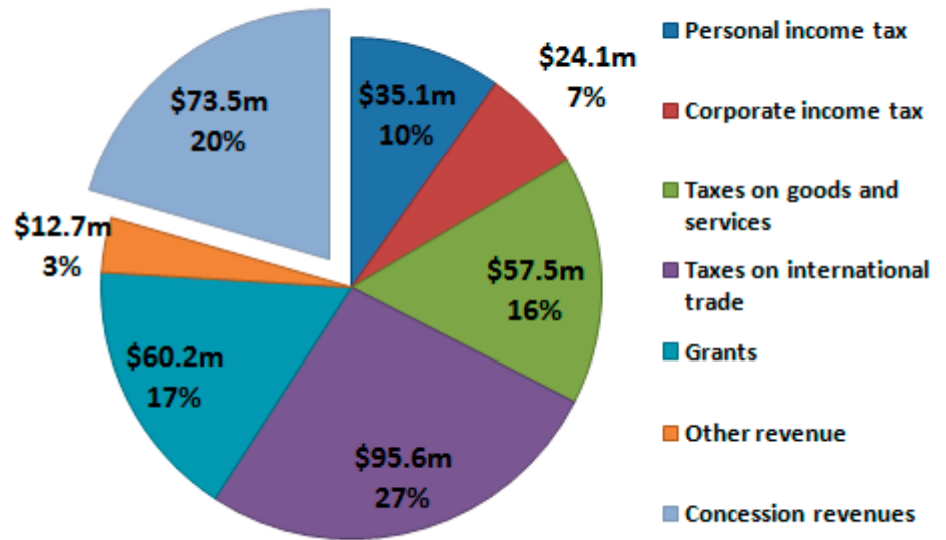


- ▶ To facilitate investment Government allows accelerated depreciation, extended loss carry forward, temporary exemptions from import duties and stabilization of key fiscal terms.

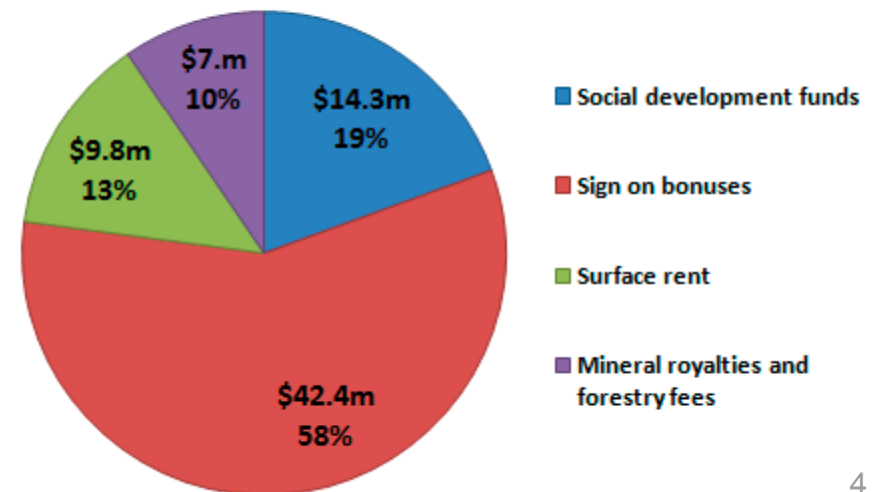
NATURAL RESOURCE FISCAL STRATEGY

- ▶ Concession revenues are 20% of the approved budget forecast in 2010-11 (top right) – majority from sign on bonuses before large scale production commences (bottom right).
- ▶ Potential for \$ billions of revenues from natural resources in the medium term – strategy is to invest in infrastructure and human capital, acting as a catalyst for increased economic growth and social wellbeing.

Total revenue forecast 2010-11 (\$358.6m)



Concession revenues 2010-11 (\$73.5M)



NEGOTIATING PROCESS TO DATE

- ▶ Inter-Ministerial Committee on Concessions (IMCC) comprising key stakeholders negotiates on behalf of the Government of Liberia.
- ▶ Government receives technical and legal support under the International Senior Lawyers Program and other consultants.
- ▶ Investors do fiscal regime shopping and seek better terms from each concession agreement.
- ▶ Government strives to balance direct returns from revenues and indirect returns from investment and non-cash benefits, such as infrastructure.
- ▶ Greater use of financial modeling is helping the Government to calculate the cost of fiscal waivers.
- ▶ Standardized terms in the revenue code should limit negotiations in future concessions.

LESSONS LEARNED

- ▶ **Need to ensure standardized regime for each sector.**
 - ▶ Avoid investor “cherry picking” best terms in varying regimes.
 - ▶ Easier to administer.
 - ▶ Ensure level playing field.
 - ▶ Revenue code amendments seek to standardize fiscal regimes for renewable and non-renewable resources.
 - ▶ This will not apply retroactively to existing concessions.
 - ▶ Greater transparency.
- ▶ **Importance of financial modeling** – enables Government to quantify cost of fiscal waivers and assess benefit to concessionaire for use in negotiations.
- ▶ **Important fiscal regimes share risk and reward** between Government and investor.
- ▶ **Case for variety of revenue sources from concessions.**
 - ▶ Upfront payment and royalties are paid earlier than taxes on profits.
 - ▶ Ensure early revenues for economic development at a time when the revenue envelope cannot meet public sector needs.
 - ▶ Social development funds ensure local population benefit.

CHALLENGES

- ▶ **Challenges for future concession agreements.**

- ▶ Applying standard regime as stipulated in the law.
- ▶ Evaluating non-financial contributions.
- ▶ Building consensus on best deal for the Government of Liberia.

Amended Revenue Code sets out standard fiscal regimes for each sector. Making greater use of financial modeling to evaluate non financial contribution.

- ▶ **Challenges for revenue collection.**

- ▶ Administering existing multiple fiscal regimes.
- ▶ Developing industry-specific expertise to properly evaluate legitimate project costs, sale prices and related party transactions.

Government is investing and soliciting training of staff in specialized sectors. Making greater use of modeling in administering the sectors.

- ▶ **Other challenges for Government of Liberia.**

- ▶ Using revenues effectively to secure balanced economic development.
- ▶ Strengthening public sector governance.

Recent reforms to fiscal framework prioritize investment through the project budget.