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Extractive Resources for Development:

Trade, fiscal and industrial
considerations

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Key messages

To be truly transformative, opportunities from the high growth rates have to be translated into employment creation, improved productivity and industrialization.

For Africa, the capacity to mobilise domestic revenue and to stimulate industrial development from extractive resources is viewed as essential to economic priorities.

Domestic industries should be linked to regional and global value chains. The most effective approach is to combine industrial strengths, deepen interconnectedness and develop competitive and functioning markets.

The role of development partners in supporting African initiatives can only be modest: key impetus and drive should come from Africans themselves, and resource-rich countries have potentially greater means to reform their economies.

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Acronyms

AAGI	Ahafo Agribusiness Growth Initiative
AIDA	Accelerated Industrial Development of Africa
AMV	Africa Mining Vision
APRM	African Peer Review Mechanism
BAGC	Beira Agricultural Growth Corridor
CAADP	Comprehensive Africa Agriculture Development Programme
CSR	Corporate Social Responsibility
DFI	Development Finance Institution
DRC	Democratic Republic of the Congo
ECDPM	European Centre for Development Policy Management
ECOWAS	Economic Community of West African States
EDIF	Export Development and Investment Fund
EITI	Extractive Industries Transparency Initiative
EM	ExxonMobil
EPA	Economic Partnership Agreement
EU	European Union
FDI	Foreign Direct Investment
G8	Group of Eight
G20	Group of 20
GATT	General Agreement of Tariff and Trade
GDP	Gross Domestic Product
GSP	Generalised System of Preferences
ICGLR	International Conference of the Great Lakes Region
IFC	International Finance Corporation
IMF	International Monetary Fund
ISI	Import Substitution Industrialisation
LDC	Least Developed Country
MEC	Minerals Energy Complex
MNCs	Multinational Corporations
NAMA	Non-agriculture market access
NORFUND	Norwegian Investment Fund for Developing Countries
OECD	Organisation for Economic Co-operation and Development
OfD	Oil for Development
OPEC	Organisation of the Petroleum Exporting Countries
PIDA	Programme for Infrastructure Development in Africa
R&D	Research and Development
RECs	Regional Economic Communities
RT	Resource Rent Tax
SADC	South African Development Community
SARB	South African Reserve Bank
SIMS	State Intervention in the Minerals Sector
SMEs	Small and Medium-Sized Enterprises
SWF	Sovereign Wealth Funds
TAZARA	Tanzania-Zambia Railway Authority
TPR	Transfer Pricing Regulations
UNCTAD	United Nations Conference on Trade and Development

UNECA	United Nations Economic Commission for Africa
US	United States
VAT	Value Added Tax
WEEE	Waste Electrical and Electronic Equipment
WTO	World Trade Organization

Executive Summary

The sustained commodity boom of the last decade provided a new impetus to a number of African countries, after decades of economic turmoil. High growth rates recorded in recent years uncovered new opportunities to finally address long-standing socio-economic challenges that had hindered the continent's economic performance for decades. From an economic perspective, to be truly transformative, these opportunities will have to be translated into employment creation, improved productivity and industrialisation, and governments will increasingly be put under pressure to deliver on concrete results.

Among the priorities, two issues stand out as being very high on the agendas of many African countries. Firstly, the **capacity to mobilise domestic revenue** from extractive resources is viewed as essential to finance broader economic priorities, both within and outside the extractive sector. Secondly, it becomes imperative to define a clear strategy towards **industrialisation** to diversify away from the dependence on commodities and more broadly, to consolidate the economic base.

Many African countries have used **export controls**, in various forms, as a policy tool to mobilise revenue from the extractive sector and to foster industrial development. While the purpose is **not** to gauge whether export controls are good or bad policy measures, the **reasons** that drove governments to raise such measures have to be understood and it is important to examine to **what extent** it has worked (or not).

While in some economic sectors there have been positive impacts, the peculiar nature of the *extractive sector* soon showed the limits of export controls. In effect, contracts, special fiscal regimes and stabilisation agreements all contributed to create *watertight* business environments for industries, in such a way that the extractive industries were, in the end, insulated against such measures. For example, of 40 resource-rich African countries, 21 apply exports taxes and most of them are subject to other forms of export controls. Yet, most of them still have challenges to maximise fiscal revenues and are still highly dependent on commodities with little success in diversifying their export base.

To address the fiscal challenges, it is therefore important to go one step beyond, to **improve the overall management of revenues** from the extractive sector. Export taxes as a measure to fill in government coffers have their limits: stronger overall fiscal regimes have to be put in place and different fiscal instruments, adapted to the stage of mineral development, need to be clearly defined and implemented. Corruption, rent-seeking and patronage need to be addressed, as they distort the system. Capital flight and illicit capital flows – unsurprisingly largely present in resource-rich countries - have to be tackled as they drain currency reserves and squeeze revenue collection. This requires *strategic planning* and bold and transparent mineral reforms. Beyond fixing the leakages, effective revenue collection needs to be *managed prudently*. This includes (i) managing government expenditures, to prevent the unwanted effects of the Dutch Disease; and (ii) managing excess revenues and foreign reserves in times of booms, with the possibility to save part of the revenue for future generations, through the creation of *sovereign wealth funds*.

As mentioned, **industrialisation** is no longer a choice in Africa, it is an imperative. While in some economic sectors (for instance the leather sector in Kenya) the use of export restrictions has indeed encouraged local processing, in the extractive sector however, there has been limited success. Zambia, for instance, moved one step up the value chain, from copper concentrates to refined copper. But successful cases are rare to find. Yet, potential to develop linkages, both with and outside the extractive sector, are quite significant. With complementary industrial policies it is possible to develop **smart productive**

linkages, which also need to be accompanied by **spacial linkages**, i.e. inclusive infrastructure corridors that can stimulate clusters and integrate local economic activities. It is equally important to promote **knowledge linkages** to foster innovation, creativity, skills and capacity to maximise the economic and social potential and benefits associated with extractive resources.

Within the extractive sector, **forward, backward and lateral linkages** should be encouraged, if there are business cases to do so, and provided supply-side constraints such as infrastructure and energy deficits or skill mismatch or shortages are addressed. These can generate value-added activities and location-specific activities, notably for the local private sector.

A key consideration for African countries is to seek to develop activities where higher value is actually created. These are generally activities that create jobs and contribute significantly to the national output. The availability of cheap labour and relatively low costs of production confers a theoretical comparative advantage to a good number of African countries.

The manufacturing sector remains a key priority for most African countries, for obvious reasons that it is a big employer, in particular for lower-skilled people and is relatively easy to set up (provided there is a business case to do so). More importantly, it serves as an incubator for new ideas. However, contrary to what one might think, it might not be where most value can be created. Experience has shown that much more value can be created in supportive services, at the concept phase, or during the distribution phase.

It is therefore important to rightly frame the policy objectives to be achieved. If the **objective** is to **create value**, then the focus must be on the development of services that surround manufacturing processes, such as research and development, branding and design in order to become **competitive over concepts**. Markets and logistics are the other types of activities that generate significant value added. However, if the **objective** is to **create jobs** and **develop an industrial base**, then policies will have to focus on **competition over processes**, bearing in mind that this will place the country at the lower level of the value chain, unless activities are integrated globally. Here, smart industrial policies will have to be well defined and clearly implemented.

Linking the extractive sector with other productive sectors, such as agriculture is also crucial. In most African countries, agriculture is a major economic sector and therefore has significant potential to be transformative. For now, many countries continue to struggle to improve productivity. Resources from extractive sectors could be used to catalyse the agricultural sector, in particular in areas where the two sectors co-exist.

The next step is to ensure that domestic industries are efficiently linked to **regional and global value chains** (GVCs). Over the years, production structures have become more and more structured around GVCs, as a result of technological progress, of a more liberal international trade framework and of the increasing role of emerging economies as new drivers of production structures. This has to be factored in when defining policies to boost industrial development.

But ironically, while most resource-rich African countries are crucial providers of raw materials for industrial products, unfortunately, most of them have been operating at the lowest rung of the ladder in GVCs and have not been successful in developing their own niches. They remain locked as perpetual providers of unprocessed inputs and have failed to move up. Efforts are being done to change the state of affairs. Amongst others, reforms include requirements to use local content and procurement as a catalyst to industrial development. National efforts alone are however not sufficient to embrace economic

transformation in a sustainable manner. Most extractive industries operating in Africa are connected to regional and global networks, as their raw materials are essential inputs to the production of goods. In this context, no country can reach its full potential unless its neighbours and economic partners are successful. The most effective approach to boost Africa's industries is to explore the potential to combine industrial strengths, deepen interconnectedness and develop competitive and functioning markets, starting with the regional level. Boosting intra-Africa trade, simplifying and reducing the costs of cross-border trade, improving the business environment, improving cross-border infrastructure are all vital conditions of a functional regional market.

What role for development cooperation? The role of development partners in supporting African initiatives can only be modest: key impetus and drive should come from Africans themselves, and resource-rich countries have potentially greater means (i.e. revenues) to reform their economies. Yet, the role of development partners should not be under-estimated. Despite the crisis, both the European Commission and the EU member states remain significant providers of development support, often in the form of financial support but also in the form of technical assistance and capacity building. But their relative role of development partners is likely to diminish, and so will their political weight, as economic conditions improve in many African countries.

This is not to say that they will no longer be relevant or may no longer have constructive experience to share with African countries. Increasingly, constructive support may take the form of capacity and institutional support. But this needs some adjustments in the form and the content of current development strategies.

For a large part, donors have focused their support on transparency and management of resources. However, support to **development initiatives** remains rather thin. When it exists, it remains largely focused within donors' own interests. The shifting geopolitical landscape in Africa however calls for a different, innovative approach, based on partnership and mutual benefits between development partners and African countries. While it is well understood that national resource strategies are meant to address first and foremost the needs of resource-dependent countries, reconciling those with the interests of resource-rich countries is likely to yield far more constructive results.

To make a difference, development support needs to pay particular attention to the **political economy dynamics** at play in resource-rich countries. These include understanding **who** are the main **drivers** of change (or blockage) and **what** are their **incentives**, **what** are the **power dynamics** like and **in what** particular country-specific institutional settings donors are involved. Once that understood, support should aim at providing **incentive-compatible interventions** that are political feasible and acceptable. This is not easy but may ultimately prove to be more efficient.

A complementary venue is to alter the incentives of the ruling elite, whose vested interests and power dynamics may otherwise bolster the resource curse. Such strategies may include interventions that seek to extend the time horizon of policymakers or mobilising stakeholders to increase the ranges of interests involved. Interventions that seek to '*enclave capacity and institutions*' related to natural resources have also been advocated as an additional mechanism to promote better governance.

Last, but not least, the international development community should better anchor their actions in domestic dynamics for change. Indeed, an increasing source of dynamics for shifting domestic incentives towards a pro-development path in resource-rich countries comes from collective action in Africa, at national, regional and the continental levels

1. Introduction

The sustained commodity boom of the last decade provided a new impetus to a number of African countries, after decades of economic turmoil. The good economic performance¹ recorded in recent years brought about new opportunities to address the long-standing socio-economic challenges that continue to hamper sustainable, equitable and inclusive development. From an economic perspective, to be truly transformative, opportunities will have to be translated into employment creation, improved productivity and industrialisation, as governments will increasingly be placed under the spotlight to deliver on concrete results. In doing so, they will have to carefully manage expectations, created by the potential wealth and benefits that these resources generate.

Among the priorities, two issues stand out as being very high on the agenda of many African countries. Firstly, the **capacity to mobilise domestic revenue** from extractive sectors is viewed as essential to finance economic priorities, both within and outside the extractive sector, to bridge infrastructure, technology and energy deficits and to address the challenges of attaining the millennium development goals. Secondly, **industrialisation**, through the promotion of value addition, the development of linkages and the integration into regional and global value chains, is increasingly seen as an absolute necessity to diversify away from excessive production concentration on few commodities and hence broaden the economic base.

To achieve these objectives, numerous policy measures have been put in place. These include industrial, investment and fiscal policies. But the specificity of extractive sectors has often created situations where some of these policies have had unintended negative impacts on other policies, making them largely ineffective and difficult to implement. That was the case for instance between favourable fiscal regimes, designed to attract and retain investments in the extractive sector, and industrial policies that contained measures to encourage the development of local firms, but at times crowding out foreign investors. This created a dual system where in the end, although the intention was to encourage local firms, foreign investment ultimately operated in a more business-friendly environment and hence became more efficient while local firms were rendered inefficient due to the lack of long-term accompanying measures to temporary support, initially put in place to give them a boost.

This paper attempts to shed some light on what measures some African countries have taken to attain the objectives of revenue mobilisation and industrial development. *Section 2* reviews the rationale and implications of the use of export restrictions. *Section 3* looks at the alternative ways of improving revenue management in many African countries. *Section 4* looks at issues related to industrial policy. Finally *Section 5* provides some insights on how best the international community can support African countries to attain set objectives, focusing on the political economy dynamics of reforms.

¹ Good growth performance is attributed to a combination of factors, including high commodity prices, prudent macroeconomic reforms, improved governance, better business environment and political stability.

2. Export taxes on raw materials

2.1. Rationale for the use of export controls in Africa

Governments apply export controls to achieve diverse policy objectives. These include both economic goals, such as the promotion of value addition on unprocessed goods, the prevention of de-industrialisation² and export diversification, as a means to raise fiscal revenue, for income stabilisation³ purposes or as a response to tariff escalation⁴ in third countries. They also include non-economic goals, such as environmental protection, national security, food security or social objectives.

The use of export controls can be traced back to the 11th century when it was widely used as an industrial policy tool as well as a source of revenue in western countries, at least until the 19th century, when trade was liberalised. However, export controls were maintained in certain circumstances to **foster domestic processing industries** (see Goode, Lent and Ojha, 1966). Today, export controls have mostly disappeared in industrial countries, but remain a common policy instrument in a number of developing countries, where they are essentially applied to primary products. Export restrictions can take various forms, namely:

1. Quantitative restrictions (or export quotas), which place a limit on the volume of exports;
2. Export duties, taxes or charges, generally based on the value of the product (ad valorem) or paid per unit or per weight (specific tax) of a product;
3. Non-automatic export licensing, special export authorisation or certification requirements, which are meant to regulate the number of exporters or which exporters are entitled to sell their products abroad;
4. Minimum export prices; and
5. Non-refundable value added taxes (VAT), where some exporters are denied a full VAT rebate for their products.

Intellectual debates on the impact of export restrictions are not conclusive. Many economists have argued that export restrictions were, at best, second-best options, given their overall trade distortive and global welfare reduction effects.⁵ Those in favour of the use of export restrictions, based their arguments on the distributional and rent-shifting effects that such measures could have for the domestic economy, in particular in cases where countries were important suppliers of such resources. They are generally *politically* attractive measures, as they tend to favour local actors at the expense of foreign actors. They are also easy to administer in countries where administrations are relatively weak.

² This is often an argument used to address the effects of the Dutch Disease, whereby improved terms of trade have crowded out investment in non-extractive industries and currency appreciation have in turn, rendered exports of manufacturing more expensive and hence uncompetitive.

³ Extractive resources are subject to high price volatility, represent a disproportionately high share of GDP and exports of resource rich countries. These combined, make resource-rich countries particularly vulnerable to income stabilisation (in particular export revenue stabilisation) problems. In such cases, export taxes have been used to insulate domestic consumers from rising world prices, by softening the impact of price increase on the domestic market; to increase government revenue therefore easing fiscal imbalance; and to promote a fairer re-distribution of income by taxing windfalls from exporters.

⁴ In general, import duties on unprocessed goods are low and tend to increase along the value chain, as the value added of products increase. To the extent that developed countries' markets are crucial to the growth of high value added industries in developing countries, tariff escalation is believed to have constrained raw materials producers to remain reliable on unprocessed goods and hence hinder their ability to develop their manufacturing sector. Export taxes have therefore been used to offset the distortionary effect of tariff escalation by reducing the domestic price of the product, and to some extent "retaliate" against developed countries by making inputs more expensive.

⁵ See OECD (2010), Piermantini (2004), Seyoum (2008) and Solleder (2013).

The purpose of this section is **not** to gauge whether export controls are good or bad economic policies. It rather examines the **reasons** that drive governments to raise such measures and to **what extent** it has worked (or not), in the particular case of extractive resources.

In many African countries, the three main arguments put forward for the use of export restrictions are economic, environmental and food security.⁶ On the economic side, it is argued that export restrictions are necessary tools to support local industrial development. It is designed to retain primary products and encourage local processing and hence, to diversify away from the (heavy) dependency on exports of unprocessed goods. In addition, export taxes are considered as part of the fiscal package, aimed at collecting revenue, in particular in countries where the domestic tax base is relatively weak.

2.2. The specificity of extractive resources

Before mapping out the state of play of export taxes in African countries, it is important to highlight and understand the **specificity** of the extractive sector, which has largely contributed to shape the impact and outcome of policy measures related to the sector. These are namely:

1. Extractive resources are **location-specific** and sometimes **highly concentrated** in a few countries. Depending on the strategic importance of resources at stake (for instance, South Africa is home to close to 90% of the world's platinum, group of metals, Democratic Republic of the Congo (DRC) hosts 40% of global supply of cobalt), resource-rich countries attract **more** or **less** geostrategic interests.
2. Their exploration and exploitation are **highly capital intensive, costly and time consuming**. The time lag between exploration and production can be up to two decades. This is a key consideration in contract negotiations and the fiscal regime surrounding the sector has to take into account the scale of investment made upfront, generally several years before investments become profitable.
3. The **use** of extractive resources varies significantly. Some are considered as strategic and indispensable for industrial development and are therefore key to maintaining growth and employment, in particular in industrial countries. This has been at the heart of the debate in Europe, for instance, in particular following the economic crisis.
4. For the most strategic ones, resources are often also **scarce**, given the present state of technology. This has been critical in assessing the supply risks in resource-dependent countries, and therefore a major element of commercial and political diplomacy.

As a result, the regulation surrounding extractive industries is peculiar: it is subject to specific and complex legislations and high political oversight, given their strategic importance.

To that effect, any export control measure taken by resource-rich countries is likely to have a more or less significant impact, depending on whether or not the country applying the measure is a **key global player** on the market⁷; what is the strategic relevance of the resource in question to industrial production; and to what extent the extractive resource in question can be substituted, in case of supply shortages.

These elements are determinant in the analysis of the impact of export restrictions and have framed the breadth and depth of the engagement of resource-dependent countries in economic and political diplomacy with resource-rich countries. They have led to strategic thinking and targeted actions at the multilateral

⁶ See Karapinar (no date).

⁷ See Piermartini R. 2004.

level. For instance, the European Union (EU) came up with two raw materials initiatives in 2008 and 2011⁸ respectively, the US defined a Critical Minerals Strategy⁹ in 2010, in 2008 Japan published guidelines for securing national resources¹⁰, Korea defined a plan for stable procurement of rare metals in 2010 and China has pursued a strong outward policy to accessing raw materials while at the same time maintaining its own supply for its national use (see Ramdoo, 2011). On the bilateral basis, most G20 members have also defined their own raw material policies to secure access to minerals to maintain their industries; jobs and growth (see SWP, 2013).

2.3. State of play of export taxes in use in African countries

Although their scope varies across products, export restrictions are widely used in developing countries. As pictured in Figures 1 and 2, they are used by many developing countries (not only in Africa) and they generally apply to primary products, and in particular in the mineral sector.

Figure 1: Natural resources exports covered by export taxes (frequency and percentage of world trade)

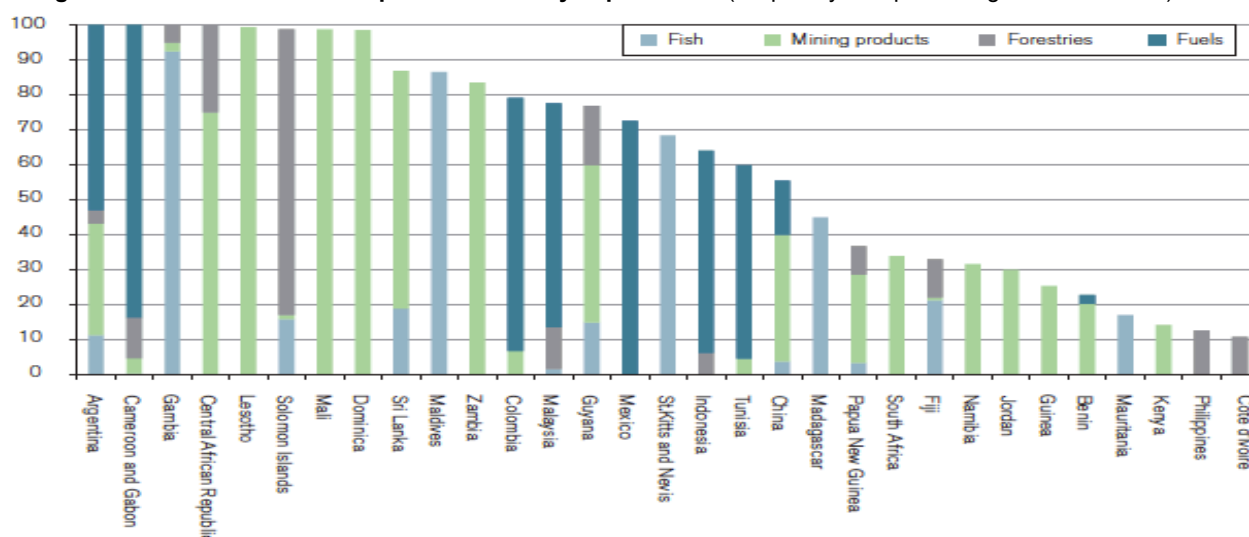
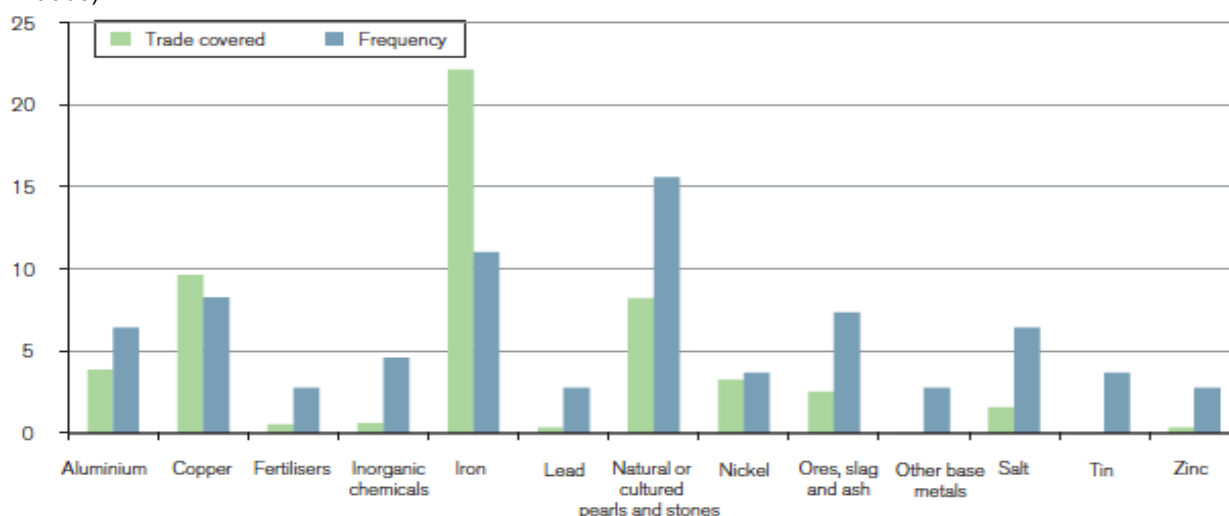


Figure 2: Export taxes on mining products by sub-heading (upper bound rates; frequency and percentage of world trade)



Source: WTO, 2010

⁸ See Com (2008)/274 and Com (2011)/25

⁹ See www.energy.gov/criticalmaterialsstrategy

¹⁰ See www.meti.go.jp/english/newtopics/data/pdf/080328Guidelines.pdf

All African countries, members of the World Trade Organization (WTO), apply some form of export control measures. As summarised in Table 1, out of 40 African countries, only five countries, namely Burundi, Egypt, Lesotho, Mauritius and Rwanda, currently do not apply any export taxes, although all of them apply some measures that could potentially have similar effects on exports (see *Annex 1 for complete list of export restrictions applied by African countries*). All others apply export taxes, generally to primary products.

Of those 40 countries, more than half of these (21 in total) apply export taxes on extractive resources - two others have compulsory licensing requirements for the exports of extractive resources.

Table 1: Summary of export restrictions in Africa

Countries	Instruments		Apply to Extractives?		Countries	Instruments		Apply to extractives?	
	Duties	Export controls & Licensing	Duties	Export controls & Licensing		Duties	Export controls & Licensing	Duties	Export controls & Licensing
1. Angola	✓	✓	x	✓	21. Malawi	✓ - n/a	✓	x	✓
2. Benin	✓	✓	✓	✓	22. Mali	✓	✓	✓	x
3. Botswana	✓	✓	x	✓	23. Mauritania	✓	✓	x	x
4. B. Faso	✓	✓	x	✓	24. Mauritius	x	✓	x	x
5. Burundi	x	✓	x	x	25. Morocco	x	✓	x	x
6. Cameroun	✓	✓	x	✓	26. Mozambique	✓	✓	✓	✓
7. C African Rep	✓	x	✓	x	27. Namibia	✓	✓	✓	✓
8. Chad	✓	✓	x	x	28. Niger	✓	✓	x	x
9. C. D'Ivoire	✓	✓	✓	✓	29. Nigeria	✓	✓	✓	✓
10. Congo Rep	✓	✓	✓	✓	30. Rwanda	x	✓	x	✓
11. DR Congo	✓	✓	✓	✓	31. Senegal	✓	✓	✓	✓
12. Djibouti	✓	✓	x	x	32. Sierra Leone	✓	✓	✓	✓
13. Egypt	n/a	x	n/a	x	33. South Africa	✓	✓	✓	✓
14. Gabon	✓	✓	✓	x	34. Swaziland	✓	x	x	x
15. Gambia	✓	✓	✓	✓	35. Tanzania	✓	✓	x	✓
16. Ghana	✓	✓	✓	✓	36. Togo	✓	✓	✓	✓
17. G. Bissau	✓	✓	x	x	37. Tunisia	✓	✓	✓	✓
18. Kenya	✓	✓	✓	✓	38. Uganda	✓	x	x	x
19. Lesotho	x	✓	x	✓	39. Zambia	✓	✓	✓	✓
20. Madagascar	✓	✓	✓	x	40. Zimbabwe	✓	✓	✓	✓

Note: N/a means not applicable at the time of the Trade Policy Review, although provided by the law of the country

Source: WTO Trade Policy Reviews

Of all the forms of export restrictions, export taxes are among the most commonly used and are the most challenged for their direct impact on trade flows, although arguably other measures may have similar effect.

Although not prohibited by the WTO (unlike quantitative restrictions on exports), by definition, export taxes fall within the scope of the multilateral framework (see Section 2.3). Yet, WTO disciplines relating to export taxes have so far remained rather limited, mainly due to lack of leadership by WTO members regarding the need to pursue stronger disciplines. In the context of bilateral agreements, however, partners to free trade

agreements have been more ambitious – in many cases export taxes are simply prohibited and at best, expected to be removed.

African countries have not been spared this effort: in the context of the Economic Partnership Agreements (EPAs) currently being negotiated with Europe, the former have been asked to eliminate all existing export taxes and not to introduce new ones in the future. This is a major bone of contention and has contributed to slowing down progress in the negotiations that started more than ten years ago. Many African countries have raised concerns that eliminating export taxes is likely to have a negative impact on their revenue collection and will reduce their policy space for future industrial development (see Bilal and Ramdoo, 2010; and Lui and Bilal, 2009). Key elements of the EPA negotiations are summarised in Box 1.

Box 1: Export Restrictions in the context of EPA negotiations

Ten years after the start of the EPA negotiations, export restrictions are a key sticking point between Europe and Africa. Seen as a policy space constraint to Africa's industrialisation and revenue generation, the request by the EU to remove export taxes has encountered strong opposition from all African EPA negotiating groups.¹¹

The main bottleneck to finding a technical resolution is one of strategic economic and political interests linked to access to resources, in particular given the surge in demand for raw materials coming from large emerging economies over the past few years and the increasing call to transform African economies from their current state of commodities dependency. While the EU's main objective is to secure undistorted access to primary products to safeguard the interests of its own industries, most African countries have voiced out the same legitimate right to maintain policy space for their own industrialisation and introduce measures they deem fit for their development.

Both the EU and Africa have strong stakes regarding the use of export restrictions and none of them is likely to tow the line: it is becoming increasingly clear that what was initially regarded as an issue requiring a technical solution has now become one having broader strategic and political implications.

But if desired, technical solutions could be reached. For instance, parties could leave disciplines on export taxes/restrictions to be resolved at the WTO (as is the case for agricultural subsidies). Disputes over China's restrictions on exports and on rare earths and the proposal in non-agriculture market access (NAMA) modalities could ultimately provide clearer rules at the WTO sooner rather than later. This option is also likely to provide greater flexibilities to African countries as it is proposed to "*limit GATT disciplines for export taxes on non-agricultural products*" (hence excluding agriculture) and to give "*additional flexibility for small developing economies and LDCs to maintain or introduce export taxes in other situations*"¹².

Alternatively, parties could improve the current EPA provisions, with flexibilities to address the concerns of certain countries and regions. A two-pronged approach could be adopted:

1. To address the concern relating to **existing** export taxes, countries/regions could exclude raw materials of key interest for their own industrial development from the scope of the Agreement. After all on imports, they are required to liberalise "substantially all trade". Similar provisions could be defined for export taxes.
2. Regarding the use of export taxes **in the future**, countries could agree to their introduction in special circumstances, in particular in case of specific revenue needs, the protection of infant industry, in the case of critical food shortage or to ensure food security, to protect the environment or where a country can justify industrial development needs.

The section below focuses on two economic reasons for the use of export taxes in Africa on extractive resources: industrialisation and fiscal revenues. It outlines the reasoning behind the measures and attempts to see to what extent these measures have delivered on their expectations, bearing in mind the specificity of extractive resources.

¹¹ For further discussions regarding export taxes in the context of the EPA, see Bilal and Ramdoo (2010) and Lui and Bilal (2009).

¹² See Job (07)/43: Communication from the European Communities in the negotiating group on market access relating to a Proposal on NTBs entitled "WTO Agreement on Export Taxes", 2 April 2007.

2.4. Promoting industrial development and diversifying the exports base

In most African countries, export restrictions are used as a tool to promote and encourage local processing and value addition. The current state of play in Africa speaks for itself. African countries have, on average, the weakest industrial base among developing countries: the share of manufacturing value added to Gross Domestic Product (GDP) in Sub-Saharan Africa have continuously declined, estimated to have reached a low 12.7% in 2009, from an already weak 16.6% in 1980. In addition, despite variations across countries, many have highly concentrated export structures with heavy dependence on primary commodities.

Of the 46 countries surveyed in the 2013 edition of the Economic Report on Africa, the share of primary commodities exports in 34 countries was higher than 50% of merchandise exports and was more than 80% in 24 countries. Africa does not only have a high (primary) export orientation, it also has a high import penetration, mainly composed of final consumer goods. Countries unfortunately remain locked in highly commodities-concentrated trade structures and with a weak industrial base. Despite the high growth rates of recent years, many countries have not yet succeeded to diversify and create linkages with local industries and to plug competitively into regional and global value chains. As a result, they have not provided sufficient productive employment opportunities, in particular for the rising youth population, which is likely to be the next major challenge for the continent. This situation is not sustainable for African countries to deliver on inclusive development outcomes.

Export restrictions have been used by many developing countries as one policy instrument amongst others to diversify their economies toward more processed goods in order to reverse the trend from heavy dependence on primary industries. It is expected to serve as an economic incentive to establish a more value-added industry that will, in turn, generate high value exports, increased income for the domestic processing industry, and provide additional and more sustainable sources for government revenue.

Most countries (*see Annex 1 for the list of countries applying export restrictions*) have used this argument as a rationale to explain the use of export restrictions. While restrictions could provide a necessary temporary breathing space for nascent industries, until they are sufficiently competitive to take off on their own, it is often observed that the measure soon becomes permanent, thus causing the reverse effect of breeding inefficiency and creating obsolete and uncompetitive industries. If the measure is not casted in a broader, well-defined industrial policy and complementary structural reforms, industries rapidly become addicted to such measures and are incapable of performing without support. It can instead result in maintaining costly and inefficient companies, sometimes encouraging patronage and corrupt and rent-seeking behaviours, in particular in sectors where political interests are at stake.

As a result, the government is always requested to do more to maintain them in place, including currency devaluation, as a means to boost exports and discourage imports, and tariff protection to insulate local industries from foreign competition. The case of import substitution industrialisation (ISI) experienced mixed results: For instance, the experience in Latin America from the 1930s to the 1980s showed the limits of state support to industries, without a clear exit strategy.¹³ In East Asia¹⁴ the experience has been

¹³ While countries with large population and income levels such as Chile, Uruguay and Venezuela have experienced some successes with ISI, smaller and poorer countries such as Ecuador, Honduras or Dominican Republic have had limited success, because of the difficulties to overcome the challenges of small-scale economies and fragmented markets. In countries where import substitution was successful, it was accompanied by profound structural reforms and these countries continued to remain open to foreign capital. In Brazil, for instance, government policies toward investment were not always opposed to foreign capital: the Brazilian industrialisation process was based on a tripod, which involved governmental, private, and foreign capital. Government focused on infrastructure and heavy industry, local private capital was oriented towards the manufacturing of consumer goods, while foreign capital was involved in the production of durable goods such as automobiles - Volkswagen, Ford,

different: in countries like South Korea for instance, although government support was strong and protectionist, policies went a step further, by not only turning farmers into manufacturing workers, but also by diversifying into more sophisticated goods and services, destined to be exported.¹⁵ This resulted in more sustainable outcomes and industrialisation was more successful.

In an attempt to incentivise structural transformation through industrial policy, many African countries are currently reviewing their national policies towards better and more efficient use of extractive resources to the benefit of the local economy. Many are increasingly looking East to learn from the successes and failures of Asian countries in that matter. Although difficult to emulate, mainly given the different political and economic context in which African countries evolve today, there may be interesting lessons to learn, notably in terms of productivity gains and diversification. Botswana is often cited as a good example of diamond beneficiation (see Box 8 in Section 4) without the use of export taxes. Botswana instead reviewed commercial agreements governing the sales of diamonds (see Grynberg, 2013).

How does it work in African countries in the extractive sector?

The specificity of the extractive sector needs to be underscored once again. While industrialisation is an imperative in Africa to change the dire state of affairs, the peculiar legal and regulatory frameworks that surround the extractive sector, have to some extent, undermined the use and efficiency of export taxes for fiscal and/or industrial purposes. In soft commodities, success stories however exist. For instance, Kenya is often cited as a successful case where export taxes have benefited the leather industry through job creation (see Ramdoo, 2011). Similarly, in Namibia, positive results were obtained in the leather sector. But in the extractive sector, while export **controls** have had some success, export **taxes** proved quite inefficient, mainly due to generous fiscal incentives and exemptions granted to some industries and stabilisation clauses contained in contracts.

But interestingly, export controls continue to be widely used. In recent years, they have even gained popularity, not only in Africa, but also in Latin America and Asia. The latest case in point is the export ban on unprocessed nickel ore that Indonesia decided to implement on 8 January 2014, as part of its 2009 mining law to encourage industrial development and increase value added of its raw materials exports. The measure is likely to have significant impact on the supply (and hence the price) of nickel, as Indonesia is the world's largest producer of nickel ore. The announcement of the measure in 2009 prompted big buyers like China to stockpile nickel in order to prevent supply disruptions, at least in the short term until new sources of supply would be secured. The market is also expected to react in the weeks to come, should Indonesia maintain the measure in place, despite intense criticisms.

In Zambia, export taxes on copper concentrates have had some positive results. Despite being Africa's largest copper producer, copper only contributes to 3% of tax revenues while contributing to up to 70% of foreign exchange earnings. The low tax revenue is the result of the fiscal regime granted to companies. To address the challenge of exporting unprocessed products, Zambian authorities introduced a 15% export tax on copper and cobalt concentrates in 2008, which was brought down to 10% during the 2012 fiscal reforms. This is said to have encouraged domestic value addition, resulting in refined copper and copper alloy to account for 63.5% of the total trade value of the country. Three copper smelters have also been built in Zambia. In October 2013, after some confusion regarding the repeal of the 10% export tax, the

General Motors, and Mercedes established production facilities in Brazil in the 1950s and 1960s. Overall, ISIs have been very negatively assessed by international economists and institutions, though in recent years, more positive perspectives have been outlined.

¹⁴ See Weiss J. 2005.

¹⁵ See Rodrik. D 2013. [Africa's Structural Transformation Challenge](#). Project Syndicate.

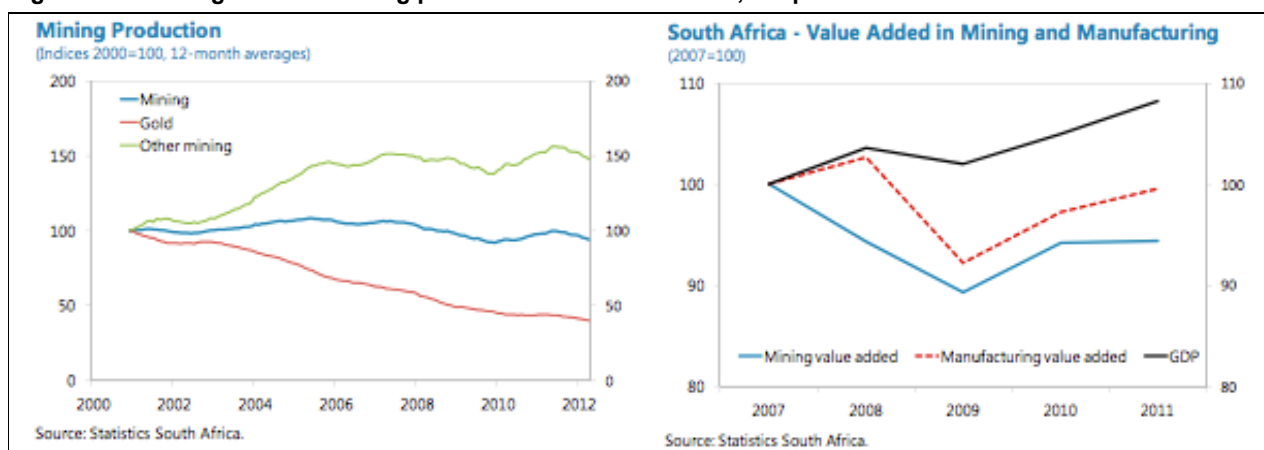
government finally decided to maintain the measure applicable on semi-processed minerals. To further boost transformation, in December 2013, it further announced a ban on the sale of unprocessed minerals, requesting the three existing smelters to accommodate raw materials from mining companies, while the latter put up their own processing facilities. It remains to be seen however whether companies will manage to increase their refining capacity without facing disruptions in their businesses.

Although Zambia exports mainly refined copper, export taxes have not been a sufficient instrument to encourage further beneficiation, in forward linkages (there is only one semi-fabricate manufacturer producing copper wire, rods and cables for local and regional markets), or to unlock more sophisticated linkages to develop business opportunities around the copper sector. This is mainly due to the lack of accompanying policies, notably to support private sector development in localising linkages, to weak institutional capacity to conduct a thorough assessment of supply chain and to design support programmes accordingly and to the lack of policies to encourage mining companies to increase local content or build the capacity of existing local suppliers.¹⁶

In South Africa, the disappointing economic performance of the past decade has led to much political debate about the approach to use in order to reverse the declining trend in the industrial sector and to boost productivity, including on the possibility of nationalising the mining sector. The country has been battling with challenges to address the sticking problems of poverty, inequality and unemployment, despite its immense resource endowments that can generate significant revenue to (re)balance socio-economic equity.

It is estimated that South Africa is home to a mineral treasure trove second to none: it hosts not less than 52 commodities under its soil surface, including the world’s largest reserves of platinum, manganese, chrome, vanadium and gold, and major reserves of coal, iron ore, zirconium and titanium minerals – all at an estimated in-situ value of US\$2,5 trillion.¹⁷ Despite this, the contribution of the sector has performed poorly: its direct contribution to GDP is estimated at only 8%, production has at best stagnated where it has not declined steadily, and its share in value addition has not glowed, as shown in Figure 3.

Figure 3: Declining share of mining production and value added, despite reserves



Source: IMF, South Africa, PIN Article IV, 2012

¹⁶ See UNECA 2013. Economic Report on Africa: Making the most of Africa’s commodities: Industrilazing for growth, jobs and economic transformation.
¹⁷ www.deloitte.com/assets/Dcom-SouthAfrica/Local%20Assets/Documents/Who%20benefits%20from%20mining.pdf

Facing increasing political pressure and criticism, the South African government has recently embraced a radical change in policy orientation, based on voluntary state intervention in the mining sector, in an attempt to turn the situation around, this time to the benefit of local industries.

In 2012, the Government released a report on the State Intervention in the Minerals Sector (SIMS), outlining the main thrust of mineral beneficiation policies (SIMS Report, 2012). The main elements of the Report are summarised in Box 2.

Box 2: Main elements of the State Intervention in the Minerals Sector Report

The Report is based on the following primary principles:

1. The Minerals Energy Complex (“MEC”) is a major source of job creation and the increased growth and employment depend upon the coordination of mineral economic linkages and the integration of mining into the rest of the economy.
2. “Efficient taxation” is preferred to nationalisation, as a means of raising revenue. As the resource owner, South Africa should therefore ensure that its people get a fair share of taxation from the mining companies.

It is estimated that under the current fiscal regime, South Africa does not get a fair share of such taxation. The Report therefore makes the following tax proposals:

1. A Resource Rent Tax (“RRT”) of 50% to be imposed on all mining - after a normal return on investment (defined as the Treasury Long Bond Rate + 7%) has been achieved. This would set a normal return at about 15%. In other words, the government will share in 50% of any profits generated over and above a 15% return on investment. According to the Report it should not deter investors, as investors would still enjoy a reasonable return. The RRT is expected to yield about R40 billion.
2. Upon the introduction of RRT –
 - a. the current gold mining formula tax should be replaced with corporate income tax;
 - b. royalty rates should reduce to 1% of revenue;
 - c. a mineral foreign shareholding withholding tax of 30% should replace the 15% dividend withholding tax where the shareholder is located in a tax haven, to encourage direct investment from the primary listing country;
 - d. carbon tax should be put on hold as it may be potentially damaging to the economy;
 - e. Furthermore, special pilot economic zones / beneficiation hubs would be established to catalyse resources value-addition and labour absorption. Critical mineral feedstock (iron ore, coal and copper) would be classified as “strategic minerals” and supplied into the economy at cost plus prices (reasonable return) or export parity (competitive) prices. The sale of platinum would be subject to approval from the South African Reserve Bank (“SARB”).

Export tariffs would be levied in respect of the bulk of unprocessed minerals exported to encourage local beneficiation.

Source: SIMS Report (2012)

Initially floated as an option, nationalisation of mines is now off the agenda. Among the various measures proposed, export taxes figure in good place. Recent proposals have mentioned chrome ore as potential candidate for export taxes, given the strategic importance of steel as the single biggest intermediary input into downstream manufacturing. South Africa holds 68% of the world’s proven reserves and mines over 50% of the world’s chromium, 85% of which is mined for metallurgical purposes. Historically, South Africa transformed a large part of its chromium and produced 45% of global production of ferrochrome, estimated to create five times more value and three times more jobs than chrome ore extraction. However, recent years have seen a gradual erosion of South Africa’s comparative advantage in favour of China, notably due to the increasing price of energy (170% in the past five years) and cost of labour (about 6 – 10% in the past five years). Employing directly and indirectly about 200,000 people, the ferrochrome industry contributed approximately Rand 42bn to GDP and earned Rand 36bn in foreign exchange in 2010 alone. To maintain stainless steel value addition within the country, the ferrochrome producers have been lobbying the South African government to introduce an export duty on chrome ore of US\$100 per tonne to render exports to China more expensive. The measure is yet to be adopted. While it has had extensive support from the

ferrochrome sector, the proposal of an export tax created tensions and uncertainty within the chrome ore mining industry.

2.5. Incidence of export taxes for fiscal purposes

Export taxes are raised in many cases for revenue collection purposes. In many developing countries, and in particular in least developed countries (LDCs), raising government revenue through export taxes is considered to be simpler to administer and to collect, compared to other forms of taxation, given the capacity challenges of tax administrations. It is also politically attractive because it does not directly affect domestic consumers. It is even credited for having potential distributional effects, shifting rents from industries to government treasuries. It is also considered to have the benefit of raising foreign exchange.

However, revenues derived from export taxes are not always predictable. They can fluctuate with export values, in particular as commodities are subject to frequent and price volatility or unpredictable speculation.

A key challenge for governments in imposing taxes in the extractive sector is how to maximise government revenue over the long-term. Setting taxes too high runs the risk of deterring investment thereby holding back the growth of the industry. Conversely, too low tax rates have the risk of raising too little revenue and therefore not raising enough to redistribute in other productive sectors and to spend on development.

In the extractive sector, export taxes have however not always created the desired effect. The sector is covered by concessions and contract agreements, which define the legal and fiscal provisions guiding the entire operation, from exploration to exports. Many of these agreements contain stabilisation clauses, which guarantee that the sector will not be affected by future changes in the legislation (including fiscal regimes or mining laws) for the duration of the contract.

Beyond the debate about the efficiency of export taxes, it is important to point out that the measure can **potentially** have a positive impact if a country has **sufficient market power** in the commodity it produces and therefore can influence the world price and/or output. From a strictly economic sense, this may even have a positive welfare distributive effect on the economy. On the flip side, it may be a daunting economic and political weapon, in particular if a country has too much market power, as recently illustrated by the case of China and rare earths (see Box 3).

Box 3: China and rare earths: How market power can cause market distortion

China currently holds 97% of the world's supply of rare earths – a group of 17 metallic elements that are critical to high-tech industries. Despite its quasi monopoly on production, China does not hold the majority of world's reserves – according to Beijing¹⁸, it only accounts for 23% of global reserves. However, it is the only country that seriously exploits its reserves, partly because the costs of mining rare earths are prohibitively high, but mainly because the process can be incredibly damaging to the environment, which caused most mines in developed countries to cease production in the 1990's.

China's dominance over global rare earth production became an issue of serious concern in 2010, when the latter blocked exports of rare earths to Japan following a maritime dispute, prompting sparkling security and supply concerns from high-tech producing countries. In addition, China is increasingly tightening its export policy - comprising of export quotas, taxes and strict licensing regulations – arguing environmental concerns due to the heavily polluting nature of the industry, but suspected of doing so to favour its own high-tech industries, by giving

¹⁸ See Situation and Policies of China's Rare Earth Industry, http://news.xinhuanet.com/english/business/2012-06/20/c_131665123.htm

them a serious price-competitive edge over other competing producing countries. Chinese restrictions are assumed to have caused increases in the price of rare earths outside China by an order of 2 to 10 times the domestic price¹⁹, causing serious trade distortions for competing industries. This puts China on a strong trajectory to excel in high technology areas that require rare earths, and motivates external producers to relocate facilities to China. Moving up the value chain to develop these raw materials into final products domestically is expected to increase jobs and incomes in China.

Despite the EU and the United States winning a victory at the WTO in January 2012²⁰ against China's limits on exports of other industrial materials (which did not include rare earths); the latter continued to heavily regulate its rare-earth market. In September 2012, a new WTO²¹ panel was composed at the request of the EU, US and Japan (joined by another ten nations as third parties) on China's export policies on rare earths, following failed consultations to address the issue. China publicly defended its policy in a white paper entitled, "Situation and Policies of China's Rare Earth Industry", arguing for environmental concerns. But it fails to address how an export tax would benefit China's environment, which is the main thrust of the new WTO's complaint. The Panel is expected to issue its final report by 21 November 2013.

When a country is **not a major global supplier** and thus has no market power, the measure may have **the reverse effect in terms of revenue**, in particular if it relies heavily on exports of raw materials to generate foreign revenue. In this case, it runs the risk of seeing its revenues decrease because demand will shift to other more competitive markets.

The difficulty in quantifying the real impact of export taxes of extractive sectors on government revenue, points out the challenges that many resource-rich countries face to raise taxes from resource extraction. Generous concessions and tax-rebates granted to foreign companies offset government revenue from mineral resources. In addition, many resource-rich countries are challenged by weak tax administration, which often leads to the mismanagement of revenues, corruption practices, clientelism derived from strong vested interests and other institutional and business-related bottlenecks such as the stiff business climate that constrain the development of economic activities.

To address the challenges, profound structural economic reforms are required. These include reviewing fiscal regimes and mining legislations as well as the renegotiation of terms and conditions contracts and stabilisation agreements. To complement that, more efforts are required to improve transparency on the payments made by companies and received by governments. It also requires greater accountability from governments regarding **how** and **on what** they spend the revenues obtained from the extractive sector. Success stories include countries such as Norway (see Section 3) and Chile, who have been able to avoid the resource curse by taxing natural resources and re-investing the money in other productive sectors.

2.6. Bilateral and multilateral legal frameworks guiding export taxes

The General Agreement of Tariff and Trade (GATT) of the WTO provides the main regulatory framework regarding export restrictions, through it is arguably a case of "under-regulation".²² Disciplines relating to **export taxes** at the WTO have remained rather limited and the GATT 1994 itself does not explicitly prevent countries from applying export taxes although implicitly, export taxes are also part of the family of "customs duties". Countries have traditionally commitments to reduce duties only on imports, although recently

¹⁹ Source: <http://www.internationalpolicydigest.org/2012/08/15/chinas-rare-earth-export-restrictions/>

²⁰ See WTO Panel Report January 2012.

²¹ http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds431_e.htm

²² See Karapinar (2011).

acceding members (such as China, Vietnam, Saudi Arabia, Russia and Ukraine) were asked to take commitments to progressively eliminate restrictions on exports. Some countries, including the EU, have made proposals in favour of stronger disciplines on export restrictions with a view to broadening the scope of current disciplines and hence improve clarity. To that effect, in 2007, the EU proposed a Draft WTO Agreement on Export Taxes in the Negotiating Group on Market Access²³ (with some flexibility for developing countries and LDCs). The proposal was not accepted and was widely criticised by many other members. It was however revised in the context of the 4th Revision of the Non-Agricultural Market Access (NAMA) Modalities, where the EU proposed a new submission on Export Taxes in 2008.

Quantitative restrictions on exports on the other hand are regulated. Article XI:I of the GATT provides that no restrictions, other than duties, taxes and other charges, may be imposed on imports or exports of any products. Exceptions are permitted under Article XI:II as a matter of public policy, mainly to address food security issues, under the Agreement on Agriculture, or under the general exceptions as per Article XX of the GATT.

Rules also apply to state trading enterprises and licensing. Direct subsidies are not allowed. Concerning environmental reasons, Article VIII of the Agreement on Subsidies and Countervailing Measures that deemed environmental subsidies non-actionable expired in 1999 and was not extended. It is therefore unclear whether Article XX can be invoked to justify environmental and conservation subsidies.

The WTO is part of a broader framework on international cooperation and specific regulatory frameworks may apply to specific commodities, and countries that are parties to such agreements. For instance, the Energy Charter Treaty disciplines on transit of goods go beyond GATT Article V, but apply only to countries having signed the Treaty. Similarly, since 1960, Organisation of the Petroleum Exporting Countries (OPEC) has been regulating oil production, managing prices and coordinating efforts among its member states, in an effort to maintain economic stability around petroleum products.

Bilateral investment treaties have embedded articles to resolve the *hold-up* problem, a situation where an agreement between two parties is affected by concerns that one party will gain undue bargaining power over the other party, once investment has been committed. This is an important guarantee to mineral and hydrocarbons investors.

Most bilateral trade agreements generally prohibit new export taxes and abolish existing ones among contractual parties. Finally, developed countries that give autonomous trade preferences have, in recent years, provided for temporary withdrawal of preferences for countries that apply distortive export restrictions. The 2013 EU Generalised System of Preferences (GSP) Regulation provides for such a withdrawal as a result of “serious and systematic unfair trading practices including those affecting the supply of raw materials”, in line with what is contained in the 2008 Council Regulation on the EU raw material initiative, which aims to secure Europe’s access to a number of critical raw materials.

2.7. Way forward

In sum, besides the direct objective of affecting trade flows, the imposition of export restrictions can be motivated by two other objectives: revenue generation and industrialisation/diversification. In this regard, exports restrictions are only one of the instruments in the policy toolbox.

²³ See Communication from the European Communities in the negotiating group on market access relating to a Proposal on NTBs entitled “WTO Agreement on Export Taxes”, Job(07)/43, 2 April 2007. www.wto.org

Although export restrictions may not necessarily be the most efficient way of achieving these goals, they have nevertheless been used, and continue to be applied (the latest case is Indonesia). In the absence of efficient tax systems in developing countries, second-best options such as export restrictions may be one way of attaining policy objectives. These can only work however if the second-best options are short-term, temporary and framed with a clear “exit” strategy, while in the mean time embracing credible reforms to improve the tax administration and putting in place strategies towards broader economic transformation.

Sections 3 and 4 consider some necessary complementary measures that governments could consider to achieve their objectives in a more sustainable manner. *Section 3* looks at policies to improve revenue management while *Section 4* focuses on strategies to move up the value chain to diversify away from dependence on extractive resources.

3. Improving Revenue Management

The quality of revenue management is a key factor in determining the development path of resource-rich countries. In the last decade, numerous African countries such as Ghana, Uganda, Tanzania, and Mozambique have discovered hydrocarbon reserves in commercial quantities. As a result, they have attracted significant volumes of foreign direct investment (FDI). The euphoria that characterised the findings created high expectations but it was soon realised that expected benefits were yet to materialise and that it would be conditional on the way the government would manage and harness the proceeds from these new findings to avoid the resource curse.²⁴

In most African countries, history has shown that extractive resources have failed to contribute sufficiently to sustainable and inclusive development objectives. Revenue collection has been poor despite price booms, rising global demand and surging supply resulting from new discoveries. This is partly the result of governance and institutional challenges as well as supply-side constraints²⁵ but also largely due to the fact that fiscal incentives, investment packages and management structures were not supportive of development objectives.

One of the key governance challenges in the extractive sector is corruption. The nature of the extractive sector offers a fertile ground for behaviours that favour the risk of corruption practices, partly because significant rents that can be derived from exploitation encourage rent-seeking behaviours. Extractive sectors also tend to favour political power concentration and may provide incentives for politicians to have recourse to patronage to stay. There is considerable empirical evidence that it is a major impediment to efficient revenue collection. Corruption is, however, not a specific feature of African countries and it takes two to tango. This implies that the responsibility is shared among the stakeholders involved in such activities. But many countries are plagued because weak institutions fail to strongly address the problem.

The disconnect between expected socio-economic benefits and the reality of poor results in the midst of plenty, has called into question the effectiveness of methods used so far. In effect, during the dark ages that followed the debt crisis in Africa in the 1970s and 1980s, countries have experienced multiple rounds of reforms, often under the advice of multilateral institutions such as the World Bank and the International Monetary Fund (IMF). These included reforms of the legal and institutional frameworks to incentivise

²⁴ See Archine (2013).

²⁵ These refer to inadequate hard and soft infrastructure, low productivity, power supply challenges, market failures and information asymmetry.

foreign investors with over-generous tax and related concessions and stabilisation agreements that constrained the policy space to adjust the fiscal regimes, once the macroeconomic situation would improve. It also reduced the role of the State to that of a facilitator. However, these reforms have failed to achieve their stated objectives. They did not serve the best interests of African countries, but instead worked more in favour of foreign companies. Today, governments, under increasing pressure of their population, are called to put in place new sets of reforms, hopeful that this time, there will be a more balanced and integrated approach, where the investment link will be consistent with fiscal and production links, for a more transformative outcome.

Effective resource management is therefore crucial. It includes several complementary policies, starting from:

1. The management of **expectations** from (i) the local population who expect a fair return from the rich endowments in the short-term and (ii) from investors who expect to be able to enjoy high returns when prices increase, to compensate from their capital-intensive investments and commercial and political risks taken.
2. The establishment of sound macroeconomic management and an **optimal** fiscal regime.²⁶ This includes significant improvement in revenue collection, but without deterring investments and harming the reputation of the country's fiscal policy *vis-à-vis* investors.
3. **Prudent** management of **expenditure**, with a right balance between policy instruments (productive *versus* consumptive investments; savings *versus* investments), political considerations and savings for inter-generational equity.

Lessons can be drawn from countries that have succeeded to a better and to a lesser extent, respectively, in managing their resources. The United States (US) and Norway, considered as countries with better track records of strategic thinking and management strategies, offer interesting insights into approaches that could inform the strategic thinking of natural resource-rich African countries. Admittedly, experiences from these countries may derive from peculiarities akin to their respective socio-cultural milieus, which may render ineffective replication of development models in Africa. These lessons are therefore being discussed with the view to enable natural resource-rich African countries to innovatively draw lessons for their unique development goals (see Archine 2013).

Additionally, experiences from Botswana, a country that has changed its fortunes as a result of better negotiated contractual agreements and efficient management of its natural resources, reflect a good example of a country that can rise above its challenges to do some of the **right things** in efficiently harnessing its natural resources in the national interest. Experience from Ghana and Nigeria, in contrast, provides lessons to avoid repeating mistakes (see Archine 2013).

3.1. Back to basics: the importance of strategic planning²⁷

A research into the beginnings of mining operations in the **United States** highlighted the central role of strategic planning and implementation in the broader scheme of sustainable national development. The US was a leading producer of extractive resources such as coal, iron ore, copper, lead, zinc, silver, petroleum, arsenic, mercury, salt, gold and bauxite from 1889 to 1920. It succeeded primarily as a result of a deliberate strategy to forge a dynamic link between natural resource exploitation and manufacturing, a critical economic activity. The US followed an integrated economic development approach that comprised a holistic approach, identifying key sectors with significant potential to propel long-term and sustainable

²⁶ See IMF (2012a and 2012b).

²⁷ This section is extracted from Archine (2013).

economic outcomes. Resource exploitation and strategic value addition (manufacturing) therefore served as tools for national development, with consequent positive impact on job creation opportunities.

As a result, the US developed one of the most diversified and technologically advanced economies in the world. Although the share of mining, manufacturing, and construction in total output accounted for 17% in 2012, its effective linkages stimulated the development of other services sectors such as finance, insurance, real estate, business and educational services, which collectively contributed more than 40% of GDP.

The success of the US model revealed the important role of leadership in the equation of natural resource extraction and sustainable development. Strategic leadership, reflected in deliberately crafted policies such as the promotion of scientific research into new technologies and legal and institutional capacity building, resulted in speedy transformation of the US economy. For instance, Federal Mining Laws of 1866, 1870 and 1872, granted open access for exploration as well as exclusive rights to mine specific locations upon proof of discovery. Limits imposed on the size of individual claims and the requirement that a concession is worked on at a certain frequency or risk forfeiture accelerated the pace of exploitation of discovered mines.

The case of **Norway** also points out to the importance of strategic leadership of the State in taking ownership, and determining the scope and timing of resource development, right from the beginning of resource extraction. Government's involvement provided a strong sense of direction and nationalism that favoured the use of Norwegian indigenous companies in the exploitation of oil and gas fields. Today, Norway's petroleum sector accounts for 50% of its exports and 30% to national revenue. As in the US, the oil and gas sector propelled increased performance of the industrial and services sectors.

Before the discovery and exploitation of oil reserves in the North Sea in the 1970s, Norway was essentially a fishing and lumbering country. Its exploration policy was based on a well-thought out organic growth strategy that placed significant emphasis on gradual development, linked to accumulation of local expertise and capacity, needed for effective exploration and related activities. In this regard, the structure of the Norwegian economy shifted towards a more diversified one, with transportation and manufacturing activities complementing oil exploitation activities. In 2009, the industrial sector accounted for 45.1% of GDP, services amounted to 52.7% of GDP, and agriculture contributed to 2.2% of GDP.

3.2. Mobilising resources from extractive industries

Domestic resource mobilisation is an absolute necessity and in resource-rich countries, it is an obligation, given the potential economic rents that extractive resources can generate and the impact that the **fiscal linkage** can potentially have on the structural transformation of these countries. Paradoxically, many resource-rich countries are also aid dependent. However, since 2008, the global financial turmoil has brought to light the limits of development assistance. As a result of the crisis, most development partners have had to review their financial support to developing countries downwards and to refocus their support to the most needy, in order to address their own debt problems, rising unemployment and social turmoil. Finding autonomous, endogenous and sustainable sources of resources to finance development therefore becomes an imperative, not only for aid-dependent countries, but also for the development community.

The specific nature of the extractive industry, characterised by a particularly long gestation period of projects has given rise to special fiscal regimes. This has been at the core of contract negotiations between companies and governments. Investors have constantly argued for advantageous and generous fiscal

regimes to compensate for the high initial investment costs²⁸ and sometimes to cover other risks, including geological, political and commercial risks. Historically, most African governments have not succeeded in getting the best fiscal deal, for a number of reasons. First, there is an element of information asymmetry, where in many cases governments were less informed than companies regarding their own resource endowments, due to insufficient geological knowledge. That made it difficult to assess to what extent the likely risk-profitability nexus was justified. Linked to this, the balance of power of contract negotiations mostly tilted in favour of companies, which also had stronger negotiating capacities. In addition, to attract and secure the much-needed FDI, many poor countries were engaged in a race to the bottom to provide the most attractive investment packages.

Mobilising sufficient resources for development requires bold reforms in fiscal regimes and transparency of payment mechanisms from industries. In recent years, many African countries have initiated a number of reforms, including the review of their mining and petroleum legislations and codes and significant tax reforms to have a fair share of the windfall gains from the resource boom. As illustrated in Box 4 in the case of Ghana, this is quite challenging because contracts and stabilisation agreements render companies immune to changes in legislations and the result sometimes falls short of expectations.

Box 4: Mineral law reform in Ghana

Ghana joined the league of oil and gas producing African countries on December 15, 2010, when it started commercial production of crude oil. Expectations were, and continue to be high, with pressure on government to ensure equitable investment of proceeds to benefit Ghanaians. Though already a significant producer of minerals such as gold, diamond, bauxite, and other natural resources, expectations of stakeholders have been misplaced through mining contracts skewed in favour of large foreign companies.

In 2006, Ghana revised its Minerals and Mining Act. The reform was expected to address fiscal challenges to harness revenue opportunities from extractive resources. Contrary to expectations however, the revised law still contains significant tax and other incentives, still targeted to attract and retain foreign investments. The reform did not sufficiently address issues such as how best to optimise revenues, notably through local capacity development to determine production volumes and value and capitalising on effective local value addition. For instance, the over generous fiscal (and other) incentives afforded to foreign companies, provided under the old legislation of 1986, remained unchanged. In addition, a stability clause that allows freezing of action on reviewing contracts within a statutory 15-year time period is enshrined in the 2006 revised law, reflecting reluctance of government to embrace bold changes.

In that sense, Ghana's revised Minerals and Mining Act of 2006 thus appears to lack a strategic focus to mainstream the activities of the extractive sector into core socio-economic activities, at the expense of local economy development. The pervasive nature of poverty and income inequality, particularly in rural communities affected by mining, attests to the fact that the so-called significant export earnings have not positively impacted the Ghanaian economy, as was the case in the US. Ghana's position on the UN Human Development Index of 135 out of 187 countries in 2012 confirms the yawning gap between the reality of poverty and claimed significant increase in GDP engendered through increased mining revenues.

Source: Archine, 2013

Beyond the reform of the legislative framework, it is essential to put in place fiscal instruments to collect revenue from the extractive sector. These instruments must be fair, just and flexible enough, to take into account counter-cyclical events and the ability of companies to pay, given their size and level of profitability

²⁸ Extractive industries are usually capital intensive and it may take up to 10 years before a new industry becomes profitable.

and the type of mineral exploited²⁹, but must be consistent enough to ensure regular financial flows. Box 5 highlights some tax and non-tax instruments that are generally relevant for the extractive sector.

A number of African initiatives are currently in place to assist countries in reviewing their legislative frameworks³⁰ and in renegotiating contracts. The African Union Commission, the African Legal Support Facility (hosted by the African Development Bank) and the United Nations Economic Commission for Africa (UNECA) have taken the lead at the continental level to coordinate the different initiatives and to ensure mainstreaming at the national level. Together, they have also developed an Africa Mining Vision (AMV) to guide national and regional policies and strategies, whose focus is essentially on the development of clusters of industries (that would include small-scale and artisanal mining), infrastructure and capacity to manage resources.

Box 5: Fiscal instruments relevant for the extractive sector

- (i) *Direct taxes*: corporate tax is most common, but progressive profit taxes or resource-rent taxes are widely used. However, the higher the tax rate, the higher the incentive for companies to use *creative accounting mechanisms* to optimise their tax payments. The specific nature of extractive industries therefore calls for additional *safeguard* mechanisms to address the loopholes that might permit tax avoidance. At the country level, the taxable entity is often project- or field-based rather than firm-based. It therefore requires strong and implementable *ring-fencing*³¹ mechanisms in the legislation. In addition multinationals operating across many different tax jurisdictions provide for the scope to reduce revenues or inflate expenditures, notably through *transfer pricing*³² mechanisms, a practice often used to minimise the tax liability in a particular country. These should be contained in legal frameworks to allow national authorities to track such practices and impose severe sanctions against abuses of inter-firm prices.
- (ii) *Royalties*³³, historically the most important instrument for taxing minerals, are particularly important as they ensure up-front revenue when production begins and are relatively easy to administer, provided the government has an informed knowledge of the volume or the value of production. Indexing royalties in the contract to the world commodity price could be a way of ensuring that in times of commodity booms, the government would consequently collect more revenues.

²⁹ Oil projects are generally larger than mining projects and therefore have higher associated rents. Oil companies (OPEC countries) also have a better ability to prevent large fall in prices over time, as opposed to mining companies who have no control over the market. It therefore affects their level of commercial risks and hence their profitability (and rents). Gas companies have an added difficulty, as they need to commercialise the gas. It therefore involved long-term supplier agreements for produced gas, negotiated before the development of the project. They also have associated investments, requiring downstream facilities such as pipelines and liquefied plants. Rents are therefore lower than oil companies.

³⁰ An International Study Group (under the aegis of UNECA and the AfDB), comprising of leading academics and practitioners of natural resources law, economics, and management in Africa, was set up to review the extent to which Africa's current mining regimes promote sustainable development of the mining sector as well as the broad national and regional economy, and to propose key elements for future change in the form of templates, toolkits and guidelines to formulate the next generation of Africa's mining codes.

³¹ The standard corporate income tax normally applies to the consolidated operations of a firm. However, extractive industries often operate as individual projects and therefore in practice, a firm operating several projects can reduce its taxable income by deducing losses of one project from profits of another. Ring fencing is therefore a mechanism to protect tax revenues from continuous deductions, also avoiding giving an advantage to existing firms over new comers.

³² Through transfer pricing, a company seeks to minimise income and maximise deductible expenditures in high tax jurisdictions and vice-versa in low jurisdictions. An example of transfer pricing includes the sale of export proceeds at below market-prices to an affiliated company located in a low-tax jurisdiction. An example of expenditure deduction includes claiming excessive management fees, consultancy charges and deductions for headquarter costs.

³³ Royalties are either specific levies based on the volume of mineral extracted or *ad valorem* levies, based on the value of minerals extracted.

- (iii) *Production sharing arrangements* are common in the petroleum sector but less so in the mining sector. They usually take the form of concession agreements, production-sharing contracts or risk-service contracts. The distinguishing feature of these instruments is that resources remain with the state while extraction and resource development remain with the company, in exchange for a share of production. This is an interesting option for governments, if they want to be more accountable on the management of their resources.
- (iv) Some governments prefer to hold *equity* in extractive projects to secure a higher take from very profitable projects but also because it gives them a sense of ownership of their resources and provide more direct control over the project development.

3.3. Tackling capital flight and illicit capital flows

Capital flight³⁴ is one of the biggest obstacles to effective mobilisation of domestic resources in Africa. Tax flights from developing countries are estimated to be several times higher than aggregate inflows from development assistance. In poor countries, capital flight drains currency reserves and reduces the already low revenue collection, necessary to raise living standards, finance large infrastructure gaps, bridge the digital divide and finance long-term, sustainable development programmes.

Capital flight involves both legal and illegal activities, the latter described as illicit capital flows³⁵ have been growing in importance over the last 30 years. Estimates (Global Financial Integrity 2009) show that over the 30 year period, from 1980 to 2009, the whole of Africa lost between US\$1.2 trillion and US\$1.4 trillion in cumulative illicit capital flows³⁶ enough to wipe out the region's outstanding debt of US\$300 billion and potentially leaving over US\$800 billion for poverty alleviation and other development priorities.

According to the latest estimates of the Global Financial Integrity Report³⁷, trade mis-invoicing³⁸ accounted for over 80% of the world's cumulative illicit capital flows, between 2002 and 2011. Estimates suggest that for Sub-Saharan Africa alone, almost US\$27 billion shifted illicitly between 2005 and 2007 as a result of mispriced trade.³⁹ It is not surprising to note that resource endowments matter in the magnitude of illicit capital flows from African countries. It was pointed out that Nigeria, Egypt and South Africa led regional outflows as a result of weak legislations regarding tax evasion, poor transparency, accountability and governance structures and insufficient citizen's oversights on government revenues.

Lessons can be learnt, notably from developed countries that encountered the same challenges. As illustrated in Box 6, US and Norway have enacted strong dissuasive legislations to address the challenge of transfer pricing.

³⁴ Capital flight is described as outflows of resident capital in response to the distortionary impact of domestic policies and political instability. It is not necessarily illegal.

³⁵ Illicit capital flows involve transfers of money through corruption, kickbacks, tax evasion, criminal activities and transactions involving certain contraband goods.

³⁶ Source: Illicit financial flows and the problem of net resource transfers from Africa: 1980 – 2009. Joint report by African Development Bank and Global Financial Integrity. May 2013.

³⁷ See 2013. Global Financial Integrity Report: [Illicit Financial Flows from Developing Countries 2002-2011](#).

³⁸ Trade mis-invoicing refers to the deliberate falsification of import and export declarations in order to evade tax.

³⁹ See EURODAD (2011).

Box 6: Addressing illicit capital flight: The case of the US and Norway

The US has an effective mechanism that tracks revenue generation and fiscal benefits. The Internal Revenue Service and Transfer Pricing Regulations (TPR) address the concerns linked to cross-border activities of multinational companies. They impose stiffer sanctions for abuse of inter-firm pricing (Miesel et al, 2002). In addition, national tax authorities are trained in the complex and sophisticated application of cross-border transfer prices and the allocation of profits, which are required by law to be conducted on objective, transparent and on arms-length basis (Miesel et al, 2002).

Norway's transfer pricing laws require inter-company transactions to be undertaken on a strictly arm's length basis with documentary proof of all transactions (Deloitte, 2011). Companies need to convince tax authorities that inter-firm price quotes match goods and services delivered, failing which stricter sanctions are imposed. Transactions involving the payment of interest and management fees, which are potential areas of abuse, are critically examined. To ensure objective reporting by taxpayers involved in transactions with foreign affiliates, authorities are mandated by law to adjust reported incomes upwards on suspicion of under-reporting. Punitive sanctions are significant. Entities with worldwide consolidated employee size below 250 persons are exempted from following the strict transfer pricing documentation rules (Deloitte, 2011).

Source: Archine (2013)

Tax havens are often used as a mechanism for tax avoidance. Although most multinationals have subsidiaries in countries where they operate, many have also opened non-operational subsidiaries in jurisdictions that apply zero or close-to-zero tax rates in order to benefit from favourable tax conditions. Investments are therefore often routed via these tax jurisdictions, where banking secrecy practices render it very difficult to trace money flows. This has been a difficult issue to address, given the weak multilateral architecture and the resistance of some countries to regulate such practices. The G8, G20 and the Organisation for Economic Co-operation and Development (OECD) have established working groups to come to grips with these challenges, but have so far failed to provide a clear leadership and strong and binding legal frameworks to contain this major challenge. The G8 has recently pushed for increased transparency, but failed at their last Summit in Lough Erne on June 2013 to signal any binding commitment.⁴⁰ This translates the incapacity of the multilateral community to agree on common regulatory measures in their own jurisdictions, where often such tax havens are domiciled. It has nonetheless established a G8 platform on transparency in the extractive sector between G8 countries and resource-rich developing countries to better frame cooperation in that matter. Despite difficulties to address legal matters, this initiative needs to be underscored as a step in the right direction and as a signal of voluntary cooperation on the multilateral front.

3.4. Prudent management extractive resources

While the mobilisation of revenue from extractive industries is key, the next fundamental issues are how best to manage spending, to avoid the pitfalls of the Dutch Disease and whether governments should consider saving part of the revenue for the future. The whole challenge of managing resources is therefore about finding the right balance to reconcile competing claims for revenues from extractive industries with longer-term objectives of sustainable development and stabilisation goals. It needs institutions that have a good understanding of the need to adopt prudent public spending and to avoid volatile expenditure patterns that are not sustainable in the long-run. Three complementary elements need to be considered in conducting prudent management: expenditures, excess revenues and foreign reserves, and saving funds.

⁴⁰ <https://www.gov.uk/government/organisations/prime-ministers-office-10-downing-street/series/g8-communique-and-documents>

3.4.1. Managing expenditure

History has shown that it is particularly important to control the rate of expenditure during commodity booms and windfall gains in order to mitigate the impact of revenue loss during period when prices fluctuate downwards.

To avoid the Dutch Disease⁴¹, countries should be careful not to fall into the trap of “euphoric” consumptive investment (short term investments, generally through expansionary policies) but rather promote productive investments (in the diversification of economic sector, in investment in health and education systems etc.). Spending therefore needs to be combined with prudent budgeting, transparent expenditure programmes and public accountability. This aspect is linked to governance and economic reforms and the need for inclusive participation of various stakeholders, including extractive industries and local authorities.

3.4.2. Managing excess revenues and foreign reserves

High commodity prices and surging exports often lead to accumulation of foreign reserves, which have to be managed in a way that serves the short-term needs as well as the medium- to long-term economic and financial objectives of resource-rich countries. In many countries, sovereign wealth funds (SWFs) have been created to serve this purpose but also to ensure inter-generational equity and longer-term fiscal sustainability, given the exhaustive nature of resources.

Sovereign wealth funds have three main purposes, namely (i) to stabilise government fiscal and/or foreign exchange revenue and macroeconomic aggregates as a result of fluctuations in commodity prices and demand; (ii) to accumulate wealth for future generations; and (iii) as an investment vehicle or as a means to leverage funds to finance infrastructure, industrial and development projects at large.

Box 7: Savings funds: Cases of Norway and Botswana

The novelty in Norway's exploration strategy aligns oil revenues to the rest of the economy in ways that will not compromise spending. Revenues in excess of current developmental needs are saved for future generations' development. In this regard, in 1990, the government set up a Petroleum management fund, transformed into the Government Pension Fund Global in 2005. The aim was to absorb revenue surpluses from natural resources. The first batch of revenue surpluses was paid into the fund in 1996. The Fund is a sovereign wealth fund that invests surplus wealth produced from the petroleum sector, principally revenue from taxes and licensing agreements. It is the second largest pension fund in the world, with assets in excess of US\$300 billion, estimated to be well beyond Norway's own annual gross domestic product. The Fund is projected to reach a level of around 250% of GDP by 2030 (Chesterman, 2008: 582).

The Botswana Pula Fund was established in 1993, and reformed in 1996, as a long-term investment portfolio to preserve income from diamond exports and to secure the well-being of future generations. The Pula Fund is fed with surplus foreign exchange reserves, beyond amounts required for the medium term and invested with the long-term in mind. The Central Bank, as managers of the Pula fund, strategically invest in instruments that afford, at the minimum, retention of value of the investments in both domestic and foreign currency terms. The Pula Fund is exposed to price movements on the international market for diamonds and thus high yielding investment instruments

⁴¹ Resource-rich countries often experience a decline in pre-existing domestic sector following the discovery and exploitation of natural resources (in particular hydrocarbons). This is the combined result of a real appreciation in the currency, causing other sectors to find it difficult to export; a rise in government spending; a rise in non-traded goods prices; simultaneously labour and other factors of production shift to the natural resource sector from other sectors (namely agriculture and manufacturing); a resultant shift of production out of manufactured goods and sometimes debt. This phenomenon was first observed in The Netherlands in the 1970's following the discovery of gas fields in Groningen.

are needed to obviate potential losses that may arise through unfavourable market trends as was the situation in late 2008 when the turbulence from the global financial crisis resulted in some level of erosion of the Pula Fund through adverse market conditions (Bank of Botswana, 2013). As a result, Botswana has been able to smooth out government spending despite price volatility and transformed the revenue into sustained economic growth by reinvesting it effectively in additional productive capacity, such as education, training, health and infrastructure (IMF, 2012c). This has allowed Botswana to avoid the boom-burst cycle, to accumulate foreign exchange reserves during price booms. The Pula Fund has been a major source of capital spending and has been used to finance budget deficits.

Source: Archine (2013)

In 2013, Africa counted 15 established⁴² SWFs and 10 projects.⁴³ The existing funds were estimated to manage a total asset of US\$114.27 billion in 2009⁴⁴, representing only 2% of the global value of SWFs. With the exception of the Libyan and Algeria Funds, estimated at US\$65 million and US\$57 million respectively, the remaining funds are relatively small, as indicated in Figure 4, and have mainly been driven by stabilisation motives, either to balance governments' budgets or to pay external debts, as was the case in Algeria, Sudan in 2010, Nigeria in 2008 and Mauritania in 2009.

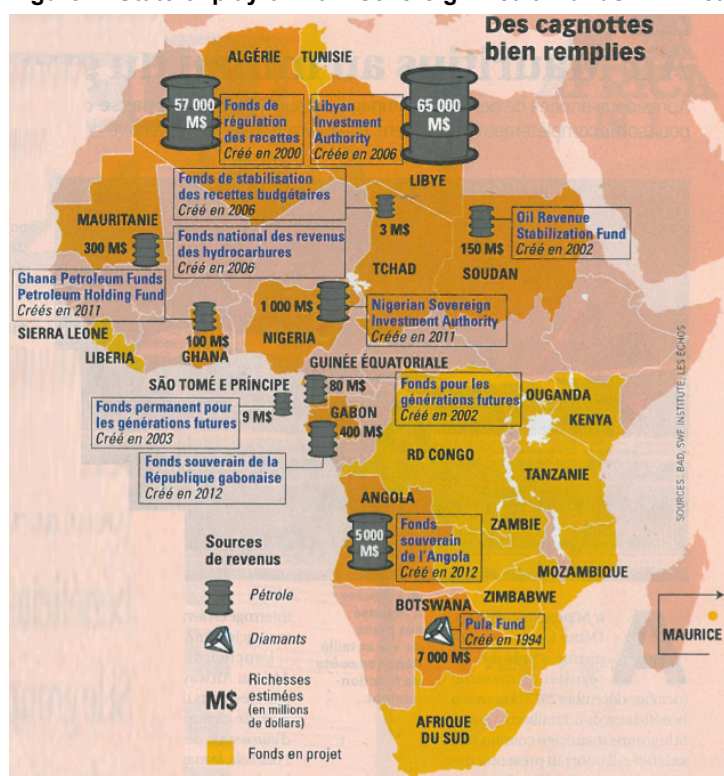
Policymakers do not always agree on the merits of SWFs. While some argue that the latter have the potential to significantly contribute to development while preserving part of the wealth for future generations, as in the case of Norway, or are necessary stabilisers, others claim that it can provide governments with too much discretionary power to manipulate market forces and therefore negatively impact on the global economy. In some African countries, many argue that governance of SWFs are too weak and opaque and lack sufficient institutional arrangements. Many have been used for stabilisation purposes and therefore have not been able to invest in productive capacities or infrastructure development. However, if structured and managed differently, they represent a potentially important source of finance that could be redirected towards structural transformation objectives, infrastructure financing, financial sector development, and achieving regional integration objectives.

⁴² These include Algeria, Chad, Angola, Botswana, Congo, Equatorial Guinea (2 funds), Gabon, Ghana, Libya, Mauritania, Namibia, Nigeria, Sao Tome and Sudan.

⁴³ DR Congo, Liberia, Kenya, Mozambique, Mauritius, South Africa, Sierra Leone, Tanzania, Zambia and Zimbabwe.

⁴⁴ Source: African Development Bank (2011).

Figure 4: State of play of main sovereign wealth funds in Africa



Source: Jeune Afrique, March 2013

3.4.3. Direct cash transfers

Direct cash transfers are other options that many countries, notably those with weak institutional structures, find rather politically attractive. Cash transfers have a double-sword effect. They are applauded for their potential distributive effects and are particularly appealing for local communities that have the impression of benefiting from the windfalls arising from their rich endowments. But it is also a powerful political capital that elites can use to protect and augment their ruling position, with all the risks of dispensation of responsibilities that can result from this.

Some countries like Bolivia, Mongolia, or the State of Alaska, have implemented cash transfer schemes as a means to pass on income directly to citizens in the form of an income check (*your money in your hand*). It was viewed as a means of preventing these revenues from being lost to corrupt, kleptocratic, rent-seeking behaviour perpetuated by the state, but given instead directly to citizens, in a regular, universal and unconditional manner.⁴⁵

Proponents⁴⁶ of this method claim that (i) it could ultimately increase tax incentives, by giving governments the means to tax citizens, instead of relying on resource rents; (ii) it could increase citizens' incentives to monitor more closely the management of resources by the State, therefore impacting on the incidence of corruption and waste of resources; (iii) it could increase spending equity; and (iv) it could directly benefit the poor.

On the flip side, it could become a powerful political tool for ill-intentioned governments to guarantee votes and cling to power, buy themselves a conscience, hide failures and shy away from state responsibilities. It

⁴⁵ See <http://buildingmarkets.org/blogs/blog/2011/02/06/cash-for-oil-are-cash-transfers-a-cure-for-the-resource-curse/>

⁴⁶ See Moss (2011).

can easily be turned into a '*political capital machine gun*' that elites can use, at their convenience, to shortcut the system hence avoid painful reforms.

Even if cash transfers can potentially make governments more accountable, it would require efficient and effective tax administrations. In addition, in most cases, those that are expected to benefit from these transfers fall outside the tax bracket as they are often below the poverty line, and therefore non-taxable.

Finally, while the principle may sound attractive, it may be challenging to sustain in the long-run. Extractive resources are finite in nature and their revenues are volatile and unpredictable. Direct cash transfer may therefore create expectations that may be difficult to manage and sustain, in particular in countercyclical periods when commodity prices are low and during periods of crisis should countries experience reductions in windfall revenues.

3.4.4. Some lessons learnt

Insights from the Norwegian oil and gas exploration/revenue management model provide helpful lessons for new natural resource-rich developing countries. Strategic thinking, leadership and smart policies are all key to successful harnessing of natural resources. Natural resource policies have to be mainstreamed into overall national development agenda to optimise benefits. Insights from the Pula Fund and from the Norwegian oil and gas exploration/revenue management model provide helpful lessons for new natural resource-rich developing countries. Norway may not be a developing country but lessons drawn from its transfer pricing regulations and the foresight to provide for the needs of future generations are strategies worth emulating by natural resource-rich developing countries. Of particular interest, is the strict enforcement of provisions of the Taxation and Investment regulation of 2011 on transfer pricing, which require arms-length transparent inter-firm pricing for goods and services by multinational corporations (MNCs) involved in oil and gas exploration. The onus of compliance lies with Norwegian companies, which have entered into joint venture arrangements with foreign partners to exploit the country's natural resources to comply with fiscal rules or risk punitive sanctions (See Archine, 2013).

African countries could learn from Norway's strict sanctions regime for non-compliance, which has resulted in natural resources contributing significantly to GDP. Ghana's example in setting up the heritage fund is a step in the right direction but success will nevertheless require efficient investment of funds to avoid loss in value of funds placed for the benefit of future generations and strong institutions to manage the fund (see Archine 2013). But saving for the future is certainly an option to be considered, given that it has the potential for providing resources for harder times. However, their management should be depoliticised and placed in the hands of professional fund managers, and not solely within governments' remits, to avoid conflict of interests and the temptation of using the resources for consumptive investments during political election cycles.

In sum, sound macroeconomic, fiscal and revenue management, together with careful contract design and concession allocation, are critical factors to unleash the potential revenues obtained from extractive activities. These should be complementary measures, and even more effective substitutes (at least in the medium to long run) to export restrictions, to benefit from extractive revenues.

4. Linkages, Regional and Global Value Chains

As mentioned already, in many African countries, export restrictions have often been used for industrialisation purposes, as a complementary measure to support industrial policy. If used in a strategic way, export restrictions can potentially reduce the cost of imported inputs for local production chains by discouraging companies to export their products to the advantage of local industries. They can provide a cost advantage for domestic production into foreign markets, once value is added to unprocessed goods.

While restrictive trade policies, have, in theory, the potential to play a role in industrial development, they are however, only second-best instruments when it comes to addressing structural domestic distortions. Industrial policy objectives can be tackled in a more effective way with other domestic tools that can better support enterprise development and provide incentives for local industries.

In **Section 2**, the limits of using export taxes as a means to effectively support the beneficiation of extractive resources were highlighted. While the results have been mixed, at best, the real pressing issue of industrialisation nevertheless remains to be addressed and increasingly so, at a time when good economic prospects are placing the bar even higher on governments to address the current challenges linked to weak economic structures and job creation. In the case of resource-rich countries, this is a shared responsibility between the companies that are expected to stay for several decades and contribute significantly to exports, and the government, whose role is to ensure that the value is shared in an equitable manner.

This section focuses on the key factors that need to be taken into account when defining smart industrial policies. In today's interconnected world, the challenge is two-fold. Governments need to meet the objectives of national development and create business and employment opportunities. At the same time, no economy is an island. The survival of industries depends on their ability to remain internationally competitive and efficient, in particular as trade barriers gradually melt down. The importance of linkages, as a means to cater for domestic demands, is examined. This is a crucial first step, as policies will determine to what extent local industries can sustain over time and remain competitive. Complementary to that, the section goes on to identify the key factors that need to be understood for local firms to capture gains and access regional and global value chains. This is a vital condition, in particular in low-income countries, to successfully integrate the global economy.

4.1. The importance of linkages

One of the main challenges facing the extractive sector consists in its dis-enclavement in order to better connect with the rest of the economy. **Fiscal linkages**, already mentioned in **Section 3**, are one set of mechanism that can be used to finance other economic activities, using financial resources from the extractive sector. But this is not sufficient. It needs to be simultaneously complemented by promoting **smart productive linkages** both **within** the extractive sector, notably through value creation and **outside** the extractive sector, in other productive sectors such as agriculture and services. These are essential to create business and employment opportunities for the local population. In addition, **spacial linkages** are critical: these relate to inclusive infrastructure corridors that serve and stimulate clusters and integrated local economic activities. Finally, it is important to generate and promote **knowledge linkages** to foster innovation, creativity, skills and capacity to maximise the economic and social potentials and benefits associated with extractive resources. Figure 5 shows how economic linkages can be created and promoted along the mining value chain, through forward, backward and lateral linkages.

Figure 5: Maximizing value chain through economic linkages

Source: Author

Backward or upstream linkages relate to industries that supply inputs to the extractive sector. They emerge as a consequence of vertical, horizontal, and technological demand-supply interactions between mining producers, specialised manufacturers, input providers, agents and distributors, and service suppliers. Examples include industries that produce equipment, machinery or services for the extractive sector or industries that operate at the exploration stage. These types of linkages often require sophisticated technologies, specific standards, technical skills and knowledge. However, because the production process is location specific, many inputs and solutions to challenges have to be context-specific and tailor-made to fit the needs of extractive industries and locally based suppliers are likely to have an advantage over global suppliers.

Given the long history of mining activities in South Africa, the extent of backward linkage development has been significant and has played an integral role in the emergence and evolution of other sectors in the economy in addition to mining. The clustering of firms involved in metal products, machinery and equipment, electrical equipment, and construction activities, the majority of which are geographically concentrated in Ekurhuleni, Gauteng, is the most tangible manifestation of this effect.⁴⁷

Forward or downstream linkages consist of industries that use inputs from the extractive sector into other activities. These linkages provide the opportunity to develop clusters of manufacturing and services activities around the extractive sector, notably through beneficiation processes, with a view to creating high-end products. Although the potential for value-addition varies depending on the mineral being

⁴⁷ Walker 2005.

extracted as well as on the competitiveness of the industry, such types of linkages undoubtedly have the potential to bridge the industrial gap in many African countries. To benefit from such linkages, supporting incentives are necessary to create the necessary business environment and empower African private sector with the capacity to compete with other suppliers.

As will be seen in section 4.4, global value chains have paradoxically significantly downplayed the relevance of the geographical proximity of raw materials to the place of manufacture, as a potential comparative advantage for the development of local industries. Companies have to do more. What matters is the capacity to be cost-effective and to create a niche market. It is equally important to identify and develop close ties to lead-firms in the network, a key determinant of the country-level position within the chain. This requires different sets of policies and favourable economic and political conditions but also the capacity to play a decisive role in international trade and multilateral agreements.

As shown in Box 8, Botswana is often cited as a country that has been successful in the development of diamond beneficiation. The case of Botswana is interesting. Although Botswana had the advantage of being a key global player, it demonstrates how the combination of factors has been able to stir the outcome of negotiations, which were initially not given a winning card.

Box 8: Botswana's diamond beneficiation

Between 1970-2000 Botswana experienced the highest rate of economic growth in Africa, partly as a result of revenues received from the dividends from the Government's joint venture with De Beers, where each own 50% of the subsidiary company Debswana. Under its recently completed sales agreement with De Beers, Botswana has now obliged the marketing arm of De Beers Diamond Trading Company to relocate its selling functions from London to Gaborone: this is expected to shift the global diamond marketing and processing to the South.

Much of the profit from the diamond industry is made at two points in the value chain. The first is at the mine gate and some of Botswana's mines are among the most profitable in the world. The second part of the value chain, which is the most profitable of the two, is the retail end. Although the end product is highly profitable, the cutting and polishing of rough diamonds is however not a profitable part of the value chain. That is why the big four diamond miners, De Beers, Alrosa, BHP-Billiton and Rio Tinto, generally leave the cutting of stones at the bottom end of the market to Indian cutters and increasingly competitive firms in China and Thailand. India is reported to have about 500,000 people employed in diamond cutting and polishing and has made its name on being able to cut stones that were once considered too small and of too little value to bother. At the top end of the diamond market, where large and valuable stones are processed, cutting is done in high-cost locations such as Antwerp, New York and Tel Aviv, which have the technical expertise. Botswana, and to a lesser degree Namibia, fits into the middle, processing expensive but not top-end diamonds.

Until 2000, none of the big miners were interested in the retail end. However, following the formal end of the 80-year-old De Beers diamond cartel in 2000, following a difficult decade tainted with blood diamonds scandals, anti-trust suits in the United States and the European Union, rising competition from new producers and an increasing difficulty in controlling all its "sightholders", the company abandoned the cartel arrangement, whereby it would in effect buy any excess diamonds to maintain market price. It then adopted its so-called supplier of choice strategy. De Beers entered into strategic partnerships with luxury houses, such as LVMH Moët Hennessy Louis Vuitton, and opened diamond shops in the most expensive locations around the world. It also started trading branded diamonds in its own name.

In 2011 Botswana exported 4.9 billion pula (about Rand 5.3 billion) in processed diamonds. Although it is still a small fraction of total diamond exports, it is by far Botswana's single largest manufactured export and has created more

than 3,000 jobs. The exports of unprocessed diamonds were 25 billion pula in 2011.

It is frequently asked whether Botswana's model is sustainable. Revenues from known diamond mines will start to fall after 2027. This is not because large-scale mining of diamonds will end, but rather that costs will have risen substantially at existing mines and most revenues come from profits, not taxes. Relatively large-scale diamond mining and, by extension, cutting and polishing are expected to continue in Botswana until the late 2030s at least. It is expected that after 25 to 30 years of processing, the Botswana diamond industry will either stand on its own, or the country will adjust and move on to new industries. The coming decades of processing will create new skills, industries and enterprises that will mean either Botswana will develop a competitive industry like India, or be forced to exit. In either case, the diamond cutting and polishing industry will have played a vital role in transformation.

Source: Grynberg (2013)

Although Botswana has made strategic choices that paid off in terms of climbing the value chain, the main challenge in the years to come will be to broaden the economic base and move away from the dependence on diamond with a view to ensure a sustainable development path beyond 2027, when production of diamonds come down. So far on this front, results are yet to be seen.

Horizontal or lateral linkages consist of developing activities that may not be directly linked to the extractive sector, but might have the potential to unlock significant but indirect business and employment opportunities in other sectors of the economy. For instance, synergies can be created in services sector in the field of logistics, distribution or the transport sector. Similarly, activities in agricultural activities (see section 4.3) can be developed or further supported to supply the local population living around the mines.

From a strategic perspective, promoting such linkages can become a **low hanging fruit** for policymakers, as the latter are under increasing pressure to meet the expectations of the population to deliver on concrete economic results in a rather short period of time. Encouraging horizontal linkages provides the opportunity to create more value as a means to diversify away for the dependence on extractive activities.

Spacial linkages is increasingly being emphasised as an important vehicle to dis-enclave the extractive sectors. Resource corridor infrastructures have often been criticised for having served essentially the extractive sector and not sufficiently serviced broader economic activities. In many instances, the use of resource infrastructure is even controlled and limited essentially to mining activities, limiting the prospects of other economic operators to benefit from the spill over effects of such infrastructure. Substantial economic opportunities can be realised by making smarter use of the existing infrastructure to connect and catalyse productive investments and sustainable employment in other sectors.

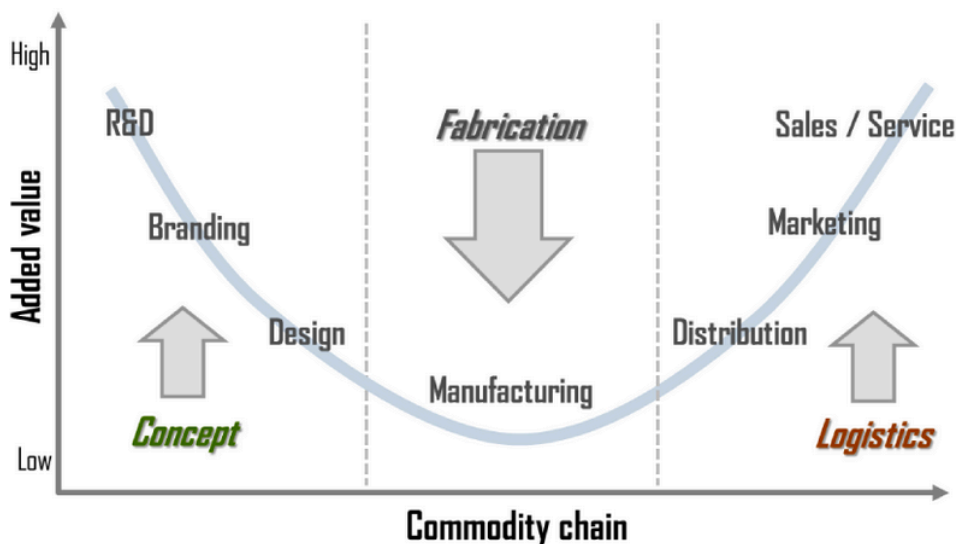
A key consideration for African countries is to seek to develop activities where higher value is actually created. These are generally activities that create jobs and contribute significantly to the national output. The availability of cheap labour and relatively low costs of production confers a theoretical comparative advantage to a good number of African countries. But as discussed in section 4.4, in reality the off-shoring and fragmentation of production stages has led to big changes in products' value added in the commodity chain.

The manufacturing sector remains a key sector to develop in most African countries, for obvious reasons that it is a big employer, in particular for lower-skilled people, is relatively easy to set up (provided there is a business case to do so). More importantly, it serves as an incubator for new ideas. However, contrary to what one might think, it might not be where most value can be created, as showed in the **smile curve**⁴⁸ in

⁴⁸ <http://people.hofstra.edu/geotrans/eng/ch5en/conc5en/commoditychainsaddedvalue.html>

Figure 6. Although it has other numerous advantages, interestingly the manufacturing and assembly stage performed locally accounts for a small share of total value added. In effect, the manufacturing function of many companies is relatively standardised, fragmented and increasingly outsourced to the most cost-competitive places. The massive entry of low cost manufacturers led to a high level of competitiveness in manufacturing, reducing profit margins as well as its overall level of contribution to added value.

Figure 6: The "smile curve"



Source: Adapted from Stan Shih Smile Curve concept

This is important to rightly frame the policy objectives to be achieved. If the **objective** is to **create value**, then it would be important to place the focus on the development of services that surround manufacturing processes, such as research and development, branding and design in order to become competitive over concepts. Markets and logistics are the other types of activities that generate significant value added. These require different sets of skills and capabilities and hence specific types of support and policy tools.

If on the contrary, the **objective** is to **create jobs** and **develop an industrial base**, then policies will have to focus on **competition over processes**, bearing in mind that this will place the country at the lower level of the value chain, unless activities are integrated globally. Here, smart industrial policies will have to be well defined and clearly implemented.

To illustrate the above, Table 2 summarises the production processes that generate the highest value in the iPhone 4 and the iPad. It is clearly observed that the total value capture derived from manufacturing processes is quite low, compared to what is retained where design, marketing and distribution is made. Many industrialised countries have succeeded in maintaining their dominant position in the manufacturing sector because they have retained the concepts and marketing elements of the business and have outsourced the fabrication part.

Table 2: Value added in value chains of iPhone 4 and iPad, by location and activity, 2010

Location/ Company	Activity	iPhone 4 (2010)		16 GB Wi-Fi iPad (2010)	
		Amount/Cost	Share of "Retail"	Amount/Cost	Share of "Retail"
	Price to consumer	\$199		\$499	
	Carrier subsidy	(\$350)		NA	
Worldwide	"Retail" price	\$549	100.0	\$499	100.0
Worldwide	Distribution and retail (Gross value)	NA	0.0	\$75	15.0
	Wholesale price (received by Apple)	\$549	100.0	\$424	85.0
Value Capture	Total value capture	\$401	73.0	\$238	47.7
U.S.	U.S. Total	\$334	60.8	\$162	32.5
Apple	Design/marketing	\$321	58.5	\$150	30.1
U.S. suppliers	Manufacturing of components	\$13	2.4	\$12	2.4
Japan	Manufacturing of components	\$3	0.5	\$7	1.4
South Korea	Manufacturing of components	\$26	4.7	\$34	6.8
Taiwan	Manufacturing of components	\$3	0.5	\$7	1.4
E.U.	Manufacturing of components	\$6	1.1	\$1	0.2
Unidentified	Manufacturing of components	\$29	5.3	\$27	5.4
Direct Labor	Total direct labor	\$29	5.3	\$33	6.6
Unidentified	Labor to manufacture components	\$19	3.5	\$25	5.0
China	Labor for components and for assembly	\$10	1.8	\$8	1.6
Worldwide	Non-labor cost of materials for inputs	\$120	21.9	\$154	30.9

Source: Kraemer K. et. Al. 2011. *Capturing value in global networks: Apple's iPad and iPhone*

4.2. Scaling up value creation and distribution *within* the extractive sector

The current disconnect between extractive industries and value-added activities do not imply that African countries were unwilling to develop those linkages. Rather, it is partly the result of their historical legacy and past failures of successive industrialisation initiatives that followed inappropriate policy choices and imposed policies following structural adjustment programmes. It is also the result of a weak overall macroeconomic environment that held back investments, incentives and business prospects, the growing technological divide, infrastructure and energy deficits as well as institutional and governance weaknesses that have crippled economic transformation.

Provided there is a business case to do so, the development of smart production linkages requires **supportive** institutions that create and provide appropriate incentives to the business community. These have to be backed by a set of **consistent, coherent and adequate policy sequencing measures**, including complementary fiscal, investment, industrial and trade policies. Fiscal policies are needed to support broader development programmes but should not be conducted at the expense of future

investment decisions. Industrial policies should contribute to create sustainable industries and jobs and must avoid “picking winners” or creating dependent industries. Trade policies should be properly sequenced with national economic ambitions and foster growth, not impede it.⁴⁹

Value creation is a shared responsibility: it is necessary for government’s credibility and good for business. The role of mining industries must therefore be stepped up in **growing the pie** so that the extractive sector truly works for development, in policy formulation but most importantly in practice.

African economies, like many other resource-rich countries, are often confronted with a strategic question: *how far is it economically feasible and justifiable to adopt a strategy to create and add value in mineral processing in their development strategy?* The next question is of course, *what strategy to adopt?*

To move up the transformation ladder, **industrial policies** are progressively making their way back on the agenda of many resource-rich policymakers, including in Africa – rightly so – to promote beneficiation and value addition **within** the extractive sector. Although still considered as taboo by the champions of the Washington Consensus⁵⁰, today redefining industrial policy goes back to the fundamentals: the need to put in place necessary tools to support productive investments and to create jobs for an increasingly young and urban population.

It is understood that the purpose of defining **smart** industrial policies is **not to turn miners into manufacturers**. Neither is it desirable for governments to make a deliberate attempt to **pick winners** from the business community. Rather, **smart** industrial policy aims at setting up a proper framework that is conducive to business development, with the aim of attracting and encouraging local and foreign entrepreneurs. These do not necessarily have to come from the extractive sector. They are expected to come also from complementary manufacturing and services activities, either because they can use inputs from the extractive sector (i.e. through forward linkages) or by produce good and services for the extractive sector (i.e. through backward linkages).

Governments are therefore required to provide efficient and world-class public goods such as a conducive business environment, infrastructure, energy and telecommunication services and ensure the continuous availability of, an adaptable and flexible human capital, which can fit the changing dynamics of the economy. It also requires governments to take the necessary measures to address existing market failures⁵¹, which are particularly strong in the extractive sector.

It is necessary to assess the capacity and competitiveness of local suppliers as well as the readiness and flexibility of the labour market to take up the challenge. This will require supportive measures to improve their productivity and to empower them with the necessary tools to take advantage of economic opportunities. In addition, it is essential to support and protect innovation as well as research and development. Most African countries are ill-equipped with adequate intellectual property right frameworks to incentivise innovation among local entrepreneurs. Finally, financial support measures are key: these include fiscal incentives and access to credit at preferential and competitive rates and guarantee schemes, notably, but not only, for small and medium enterprises.

⁴⁹ See Ramdoo 2013. [Fixing Broken links: linking extractive sectors to productive value chains](#). ECDPM Discussion Paper No. 143

⁵⁰ See Rodrik (2010).

⁵¹ These include information asymmetry, notably on the geological knowledge; addressing the pursuit of self-interest behaviours that often shape the (in)efficiency of policies and development outcomes, dominant market conditions of large firms versus inability of local firms to tap the benefits of the super-cycle, etc.

Potential gains from **smart** industrial policy are substantial, provided countries develop linkages in a strategic manner.⁵² The *scope* of the linkages⁵³ must also be widened: on the input side this can potentially, increase the value and the share of inputs locally sourced. On the output side, it can enhance the proportion of commodity production that can be processed by domestic industries.

What role for other stakeholders? Government's role is key in defining policies, in giving incentives and in facilitating business operations. But this cannot be done by the government alone. It needs to be done in collaboration with the business community as well as local communities. The role of extractive industries is particularly important. They can play a catalytic role in the promotion and development of local businesses to foster value creation, by including economic operations from local suppliers into their core business operation, notably through procurement and local content sourcing along supply chains. Not only would that create economic and employment opportunities for local communities, crucial to maintain social licence to operate, but it also serves their own interests, as this could save them time and money in the long-run.

To this effect, as summarized in Box 9, several companies have attempted to provide support to help local entrepreneurs develop activities that can serve the value chain.⁵⁴ In many cases, these are framed within the framework of the Corporate Social Responsibility. While these are laudable initiatives that have been useful, they are however not sufficient to support sustainable value creation among local actors. It is widely acknowledged that one of the most sustainable ways to raise income and to trigger long-term economic development, is undoubtedly to encourage the private sector, in particular local SMEs, to increasingly participate in strong and diversified economic activities.

Box 9: Examples of companies supporting local development

Anglo American Local Enterprise Development in South Africa

Anglo American established in 1989 one of the most successful corporate enterprise development programmes, through Anglo Zimele, an enterprise development and Investment Initiative Fund. It focused on three core activities:

1. It provided *business development services* to strengthen the capacity of small local business and *financial support* to enable black-owned, local small and medium-sized enterprises (SMEs) to take advantage of opportunities related to Anglo American activities;
2. It worked closely with various Anglo American departments to *identify procurement opportunities* for local suppliers to benefit from value chain involvement and participate in South Africa local industry;
3. It supported *industrial expansion* to facilitate the entry of junior local mining companies into the mainstream mining sector.

ExxonMobil Worldwide National Content Strategy

ExxonMobil's (EM) national content strategy is a corporate initiative, considered as a strategic objective, aimed at "ensuring that its presence in a host country helps develop human, social and economic capacity content that benefits its people, communities and businesses overtime". Support took different forms, namely:

1. In Malaysia, EM focused on technical and professional training of local workforce, necessary for existing and future projects and operations;
2. In Chad, in partnership with the International Finance Corporation (IFC), EM provided training for local suppliers so that the latter can meet EM's standards and requirements for procurement and contracts.

⁵² See Asche *et al.* (2012), AfDB *et al.* (2013), OECD (2013) and UNECA (2012).

⁵³ See Kaplinsky *et al.* (2012).

⁵⁴ See Ramdoo 2013. [Fixing Broken links: linking extractive sectors to productive value chains](#). ECDPM Discussion Paper No. 143.

4.3. Linking the Extractive sector to other productive sectors

4.3.1. The case of Agriculture

Agriculture is a major economic sector in many African countries. While its share GDP varies significantly across countries, it is the mainstay of most African economies with a contribution of 30% to GDP on average.⁵⁵ Although large-scale plantation agriculture make up 40% of export earnings on average in Africa, small, rural and independent farmers constitute about 90% of rural workforce, employing around 65% of the total labour force, which in turn make up 50% of household incomes.⁵⁶ Production is however fragmented: 85% of farmers grow on less than two hectares⁵⁷. This in turn has an impact on yield and productivity.

If well accompanied, agriculture has no doubt the potential to become a vibrant economic activity and a catalyst for Africa's broader economic transformation agenda. Significant improvements in Africa's agricultural development can be achieved if small and medium scale farmers' productivity and competitiveness are increased, if they are provided with robust markets to absorb their output and if they can put in place a solid post-harvest value chain.

Despite commitments taken by many governments to raise the share of agriculture in their budgets to 10% level and despite the increasing support of the international development community in the sector, successful transformation would, however, require multi-stakeholder support to succeed. For instance, the extractive sector can play a decisive role by contributing to create value around the mine. It is often observed that in rural areas where extractive industries operate, the unemployment rate is relatively high among the active population, in part as a result of the capital intensive nature of the mining sector but also because there are insufficient opportunities to create linkages either within or outside the mining sector.

In many cases, those who do not work in the mines work in the fields instead and the agriculture sector is often plagued by the usual challenges of low productivity, limited market access and traditional farming. The co-existence of both sectors is vital for the many rural regions. In South Africa for instance, the province of Mpumalanga⁵⁸ is endowed with numerous mineral resources such as gold and platinum and is South Africa's major coal producer, accounting for 80% of the coal that generates power for export. The region is also the leading producer of soya beans (51%), maize (24%) and dry beans (23%). The 60 mines operate on 13% of river catchments and productive farms in the region. In addition to environmental concerns and their potential impact on soil fertility, the mining potential is largely unexploited. It is estimated that if pending mining permits and prospecting licences were to be granted, the mines would take up 80% of the region's surface, with dramatic impacts on the availability of farming land and on food production.

Finding the most effective way to address the challenge is therefore crucial for the stability of the region. This does not only require ensuring that unbridled mining activities do not have detrimental effects on land, water, agriculture and people's livelihoods. More importantly, it requires broader policies to ensure that both sectors work together to achieve development objectives.

Where both sectors exist, they need to be equally managed and connected. In the case of agriculture, beyond being a global public good, food security is a politically sensitive issue. It has proved⁵⁹ that it can

⁵⁵ World Bank (2012).

⁵⁶ UNCTAD (2012).

⁵⁷ McKinsey Quarterly (2010).

⁵⁸ www.miningmx.com/page/news/energy/1418754-Can-Mpumalanga-s-mining-and-farming-co-exist#.UPpdSqHjqE

⁵⁹ The 2008 food price crisis, which led to massive popular uprisings, gave a clear signal to governments that they need to strengthen food security policies in order to maintain social peace and stay in power.

make or break a government and it can glorify or destitute politicians and is therefore at the heart of social and political stability.

Extractive resources are also politically sensitive: First, contracts are negotiated at the highest level and this sometimes generates unhealthy rent-seeking behaviours which, in turn, create, structure and entertain different types of political systems and related incentives. It creates high expectations and perceptions among all stakeholders involved: **companies** scrutinised by shareholders are guided by their balance sheets, the **local communities** expect a faire redistribution of the rents to upgrade their living standards and **governments** are pressured to deliver on development outcomes. Corruption and patronage may be major temptations created by the illusion are rents. It therefore has a bearing on the (mis) management of rents and resources. Finally, potentially high revenues from extractive industries shape governments' relationship with their **citizens**, often through the tax-accountability nexus. Resource-rich countries' governments encounter less pressure to collect taxes from their citizens to finance their expenditure because revenues received from the extractive sector allow them to do so. The flipside however is that the legitimacy of citizens to demand more budgetary transparency and accountability is significantly reduced.

Linking the agricultural and extractive sector is important. Australia⁶⁰ is one country that has succeeded in using the extractive sector to boost the agricultural sector. Chile is another case in point. It managed to develop a well-diversified economy to diminish dependency on copper exports. It is not only highly desirable that policies in both sectors are designed in ways that generate positive outcomes and complement each other but it is essential to ensure that value is created and distributed around the mine to support cluster development in economically productive sectors. This way, benefits from extractive resources will trickle down to the rest of the economy and act as catalyst for broader economic transformation.

Given their strong linkages with other sectors of the economy, developing, modernising and promoting value chains⁶¹ in agri-business is critical. It requires innovative policies and strategies to promote competitiveness, efficiency and strong sustainable linkages with local SMEs, at national, regional and global levels. Such policies require strong and sustained engagement of the private sector with policymakers and effective policy reforms that truly meet the needs of the sector. Amongst other factors, it is crucial to improve the business climate, address the crippling effects of market fragmentation, under-investments in hard and soft infrastructure. It is also critical to promote business-friendly farming models that fit the reality of African countries. Finally governments should ensure that they invest in innovative technologies, cost-effective transportation, efficient warehousing and storage capacity, address skills mismatch and manage highly volatile commodity prices.

Governments, in collaboration with mining companies, should therefore use windfall gains from the extractive sector to compensate and lift the agricultural sector to a higher level of development, notably by using financial resources from the extractive sector, when commodity prices are high, to incentivise and support agriculture projects, value chain development and local entrepreneurship including in agribusiness.

⁶⁰ See Doepel D & Bolton G 2013.

⁶¹ The value chain concept is rooted in the organisation of different actors and how they interact in their institutional environment. It is a system of organisation and activities that create, transform, process and deliver a range of products or services from the supplier to the consumer. It therefore provides an important means to understand business-to-business relationships essential along the chain and provides the mechanisms to increase value-addition, productivity and efficiency.

Extractive companies can play a lead role in supporting agricultural economic activities in areas where they operate, notably by **encouraging and supporting local farmers** to develop more productive activities, beyond their subsistence activities. This can be a way to reduce risks of potential unrest and therefore to maintain their social license to operate, in regions where agriculture plays a dominant role, but farmers struggle to provide for their own subsistence.

Mining companies can contribute to the development of local communities perhaps by moving a step beyond traditional corporate **social** responsibility towards corporate **economic** responsibility activities. They can play a constructive role by providing complementary support to local communities in developing productive economic activities.

The role of the state as a facilitator should be enhanced, in particular by providing the necessary complementary guidance and dialogue platform to ensure that companies' support is properly aligned to already existing local/ national/ regional policies such as the Comprehensive Africa Agriculture Development Programme (CAADP) or other national efforts regarding food security and improved agricultural productivity.⁶²

There are at least three types of approaches⁶³ extractive companies can pursue to support the creation of linkages with and for local farmers:

1. Supporting *programmes* to encourage value chain activities in existing farming activities, through support to integrated activities ranging from inputs to markets. Many companies⁶⁴, notably in Ghana, Peru and Chile have taken initiatives to support local initiatives to develop agricultural value chains. However, the potential of developing agricultural value chains for strategic agricultural commodities, using fiscal or other linkages from the extractive sector, has not been sufficiently explored, at least in Africa.

Box 10: Existing initiatives to support agriculture

Case 1: Newmont Ghana Gold's Ahafo Agribusiness Growth Initiative (AAGI)

The Newmont Ghana Gold company, in partnership with the NGO African Connections Ghana, launched an agribusiness growth initiative (AAGI) in the Brong Ahafo region. The programme supported capacity building of farmer-based organisations and SMEs to increase their productivity and product quality. The main objectives were to create jobs, and develop value added economic activities that are independent of mining activities. Implemented in two phases, the project contributed to:

1. Improve farmers' knowledge in production techniques and in new market demands;
2. Introduce farmers to new crops and varieties with high market potential;
3. Train farmers in business and commercial skills, on export requirements; on industrial procurement and on standards for the production of five crops with high productivity and market potentials, namely chilli pepper, soybean, ginger, maize, and plantain;
4. Link farmers associations to potential funding sources, such as local rural banks; and
5. Link associations to identified buyers including processors, exporters, commercial and institutional buyers (e.g. schools).

The project was successful in creating a network among suppliers of inputs, farmers and markets: several local companies supplied seeds and inputs to farmers and many others expressed interest to buy from the farmers, once their produce is ready. Likewise, the Grain and Legumes Development Board expressed interest to develop seed bank/seed growing units locally and at low costs to farmers. A processing and storage centre was set up to process, inter alia, chilli pepper into high quality chilli powder and process and store soybeans. To date, almost 200 farmer groups have been trained in eight communities.

⁶² On the regional dimension of CAADP, see ECDPM (2012).

⁶³ McKinsey (2011).

⁶⁴ See Ramdoo 2013.

Case 2: Agribusiness Development in Cuncashca Peru

In 2000, Barrick Gold initiated the Cuncashca Business Development Project in Peru in collaboration with a small community of 64 farming families. Building on existing agricultural practices and know-how, the objective was to improve the skills of local farmers by providing training and infrastructure to foster local entrepreneurship.

The project integrated farming, livestock and dairy practices:

1. In partnership with community leaders, a model farm was developed. Local farmers received training in modern agricultural methods and animal husbandry techniques. A new water management infrastructure was installed to improve irrigation and to help cultivate grasslands for cattle grazing. As a result, crop production increased significantly.
2. To strengthen the cattle herd, local dairy cows were cross-bred with Brown Swiss bulls. As a result, over 250 cattle have been genetically improved, resulting in significant increases in milk production. Corrals for livestock were installed to create a more conducive environment for animal breeding.
3. A new dairy plant was built for the manufacture of milk and dairy products, owned by families in the village, to produce milk, butter, cheese, yogurt and ice creams.
4. Entrepreneurial training courses and workshops were conducted for local residents, covering marketing and commercial production methods.

The project also created new markets in a variety of areas and supported a shift from subsistence farming towards income generating activities. For instance, the average monthly household income increased from US\$46 in 2002 to US\$166 in 2008. The dairy plant produced 4,200 litres of milk per month in 2008, and cheese production increased 400% between 2005 and 2007. Water usage declined by 40% thanks to conservation techniques, and the rate of chronic malnutrition amongst children under three decreased from 46% to 38% between 2002 and 2008.

Case 3: The Catemu Agricultural Farm, Chile

The Anglo American Chagres Copper Smelter, operating in the region of Catemu in Chile implemented a project in 2003 aimed at supporting self-sustaining techniques and skills for goat and bee honey producers in Catemu region. The company provided assistance to small goat producers by means of a breeding plan, which included cross-breeding to improve the genetic quality of the herd for improved production of meat and milk. In addition, a technical programme was implemented to improve the herdsmen's productive practices and the quality of the cheese. In two years, the programme trained 300 people, improving trainees' productive capacity and income levels. In 2005, the Lomas brand was launched to market farm products. The programme also focused on bee keeping, and helped to cut diseases in bees by 30%.

2. Pursuing a *breadbasket* approach in regions that have high agricultural potential by virtue of their natural endowment. In these cases, initiatives could focus on efforts to increase yields and crop productivity and market development strategies. The breadbasket strategy seeks to strengthen linkages between small farmers and the larger, market-oriented farming operations, encouraging small farmers to grow staple food and ensuring that they can sell their surpluses on the local/national/regional markets.
3. Developing *spatial agricultural activities* along infrastructure corridors, generally used for the extractive sector. This includes support to storage, warehousing and processing facilities around major infrastructures. Examples include the Beira Corridor, linking Malawi, Mozambique and Zambia⁶⁵ and that of TAZARA railway connecting Tanzania to Dar-es-Salaam.⁶⁶ Potential here exist to connect markets, regions as well as countries and unlock value-chain potential in rural agricultural regions.

Effective implementation requires defining clear responsibilities among companies, governments and local farmers to ensure that local farmers can sustain their activities autonomously, over time, once companies' support to specific projects terminates.

⁶⁵ See Ramdoo (2013).

⁶⁶ See Byiers and Lui (2013) and Byiers and Rampa (2013).

4.3.2. Resource efficiency through recycling

Extractive resources are finite: continuously increasing demand in the past two decades, in particular from emerging economies, has put them under severe pressure, leading to a spiral of price spikes, despite new discoveries and technological improvements for exploitation. As a result, many African countries have increased their production of key strategic extractive resources. Yet, compared to the rest of the world, their levels of consumption remain relatively low as a result of their low utilisation rates, given their current levels of industrialisation and development⁶⁷ base.

However, as African economies take off, consumption will rise significantly. The rapidly growing middle-class and speedy urbanisation will lead to further pressure on consumption of energy, technological products, consumer goods and investment in new physical infrastructure. Clearly this is expected to lead to a greater competition for extractive (and other natural) resources and quicker depletion. In addition, countries will witness an increasing production of electronic and industrial waste that will have to be disposed of, in an efficient and environmentally sustainable waste to prevent ecological damages.

To match the growing and competing demand pressures, locally and internationally, African countries have to step up efforts to manage and use their extractive resources more efficiently. Recycling and urban mining will increasingly become important policy measures to ensure resource are used efficiently. Research has shown that through recycling, an impressive amount of critical and precious metals can be recovered from electronic and industrial waste. This is already a best practice in countries that are dependent on raw materials. For instance, the EU's Raw Materials Initiative⁶⁸, which spells out options for securing Europe's access to strategic resources in the future, has identified resource efficiency and recycling as key pillars of the EU's strategy to address supply constraints and to reduce the dependency on foreign sources as much as possible. Many European member states (in particular those that have high-tech industries and that heavily rely on imports of strategic raw materials, namely Germany, Sweden, Finland etc.) have over the last few years emulated the European Commission's efforts to develop their recycling industries.

Looking forward, it is therefore crucial for dynamic African economies to embrace such policies. Recycling is likely to have positive impacts on the environment by reducing carbon emission and preventing pollution and toxic leakages in the environment.

From an economic perspective, recycling and resource efficiency policies fits well within broader the industrialisation and diversification strategy. It provides business opportunities for local firms to transform industrial and electronic waste into 'pure' substances again, increasing the supply of such raw materials without putting further pressure on the stock of the natural endowment.

Recent estimates⁶⁹ suggest that 152 million mobile phones, 52 million computers and 36 million monitors were discharged every year globally. In addition to constituting a real environmental challenge, these electronic wastes represent a substantial revenue opportunity: precious metal found in electronic devices contain 40 to 50 times the amount of gold and precious metals than the ores mined from the ground. For

⁶⁷ Statistics (2004 data, SERI Global Material Flow Database. 2008) show for instance, that Africa extracts 15 kg of raw materials per capita per day and consumes 11kg per person per day. This compares to the US, with 92 kg extracted and 102 kg consumed of raw materials per capita per day. In addition, the US Geological Survey estimated that the remaining reserves of gold is expected to last 20 years, reserves of copper is expected to last 34 years and reserves of iron is expected to be depleted in the next 70 years, if the current rate of extraction is maintained.

⁶⁸ See Ramdoo (2011).

⁶⁹ Source: <http://venturebeat.com/2013/03/05/urban-mining-recovering-21b-a-year-in-gold-and-silver-from-discarded-devices-infographic/>

its part, the electronic market uses US\$21 billion worth of gold and silver annually. At present, only 15% is recovered.⁷⁰ As a result, urban miners have the potential to recover most of the 320 tons of gold and 7.5 tons of silver that is embedded into wastes annually. Few countries have so far explored this possibility. China, for instance, has the largest electronic waste-processing centre, and is estimated to process 1.5 million tons a year, generating a total of US\$75 million in revenue.⁷¹

4.4. Linking domestic industries to the regional and global value chain

Industrial realities and the nature of trade⁷² have changed radically in the past few decades. Production is more and more structured around global value chains (GVCs)⁷³, defined as the “full range of activities that firms and workers do to bring a product from its conception to its end use and beyond (Gereffi and Fernandez-Stark, 2011). This is reflected in the rising share of trade in intermediate inputs, estimated⁷⁴ to represent more than half of imported goods by OECD countries and almost 75% of imports of countries such as China and Brazil.

Several factors account for this. Technological progress, in particular improvements in transport and telecommunications infrastructure, has drastically reduced the time factor and physical barriers between markets and production places. In addition, trade barriers among countries have gradually been removed. Moreover, the role of emerging economies as new drivers of production structures significantly changed the dynamics from a situation where traditionally developing countries were essentially providing low-cost inputs to be transformed into high-value added finished products in developed countries. Industries on their side have to adapt to the deepening of global production networks and to the increasing importance of inter- and intra-firm trade within these networks.

According to the literature⁷⁵, GVCs have four distinct characteristics⁷⁶ that are essential to understand in order to inform policy decisions:

1. The **multidimensional nature** of global value chains:
 - a. **Horizontal dimension**: activities from the initial conception to the end-market, is now fully integrated. It comprises manufacturing and services activities and the distinction between them is increasingly blurred. They are highly synergetic and have strong multiplier effects on demand, income and employment. Most strategies consist of continuous upgrading to maintain and improve one’s position in the global sphere.
 - b. **Vertical dimension**: companies and countries increasingly compete with each other in similar and substitutable products, to move to the core of high value added production. This makes suppliers more vulnerable to shifting global market forces.
 - c. **Spatial dimension**: Industrial production operates within a broader *product space*⁷⁷, where there is deep interconnectedness⁷⁸ among various types of products. Within the product

⁷⁰ Source: <http://www.forbes.com/sites/trevorbutterworth/2012/07/17/welcome-to-the-age-of-urban-mining/>

⁷¹ Source: Global e-sustainability initiative

⁷² Just over 50 years ago, the economic and financial environment was far less liberalised and countries had much more policy space to defend and protect their local industries. Trade was essentially viewed as the commercial relationship between sovereign nations. Today, on the policy side, countries are nested in ‘self-imposed’ agreements and treaties, regional integration and multilateral legal frameworks, which have created obligations to open up their markets. These obligations are not always implemented and effective but create nevertheless legal constraints to set policies based on national priorities.

⁷³ See De Baker and Miroudot (2012).

⁷⁴ See World Economic Forum (2012).

⁷⁵ See OECD (2012); Gereffi (1995); (1999); Humphrey and Schmitz (2002); Gereffi and Fernandez Stark (2011).

⁷⁶ See De Baker and Miroudot (2012).

⁷⁷ See Hausmann and Klinger (2007), and Hidalgo *et al.* (2007).

⁷⁸ http://en.wikipedia.org/wiki/The_Product_Space

space, it is assumed that a country's ability to produce a product depends on its ability to produce other products with similar characteristics. This defines the potential for countries to develop clusters of activities around a particular production line.

2. **Production fragmentation:** value is added in geographically dispersed places before products reach consumers. Interconnectedness becomes crucial because production is generally outsourced⁷⁹ or offshored⁸⁰ in the most efficient and cost effective places.
3. **Specialisation in tasks rather than in products:** countries no longer compete to win markets within the traditional framework of goods and services. What matters is the functional integration of activities and its related governance structure: who controls the value chain. This may no longer be countries but are increasingly industry-driven.
4. **Networks of global buyers/retailers and suppliers** are crucial in the control and coordination of activities. Lead-firms are the nerve of the system and close ties with them is critical to win markets.

Ironically, while most resource-rich African countries are crucial providers of inputs for industrial products, most of them have unfortunately been operating at the lowest rung of the ladder in global value chains and have not been successful in developing their own niches. They remain locked as perpetual providers of unprocessed inputs and have failed to move up the value chains. Several reasons explain this concerning state of affairs:

1. Structural factors: the domestic industrial base is very weak in many countries. This is a result of the decades-long absence of proper industrial policies, due to inappropriate local policies and externally driven policies, such as structural adjustment programmes, that had prevented governments from supporting local industries;
2. Stiff business climate, heavy bureaucracy and excessive red tape are major challenges to the cost of doing business and hence impact negatively on the competitiveness of companies.
3. Large infrastructure deficits, expensive electricity, unreliable transport networks and slow telecommunication and internet connectivity.
4. The difficulty to link existing industries to geographically dispersed and continuously shifting activities.

It matters where countries are located along the value chain: the dynamics differ considerably if countries sit closer to **lower end** of the value chain or if they are closer to the **more sophisticated end** of the chain. It also matters if companies are well connected to global suppliers or buyers. It finally matters to what extent lead firms control the value chains and how far countries can be flexible to influence these lead firms.

Having a big supplier of mineral resources operating in a country confers a major advantage. But increasingly, mergers and acquisitions between mega suppliers and buyers are weakening the power of countries to influence GVCs on their own. These mergers are expected to create the next generation of powerful players, which will dominate entire supply chains, control the financial markets where their products are sold and control the transportation and commercialisation activities.⁸¹ The latest case in point is the merger of Glencore and Xstrata. Glencore is the world's largest commodity trader, controlling 50% of zinc market and 60% of copper market. It trades, manufactures, refines, ships, or stores at least 90

⁷⁹ Outsourcing typically involves the purchase of intermediate goods and services from outside specialist providers.

⁸⁰ Offshoring refers to purchases by firms of intermediate goods and services from foreign providers, or to the transfer of particular tasks within the firm to a foreign location. It includes both international outsourcing (where activities are contracted out to independent third parties abroad) and international in-sourcing (to foreign affiliates).

⁸¹ See Berne Declaration (2010).

commodities in some three dozen countries. Xstrata is a major player in copper, coal and nickel, vanadium and zinc and largest producer of ferrochrome. The merger led to the creation of the world's most integrated and most powerful global mining company.

As the world becomes increasingly technologically dependent, the extractive sector has become the nerve of an economic war: **industrialised countries** are engaged in a fierce battle to secure the supply of strategic raw materials for their sophisticated industries while **resource-producing countries** stand firm in keeping their resources for their own development. This has led to escalating international strategies⁸² and policies among resource-dependent and resource-rich countries, showing the vital and strategic importance of raw materials in the global value chain. Part of the strategy to secure access to key raw materials was materialised through regulations and negotiations between states, notably through investment and trade agreements and water-tight supply contracts. But another part was conducted by companies themselves: recent years witnessed an explosion in the number of mergers and acquisition moves among large multinationals, leading to the creation of *gigantic* companies.

The increasing complexity of production processes is a major challenge for small, local companies that struggle to operate competitively. It is even more challenging for nascent industries, which already face supply-side constraints, to emerge and flourish. But despite this complex construction and given the increasing domestic political pressure to deliver, many African countries have undertaken numerous reforms and policy initiatives to encourage linkages with regional and global value chains. For those countries that have been dependent on commodity-based economies for decades, this has become an urgency, not a choice.

At the national level, policy measures include requirements to international companies to make greater use of **local content/ procurement**. It is expected to act as a industrial catalyst, in support of employment and the development of domestic supply chains, considered as a complementary imperative for industrial re-engineering and upgrading to attain the sustainable and inclusive development path. To be sustainable and to remain competitive globally however, more is required. Targeted policies to boost and sustain investments in key sectors necessary to industrial production are required in energy efficiency, innovation, infrastructure, skills and scientific knowledge, innovation-driven activities, while at the same time targeting secured market access for the products. So far, efforts in this direction have remained rather weak.

National efforts alone are however not sufficient to embrace economic transformation in a sustainable manner. Most extractive industries operating in Africa are connected to regional and global networks, as their raw materials are essential inputs to the production of goods. In this context, no country can reach its full potential unless its neighbours and economic partners are successful. The most effective approach to boost Africa's industries is to explore the potential to combine industrial strengths, deepen interconnectedness and develop competitive and functioning markets, starting with the regional level. Regional trade and economic policies will have to be enhanced to encourage investments and unlock opportunities to set up lead firms in those sectors where African countries are already established global players. Boosting intra-Africa trade, simplifying and reducing the costs of cross-border trade, improving the business environment, improving cross-border infrastructure are all vital conditions of a functional regional market.

⁸² In 2008 and 2011, the European Commission released two Communications termed Raw Materials Initiative highlighting EU's concerns regarding the need to secure raw materials to maintain jobs and industries in Europe. The US and Japan also released their strategies regarding their policies to secure access to strategic raw materials. On their side, a number of resource-rich took protectionist measures to limit exports of certain key raw materials. For instance, China reduced its export quotas for rare earths. See Hilpert and Mildner (2013) and Ramdoo (2011).

The extractive sector offers a particularly interesting case to consider. On the one hand, most manufactured products are dependent on inputs or by-products derived from the sector. This ranges from fertilisers, necessary for the agricultural sector, to rare earths, so critical for high-tech and green-tech industries or to metals and their by-products, important for the construction or transport industries. On the other hand, miners are not necessarily manufacturers and therefore there is a limit to what we can expect from them in terms of their contribution to value addition. It requires first to link the mining sector (extractive processes in particular) to the manufacturing sector.

This has proved particularly challenging for the sector. Mining companies have been increasingly requested to enhance their contribution to the economy and the debate has sometimes turned into a tug of war between policymakers and mining companies. Unless clear strategies are put in place to find the appropriate entry points to unlock the links between mining and manufacturing and provide the right incentives for investments to flow in, it will be difficult to change the current state of affairs.

5. The way forward: What Development Cooperation?

The role of development partners in supporting African initiatives can only be modest: key impetus and drive should come from Africans themselves, and resource-rich countries have potentially greater means (i.e. revenues) to reform their economies. Yet, the role of development partners should not be underestimated. Despite the crisis, both the European Commission and the EU member states remain significant providers of development support, often in the form of financial support but also in the form of technical assistance and capacity building. However, as the crisis continues in Europe and as many African countries improve their resource mobilisation capacities, either as a result of better economic management or windfalls from the commodity boom, the relative role of development partners is likely to diminish, and so will their political weight.

This is not to say that they will no longer be relevant or may no longer have constructive experience to share with African countries. Increasingly, constructive support may take the form of capacity and institutional support. But this needs some adjustments in the form and the content of current development strategies.

Most donors support a more responsible and transparent use and management of raw materials. The EU Transparency Directives and the Dodd-Frank act usefully complement voluntary initiatives such as the Extractive Industries Transparency Initiative (EITI) and OECD guidelines on transparency in conflict countries. Other areas of intervention, depending on the donors, include geological support, sustainable extraction and use of resources, environmental and social issues, skills and technology development, responsible business and SME development, support to artisanal and small scale mining, management and recycling, fiscal, contract and licensing design and management, etc.

But development support to the extractive sector remains rather thin. For those that make mention of development support in their national mineral strategies, none of the countries' support actually addresses the development needs of resource-rich countries. It remains largely focused within donors' own interests.

The shifting geopolitical landscape in Africa however calls for a different, innovative approach, based on partnership and mutual benefits between development partners and African countries. While it is well understood that national resource strategies are meant to address first and foremost the needs of

resource-dependent countries, reconciling those with the interests of resource-rich countries is likely to yield far more constructive results.

A first emphasis should be a greater recognition of the political economy dynamics at play in resource-rich countries.⁸³

When properly managed, natural resources can effectively contribute to sustainable and equitable development. Yet, too often resource-rich countries have failed to capitalise on the benefits and transformative potential of their natural endowment. Poor or inappropriate governance and institutional structures have commonly been blamed for this resource curse. As a result, most policy recommendations and support from donors have focused on the *nature* and *quality* of resources management.

The proposed remedies and interventions however often ignore the sources of the problem, and tend to be prescriptive in nature and to focus instead on best practice to address symptoms rather than root causes of mismanagement of resources. Indeed, poor management of natural resources can be explained in a large part by power relations and institutional settings. Natural resources create rents, which affect incentives and behaviour of political and economic actors. Political elites play a central role in the collection and allocation of these rents and the distribution of revenues generated directly and indirectly by the exploitation of natural resources. Accordingly, they may pursue self-interest objectives rather than development goals in the management of natural resources, and thus capture these rents. Economic actors are also more likely to engage in wasteful rent-seeking activities, thus diverting resources away from productive sectors. Rents in turn affect the economic structure, political framework, institutional setting and power relations within a country, particularly where patronage prevails. Foreign partners, governments or companies, in their pursuit of self-interests, have also at times contributed to reinforce these negative tendencies and associated resource challenge(s). The competition for the control and allocation of natural resources and the revenues they generate may lead to political instability, conflicts and authoritarian regimes.⁸⁴

While political economy considerations have usefully been advanced to explain some of these weaknesses, policy recommendations have generally ignored such political economy dynamics. Instead, proposed remedies generally centre on the need to build or strengthen the capacity of the state to better manage its natural resources, improve its governance, and increase transparency and accountability mechanisms, with little attention to the dynamics of reforms in resource-rich countries. That is, problems of capacity and institutional designs are too often addressed in a technocratic manner, as if immune from the power and economic (self-)interests and incentives of the ruling and dominant actors. It is somewhat surprising that so little consideration has been given to provide a more systematic assessment of incentive-compatible, politically feasible measures to address the resource curse. Many of the recommendations on how to better manage natural resources (e.g. Arezki et al. 2012; IMF, 2012a, 2012b) offer little insights into the political feasibility of the reforms advocated, even when the analysis of the causes of the resource curse builds on a political economy approach (e.g. Frankel, 2012). At best, this orthodox approach to policy recommendations is adjusted, too often only at the margin, in an ad hoc manner, to get the formal approval at the domestic level.

⁸³ For more complete discussion, see Bilal (2013).

⁸⁴ See for instance Auty (2007), Barma *et al.* (2012), Kolstad and Wiig (2008), and Rosser (2006).

As a result, sound prescriptions have often limited impact in practice, as they do not get the necessary domestic buy-in by policymakers and key stakeholders to succeed.⁸⁵ The causes are often well known, but not factored into the remedies advocated.⁸⁶

Measures, notably those supported by the donor community, to address the resource curse challenges should therefore better integrate the domestic incentives to undertake the necessary reforms. When first-best policy measures cannot get the necessary endorsement and support of key political and economic actors, a menu of second-best, incentive-compatible interventions, being politically feasible and acceptable by lead economic actors, may ultimately prove more effective.

A complementary venue to promote a more effective management of natural resources is to alter the incentives of the ruling elite, whose vested interests and power dynamics may otherwise bolster the resource curse. Such strategies may include interventions that seek to extend the time horizon of policymakers (hence reducing their perception of possible short term losses due to policy reforms) or mobilising stakeholders (so as to increase the ranges of interests involved, notably those of potential drivers of change). Interventions that seek to 'enclave capacity and institutions' related to natural resources have also been advocated by the World Bank as an additional mechanism to promote better governance.⁸⁷ This is also the principle at play with proposals to develop 'early reform zones', such as in the case of special economic zones for instance.⁸⁸

In this context, the emphasis on economic and structural transformation, as a necessary complementary approach to benefit from natural resources, may prove most important to break the potential vicious cycle of the resource curse. This is important not only in the framework of development policies, harnessing the benefits of natural resources to stimulate the rest of the economy and society. It can also play a central role in shifting the power and economic relations prevailing in the management of natural resources, by broadening the scope of interests and stakeholders affected by the management of resources. Greater emphasis on the transformative role of natural resources *de facto* contributes to mobilise a new set of stakeholders (including potential drivers of change) and to change the focus and time horizon of policymakers involved in resources management. More attention should be devoted to these potential new dynamics for reforms in resource-rich countries, and the conditions under which the incentives to improve on the management of natural resources can be enhanced.

The international development community should thus pay greater attention and provide more support to the efforts to diversify and transform developing economies, away from raw commodities. Too often, though, development cooperation programmes on natural resources adopt a narrow focus, neglecting the dynamic potentials that greater linkages from extractive and other natural resources to the development of the rest of the economy could bring in terms of positive economic, structural and institutional transformation.

⁸⁵ Kolstad and Wiig (2008: 12) remark for instance "Improving the institutional environment is particularly difficult where key players benefit from dysfunctional institutions. It is unlikely that corrupt government officials would support or implement reform significantly reducing their own powers of appropriation. The existing focus of donor support on capacity building, horizontal accountability, technical assistance and macro-economic management is hence unlikely to create the required institutional change in resource-rich countries."

⁸⁶ This has led the World Bank, for instance, to assess in the case of the mining sector in Ghana that "prior reform initiatives were not designed with the deep-rooted challenges in the political environment in mind", recognising that in spite of ongoing support programmes, "Considering previous and current reform initiatives [...] the government has made only marginal improvements in dealing with issues of national sovereignty, social contract, mining's enclave character, the relationship between the mining companies and the communities, and revenue maximisation" (Ayee *et al.*, 2011).

⁸⁷ See Barma *et al.* (2012).

⁸⁸ See Auty (2007).

Of course, a well recognised factor for affecting domestic incentives for reforms are international initiatives, which can usefully influence domestic dynamics, positively affecting the incentives and constraining the decisions of policymakers in favour of a more effective management of natural resources and strengthening domestic drivers of change. There is no silver bullet mechanism to address governance weaknesses, and so the range of international initiatives, public and private, binding and voluntary, may all contribute, in various ways, to affect the domestic political economy context and reform dynamics of resource-rich countries. Some of the most prominent international initiatives include for instance the EITI, the Kimberley process, the OECD Guidelines on Due Diligence for Responsible Supply Chains, business initiatives such as the recent Conflict-Free Gold Standard of the World Gold Council, and from a regulatory perspective, the US Foreign Corrupt Practices Act and Dodd-Frank Act, as well as the EU transparency and accounting directives. Such initiatives are welcome and should be further developed. A greater coordination at the international level, notably through the G8 and G20, must be further encouraged. The international development community should continue to encourage and try to better accompany some of these initiatives.

Last, but not least, international partners and donors in particular should better anchor their actions in domestic dynamics for change. Indeed, besides initiatives from the international community, as mentioned above, an increasing source of dynamics for shifting domestic incentives towards a pro-development path in resource-rich countries comes from collective action in Africa, at national, regional and the continental levels. The pan-African new impetus to boost development has led African leaders to pay greater attention to the management of their natural resources. This has led to the adoption of the Africa Mining Vision for instance, and its action plan, which puts greater emphasis on home-grown, African driven initiatives to better harness the development potential of the extractive sector. The specific role granted to the African Peer Review Mechanism (APRM) to scrutinise and advance better governance in the extractive sector is also an encouraging development. Natural resources also stand high in the agenda of other regional initiatives, such as the International Conference of the Great Lakes Region (ICGLR) and the agenda of many of the Regional Economic Communities (RECs) in Africa (such as the ECOWAS directive on mining, the SADC Protocol on mining, etc.).

As discussed in Section 4, the approach currently emerging in Africa is one where greater emphasis is put on identifying synergies among various initiatives, and linking up natural resources to broader development considerations.⁸⁹ Harnessing natural resources to the structural transformation of Africa entails building synergy among various development initiatives. This is starting to be the case at the pan-African level, with the AMV explicitly linked up to other African initiatives such as the Programme for Infrastructure Development in Africa (PIDA) and the Accelerated Industrial Development of Africa (AIDA). Provided such pan-African and parallel regional initiatives generate sufficient buy-in from domestic stakeholders, the continental and regional frameworks offer a distinct avenue to alter the domestic balance of interests in resource-rich countries. They have the potential to create new incentives, for both policymakers and economic actors, which may modify power relations, rent-seeking and patronage behaviours.

The challenge remains to translate this potential into reality. The international development community has an important role to play in accompanying this process, adapting its own approaches and when necessary modalities, so as to promote the effective translation of generic policy designs into specific actions, within as well as across policy frameworks, and into each of the countries concerned. In doing so, greater consideration should be given to how such initiatives can positively affect incentives for reforms and the balance of interests and power in resource-rich countries that is the political feasibility of creating a virtuous cycle of development oriented reforms.

⁸⁹ As highlighted in AfDB *et al.* (2013), ECDPM (2013) and UNECA (2013).

Annex 1: Export taxes and export controls applicable in African countries

	Country	Measures applicable to exports																																
1.	Angola TPR 2006	<p>Export duties for the purpose of environmental protection: 10% on ivory, powder and scrap; and on worked ivory, bone etc. 20% on raw hides and skins; and on tanned hides and skins.</p> <p>Export prohibition Prohibited exports and goods under special export regimes, 2005</p> <table border="1" data-bbox="510 507 1944 1297"> <thead> <tr> <th data-bbox="510 507 1227 563">Description</th> <th data-bbox="1227 507 1944 563">Authorizing agency</th> </tr> </thead> <tbody> <tr> <td data-bbox="510 563 1227 603">Aircraft</td> <td data-bbox="1227 563 1944 603">National Direction of Civil Aviation – Ministry of Transport</td> </tr> <tr> <td data-bbox="510 603 1227 643">Animals, parts and animal products</td> <td data-bbox="1227 603 1944 643">Ministry of Agriculture</td> </tr> <tr> <td data-bbox="510 643 1227 683">Arms, munitions of war and explosive materials</td> <td data-bbox="1227 643 1944 683">Ministry of Defence</td> </tr> <tr> <td data-bbox="510 683 1227 722">Arms, objects and manuscripts of historical value</td> <td data-bbox="1227 683 1944 722">Ministry of Culture</td> </tr> <tr> <td data-bbox="510 722 1227 818">Goods imported under exceptions from tariffs and other customs duties, and which, when authorized for sale abroad, become subject to payment of the relevant import duties</td> <td data-bbox="1227 722 1944 818">Ministry of Finance</td> </tr> <tr> <td data-bbox="510 818 1227 858">Goods exported under the drawback regime</td> <td data-bbox="1227 818 1944 858">Ministry of Commerce</td> </tr> <tr> <td data-bbox="510 858 1227 898">Goods subject to delivery of foreign exchange</td> <td data-bbox="1227 858 1944 898">Ministry of Commerce – National Bank of Angola</td> </tr> <tr> <td data-bbox="510 898 1227 938">Goods subject to the regime of overvaluation</td> <td data-bbox="1227 898 1944 938">Ministry of Commerce</td> </tr> <tr> <td data-bbox="510 938 1227 1002">Minerals, in terms of agreements signed by the Government and of the legislation in force</td> <td data-bbox="1227 938 1944 1002">Ministry of Geology and Mining</td> </tr> <tr> <td data-bbox="510 1002 1227 1042">Coins of non-precious metals</td> <td data-bbox="1227 1002 1944 1042">National Bank of Angola</td> </tr> <tr> <td data-bbox="510 1042 1227 1106">Gold and silver, in powder, bars or coins</td> <td data-bbox="1227 1042 1944 1106">National Bank of Angola with authorization from the Government (Ministry of Finance)</td> </tr> <tr> <td data-bbox="510 1106 1227 1145">Poisonous or toxic substances or drugs, or their preparations</td> <td data-bbox="1227 1106 1944 1145">Ministry of Health</td> </tr> <tr> <td data-bbox="510 1145 1227 1185">Precious woods, precious and semi-precious stones</td> <td data-bbox="1227 1145 1944 1185">Ministry of Agriculture, or Ministry of Geology and Mining</td> </tr> <tr> <td data-bbox="510 1185 1227 1225">Notes and coins in circulation, national or foreign</td> <td data-bbox="1227 1185 1944 1225">National Bank of Angola</td> </tr> <tr> <td data-bbox="510 1225 1227 1297">Other merchandise whose export regime may be determined by special legislation</td> <td data-bbox="1227 1225 1944 1297"></td> </tr> </tbody> </table> <p data-bbox="510 1321 1299 1345"><i>Source:</i> 2005 Customs Tariff (Decree-Law 2/05), Tables III and IV.</p>	Description	Authorizing agency	Aircraft	National Direction of Civil Aviation – Ministry of Transport	Animals, parts and animal products	Ministry of Agriculture	Arms, munitions of war and explosive materials	Ministry of Defence	Arms, objects and manuscripts of historical value	Ministry of Culture	Goods imported under exceptions from tariffs and other customs duties, and which, when authorized for sale abroad, become subject to payment of the relevant import duties	Ministry of Finance	Goods exported under the drawback regime	Ministry of Commerce	Goods subject to delivery of foreign exchange	Ministry of Commerce – National Bank of Angola	Goods subject to the regime of overvaluation	Ministry of Commerce	Minerals, in terms of agreements signed by the Government and of the legislation in force	Ministry of Geology and Mining	Coins of non-precious metals	National Bank of Angola	Gold and silver, in powder, bars or coins	National Bank of Angola with authorization from the Government (Ministry of Finance)	Poisonous or toxic substances or drugs, or their preparations	Ministry of Health	Precious woods, precious and semi-precious stones	Ministry of Agriculture, or Ministry of Geology and Mining	Notes and coins in circulation, national or foreign	National Bank of Angola	Other merchandise whose export regime may be determined by special legislation	
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2.	Benin Source: TPR 2010	<p>Export taxes</p> <p>A fiscal exit duty of 3% free on board applies to cocoa beans, <u>crude petroleum and precious metals</u>.</p> <p>Summary of taxes on exports, re-exports and goods in transit, 2009 (percentage of f.o.b. value)</p> <table border="1" data-bbox="510 304 1991 655"> <thead> <tr> <th>Scheme</th> <th>Municipal tax</th> <th>Statistical tax</th> <th>Special re-export tax</th> <th>Guarantee fund</th> <th>Total^a</th> </tr> </thead> <tbody> <tr> <td>Transit to landlocked countries</td> <td>n.a.^b</td> <td>n.a.</td> <td>n.a.</td> <td>0.25</td> <td>0.25</td> </tr> <tr> <td>Transit to coastal countries</td> <td>0.85</td> <td>5</td> <td>n.a.</td> <td>0.25</td> <td>6.1</td> </tr> <tr> <td>Re-export</td> <td>0.85</td> <td>5</td> <td>4^c</td> <td>0.25</td> <td>10.1</td> </tr> <tr> <td>Single temporary admission</td> <td>0.85</td> <td>5</td> <td>n.a.</td> <td>n.a.</td> <td>5.85</td> </tr> <tr> <td>Special temporary admission</td> <td>0.85</td> <td>5</td> <td>n.a.</td> <td>n.a.</td> <td>5.85</td> </tr> <tr> <td>Export of indigenous products</td> <td>0.85</td> <td>n.a.</td> <td>n.a.</td> <td>n.a.</td> <td>0.85</td> </tr> </tbody> </table> <p>n.a. Not applicable.</p> <p>a Customs stamp duty is payable on all receipts issued by the customs authority for duties and taxes paid on entry or exit at a rate of 4 per cent of the amount of the receipt.</p> <p>b The municipal tax on goods in transit to landlocked countries was suspended in January 2009.</p> <p>c The special re-export tax (TSR) was reduced from 8 to 4 per cent in 2009 (Order No. 1068/MEF/DC/SGM/DGDDI/DAR of 13 August 2009). The following products (HS tariff lines) are subject to the TSR: milk (0402910000); vegetable oils (1511901000 and 1511909000); sugar (1701911000 to 1701919000); edible pasta (1902110000 to 1902400000); alcoholic beverages, including beer (2203001000 to 2205900000 and 2207200000 to 2208900000); new tyres (4011100000 to 4011990000); new inner tubes (4013100000 to 4013900000); fabrics (5001000000 to 5516940000, 5801100000 to 5811000000 and 6001100000 to 6006900000); and reinforcing steel (7214990000).</p> <p>Source: WTO Trade Policy Review, 2010</p> <p>A computer fee is levied on exports and re-exports at a standard rate of CFAF 2,000. A statistical tax of 5% of the customs value applies to re-exports in the same state for goods imported into Benin. There are schemes intended to encourage the creation of value added in products for export (for example, drawback, temporary admission).</p> <p>Export bans: Following a shortage on the domestic market and in order to protect natural resources, since 1997, exports of unprocessed teak wood and charcoal have been banned. There also appear to be bans on the export of cottonseed and food crops. The export of precious metals requires approval from the Minister of Finance, unless the articles only contain a small quantity of metal, weigh less than 500 grammes or comprise a maximum of ten gold pieces or are exported by the Treasury or the BCEAO.</p>	Scheme	Municipal tax	Statistical tax	Special re-export tax	Guarantee fund	Total ^a	Transit to landlocked countries	n.a. ^b	n.a.	n.a.	0.25	0.25	Transit to coastal countries	0.85	5	n.a.	0.25	6.1	Re-export	0.85	5	4 ^c	0.25	10.1	Single temporary admission	0.85	5	n.a.	n.a.	5.85	Special temporary admission	0.85	5	n.a.	n.a.	5.85	Export of indigenous products	0.85	n.a.	n.a.	n.a.	0.85
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Export of indigenous products	0.85	n.a.	n.a.	n.a.	0.85																																							

		<p>Goods in Transit: A non-refundable contribution of 0.25% to the guarantee fund set up by ECOWAS; Goods in transit may also have to pay a customs seal fee (CFAF 25 per seal); Operators are obliged to have their convoys escorted at a cost levied on each transport vehicle as follows: a monitoring and control fee (RSC) of CFAF 50,000, plus a convoy assembly tax of CFAF 25,000 for staying in the assembly area before the convoy leaves. A deposit consisting of the municipal tax, the statistical tax, the customs stamp duty and the special standing advance must be made for vehicles in transit to landlocked countries, but is refunded when proof is provided that the vehicle has legally left Beninese territory. Moreover, overseas-registered transport vehicles of a weight of 1,500 kg. or more have to pay a road tax of CFAF 5,000, plus the customs stamp duty; overseas-registered vehicles for private use have to pay a temporary import tax of the same amount.</p>
3.	Botswana Source: TPR 2009	<p>Export taxes and levies The Cattle Export and Slaughter Levy Act 10 of 2005 provides for the imposition of a levy per head of cattle exported from Botswana or slaughtered at the Botswana Meat Corporation, municipal abattoirs, private abattoirs, and butchers. The levy rate is currently P 10 per animal;</p> <p>Export controls and licensing Exports of unprocessed (uncut) semi-precious stones are prohibited to ensure processing in Botswana. Exports of rough diamonds have been affected by the terms of commercial agreements governing the sale of diamonds by Debswana (currently Botswana's only diamond producer, in which the Government holds a 50% stake with De Beers) to the London-based Diamond Trading Company, an international cartel operated by De Beers, through which virtually Debswana's entire output is distributed.</p>
4.	Burkina Faso Source: TPR 2010	<p>Export taxes and levies The shipment of some live animals and raw hides abroad is subject to the levying of the following taxes: bovine animals (CFAF 3,000 per animal); sheep and goats (CFAF 250 per animal); poultry (CFAF 50 per bird); and raw hides (CFAF 100 per kilo). Burkina Faso also imposes a levy of CFAF 500 per export certificate for works of art, which goes to the National Cultural Promotion Fund.</p> <p>Export controls and licensing Ivory and gold are subject to a special export authorization; the export of objects belonging to the cultural heritage is subject to authorization by the Ministry of Tourism. The export of young animals (donors and females) is prohibited, and the export of charcoal is suspended.</p>
5.	Burundi TPR 2012	<p>Export controls and licensing Coffee berry exports are banned. Exports of sugar are subject to a quota which varies depending on local demand. As part of CITES, export of ivory is prohibited.</p>
6.	Cameroon TRP 2007	<p>Export taxes Cameroon applies export taxes (droits de sortie) of 2% of the f.o.b. value of exported goods, with the exception of logs, which are subject to a higher rate. Local products – from the soil (such as hevea, cocoa, coffee, bananas or cotton) and from the subsoil – are not subject to any export taxes. Exports of wood (raw or semi-processed logs) are subject to an export tax of 17.5% of the f.o.b. value. A surtax is also applied to logs Exports of cocoa and coffee are subject to various fees, totalling CFAF 25 per kilogramme, to the benefit of certain institutions. These are fees of CFAF 6.5 per kilogramme paid to the National Cocoa and Coffee Office (ONCC) (of which CFAF 1.5 is paid for quality control), CFAF 1.5 per kilogramme as fees to the Cocoa and Coffee Interprofessional Council (CICC), and CFAF 2 per kilogramme as dues to international organisations monitoring international agreements on cocoa and coffee – the International Coffee Organization (ICO) and International Cocoa Organization (ICCO). A fee of CFAF 15 per kilogramme exported is levied on behalf of the Cocoa and Coffee Subsector Development Fund. Exports worth CFAF 500,000 or more are subject to the inspection and control tax. Exports of fish and meat are subject to a sanitary inspection tax at the same rate as imports.</p>

		<p>Export controls and licensing Restrictions are maintained on exports of logs for economic reasons. Special licenses are still required to export "strategic" goods such as gold and diamonds, and for ecologically sensitive items (governed by the CITES Convention) such as live animals, birds, and medicinal plants. For coffee and cocoa, in addition to a quality certification from the ONC, exporters need to submit to the Ministry of Trade a stamped application, a trade registration, a registration number, the list of "operating facilities" required by the CICC, and a commitment to comply with CICC rules.</p>
7.	Central African Republic TPR 2007	<p>Export procedures The export of precious stones and precious and semi-precious metals is restricted to mining companies in possession of mining titles, approved purchasing bureaux, and organised and approved mining cooperatives (for exports amounting to at least CFAF 40 million).</p> <p>Export taxes In general, exports of goods are subject to the levy of 0.5% for computer and equipment for finance. The Central African customs also levy a 5% advance on the income tax or corporate tax for exports of a commercial nature. Economic operators not subject to the corporate tax or the income tax pay the minimum flat rate tax of 3%, with the exception of coffee exporters. Gold, diamonds, wood, cattle and live wild animals are the subject of special regimes as regards export duties and taxes. In the case of gold, the export duty is 1% and the mining promotion tax is 0.75% of the Becdor (Bureau for the valuation and control of diamond and gold) value. For diamonds, the export duty is 4%, the mining promotion tax is 1% and the special tax on purchases of diamonds is 3%. Export duty is 10.5% on logs and 4.5% on sawn wood, based on the f.o.b. value. Cattle are subject to an export tax (CFAF 1,000/head of cattle; CFAF 500/head of small livestock). Live wild animals are also subject to export taxes. Coffee under the temporary admission regime is subject to CFAF 10/kg net after processing.</p>
8.	Chad TPR 2007	<p>Export taxes Export taxes apply to live cattle and dried fish; A statistical tax on exports (RSE) is levied at the rate of 2% of the export value, on all tariff lines whatever the destination of the goods. The main exports, namely, cotton and animals and animal products, are subject to this tax. The Community preferential tax (TPC) of 0.4% is also collected, on behalf of the CEMAC, on all exports. Export duty is levied on certain, mainly agricultural and fish-breeding, products to finance the export "Rural Intervention Fund" (FRE). It is collected on over 600 tariff lines at the rate of 1 or 2%, whatever the destination of the goods. The inspection and packaging tax (TCC) of 0.5% of the c.i.f. export value is applied to gum arabic, cotton, cocoa, citrus fruit, palm oil, some tobacco, soap, rubber, and some hides and skins. The export "research tax" (TRC), amounting to 0.5 to 1% of the c.i.f. export value of butter, raw tobacco and rough or sawn timber, is also in force.</p> <p>Export controls and licensing Exports of heifers and calves have been banned since 2003 to preserve the livestock population; The only quantitative restrictions and controls in force on exports should be those derived from the treaties to which Chad is party (Basle Convention, CITES, Chemical Weapons Convention, Treaty for the Non-Proliferation of Nuclear Weapons). The local authorities may also restrict cereal exports, at any time, in the event of a shortage.</p>
9.	Cote d'Ivoire TPR 2012	<p>Export taxes Exports of certain basic goods are subject to a single exit duty (DUS) levied as follows:</p>

Single exit duty, 2005 and 2011

Tariff line	Description	2005 rate	2011 rate
..	Cola nuts	14% of the f.o.b. value	14% of the f.o.b. value
..	Wood and wood products	Various rates (1% to 35% of the reference value) varying according to species and favouring processed products	..
..	Cashew nuts	CFAF 10/kg	CFAF 10/kg
..	Coffee	CFAF 50/kg	CFAF 50/kg
1801.0011.00; 1801.0012.00; 1801.0018.00	Raw cocoa (superior; standard; other)	CFAF 220/kg	14.60% of the registered c.i.f. value
1801.0019.00	Roasted cocoa	..	14.60% of the registered c.i.f. value
1801.0020.00; 1803.1000.00; 1803.2000.00	Broken cocoa beans, raw or roasted; cocoa paste (not defatted; wholly or partly defatted)	..	13.90% of the registered c.i.f. value

Tariff line	Description	2005 rate	2011 rate
1802.0000.10	Cocoa cake	CFAF 105/kg	6.95% of the registered c.i.f. value
1804.0000.20; 1804.0000.90	Natural cocoa butter; other cocoa and deodorized cocoa butters;	CFAF 210/kg	13.90% of the registered c.i.f. value
1805.0090.00	Cocoa powder, not containing added sugar or other sweetening matter	CFAF 105/kg	6.95% of the registered c.i.f. value
1806.1000.00; 1806.2000.30	Cocoa powder, containing added sugar or other sweetening matter; couverture	..	6.95% of the registered c.i.f. value
1806.2000.00; 1806.3200.90	Other preparations (in solid, liquid or paste form) in containers or packages of a content exceeding 2 kg; chocolate in blocks, slabs or bars	..	10.64% of the registered c.i.f. value

In addition, a registration tax at the rate of 5% of the registered c.i.f. value is levied by on sales for export of coffee, cocoa and by-products (tariff lines 18.01 to 18.06); sales in the domestic market are not subject to this tax. In 2010, its scope was extended to include cotton, cashew, shea products, and cola nuts, which are subject to a reduced rate of 2.5% of the registered c.i.f. value set by the authorities regulating these subsectors. The effective implementation of this change has been suspended until the end of 2012, however, considering the very poor business climate created by the post-electoral crisis.

Exports of coffee and cocoa (raw or processed) are subject to the payment of several fees as follows, these are collected exclusively by the Coffee and Cocoa Subsector Management Board, which in turn distributes them to the respective beneficiaries.

Export fees on coffee and cocoa, 2012

Levies	Cocoa (% of registered value)	Coffee (CFAF/kg)
Subsector Management Board, including:	0.735	9.81
Management structures	0.480	5.5
Weighing	0.060	1.0
Quality control	0.060	1.2
Contribution to budgets of international organizations	0.090	1.41
Contribution to the budget of the Chamber of Agriculture	0.015	0.2
Contribution to the budget of the Joint Trades Agricultural Research and Advice Fund (FIRCA)	0.030	0.5
Burlap bags	0.210	3.0
Rural Investment Fund	0.535	..
Levies	Cocoa (% of registered value)	Coffee (CFAF/kg)
Agricultural Investment Fund (2QC)	0.470	..
Fund for Reform of the Subsector	0.450	..
Coffee subsector promotion tax	..	20.0
Total levies	2.40	32.81

Besides, exporters are required to make a withholding at source on behalf of the Treasury of CFAF 2/kg (coffee) and CFAF 2.5/kg (cocoa) on deliveries received from processors.

Exports of wood in log form are subject to a reforestation tax of 2% of the reference value used as the basis for the DUS. In addition, Ivorian logs exported or sold on the domestic market are subject to a felling tax and a special forest conservation and development tax. Their respective rates vary in accordance with the three categories to which forest species are assigned for tax purposes as follows:

Taxes on Ivorian logs, 2012(CFAF per m³ of marketable wood)

	Category 1	Category 2	Category 3
Felling tax	2,500	1,700	400
Special forest conservation and development tax	500	300	200
Total	3,000	2,000	600

Note: The number of forest species in each category is as follows: Category 1, 37; Category 2, 13; and Category 3, 11 (Ordinance No. 2008-381 of 18 December 2008).

Exports of scrap metal and ferrous by-products are subject to a tax of CFAF 100,000 per tonne, collected when the customs declaration is made. Exports of ferrous products have been suspended by the Directorate-General of Taxation.

Goods in transit

The escort charges (applied per vehicle) for the various transit routes are: Abidjan-Takikro (Ghana), CFAF 40,000; Abidjan-Noé (Ghana), CFAF 15,000; Abidjan-Burkina Faso border, CFAF 17,500; and Abidjan-Malian border, CFAF 17,500.

Export prohibitions and control

The exportation of certain goods requires prior authorization; there are also prohibitions in place, chiefly to protect the fauna and flora, as follows:

Export controls and prohibitions, 2011

Product(s)	Responsible authority(ies)	Conditions/requirements
Silver, gold, and platinum ore; platinum metals; sodium uranate; magnesium uranate; other uranium ores; thorium ores; industrial diamonds (rough, sawn, cut); other diamonds (rough, cleaved or bruted)	Ministry of Mining and Energy; Ministry of the Economy and Finance	Prior authorizations
Coffee; cocoa; and as of 2013, cotton; cashew; shea; and cola nuts	Authorities regulating the respective subsectors	Export authorization; registration of sales
Ivory, natural; some species of logs (Sapelli, African mahogany, Avodiré, Guarea, Sipo, African walnut, Iroko, Makoré, Tiama, and Kondrotti)	..	Exports prohibited
Live poultry, hatching eggs and day-old chicks	Ministry of Animal and Fishery Resources	Exports prohibited if they come from poultry farms housing birds not vaccinated against avian influenza ^a

.. Not available.

Exports of fresh wood (more than 18% moisture) are subject to a quota, which is allocated by auction.

10.	Congo Rep. TPR 2006	<p>Export taxes Exports are subject to several export duties and taxes, in particular: the 2% automation fee; the 2% supplementary exit duty (DAS), from which certain products are exempt; and the 2% levy on rough diamonds. Timber is taxed as follows: a 1% levy for the public service responsible for controlling forest product exports, the tax on timber exports assessed on the basis of the transport costs associated with the four forest exploitation zones, the f.o.b. value, the species and the degree of processing. In addition, there is a 15% surcharge on rough timber exported over and above the quota of 85% of the production of each forestry enterprise, as well as the contribution to the road fund assessed on timber for export or in transit. The tax base is the f.o.b. value.</p> <p>Export controls and licensing Under the Forestry Code, only processed wood in the finished or semi-finished state may be exported, but in practice each forestry enterprise is required to limit rough timber exports to 15% of its total production volume. This threshold is often exceeded, triggering payment of the 15% surcharge. In 2004, about 84% of wood exports (in volume terms) were in rough timber form. Under the Mining Code, every shipment of precious minerals requires an export authorization issued by the central mining authority. Trade in precious materials, including rough diamonds, is subject to licensing.</p>
11.	DR Congo TPR 2011	<p>Export taxes Export duties and taxes apply to the following categories of domestically produced goods: green coffee (1%); mineral products and concentrates thereof (10%); mineral oils (5%); electric power (5%); logs (10%); edged timber (5% for a diameter less than 50 mm., otherwise 0%); fresh water (5%); and scrap metal, for which the percentage is not yet available. The export of certain types of timber (forest species to be promoted) is subject to a charge of 2% of the Ex-Works value per cubic metre of raw timber exported. There is an export levy of 1% on unrefined mineral ores, 2% on concentrates and metals, 4% on precious materials (gold, diamonds) for products covered by the Mining Code.</p> <p>Export controls and licensing For economic reasons, there are restrictions on exports of unrefined mineral ores and logs. To export the ore, the owner of the mining rights must apply to the Mining Department for authorization to export mineral ore for processing or marketing, subject to payment of filing fees of an amount in Congolese francs equivalent to US\$500 for mineral substances classified in the mining category and US\$200 for those classified in the quarrying category. In the application, the owner of the mining rights must explain the advantages of such a transaction for the DRC and prove that the ore cannot be processed in DRC territory at lower cost. Timber may only be exported in the form of logs by owners of duly authorized operational processing units and national foresters for a maximum period of ten years from the date on which the exploitation commenced and under a quota that must not exceed 30 per cent of their total annual output.</p>
12.	Djibouti TPR 2006	<p>Export taxes Djibouti levies an export tax of DF 500/tones on salt.</p> <p>Export controls and licensing Export of sawn timber and coral is prohibited.</p>
13.	Egypt TPR 2005	<p>Export taxes According to the Import and Export Regulations, a duty of up to 100% of the value of the good may be imposed at any time by the Minister responsible for trade. This duty has never been imposed.</p>
14.	Gabon TPR 2007	<p>Export taxes Only logs and manganese are subject to export tax of 17% and 3.5% of their reference value, respectively;</p>

		<p>Export controls and licensing With the aim of encouraging the processing of wood in Gabon, a new Forestry Code (2001) requires all holders of forestry permits to respect a minimum processing quota, the level of which is determined annually</p>																																													
15.	Gambia TPR 2010	<p>Export taxes Export duties apply to waste and scrap of precious metals, at 5%</p> <p>Export controls and licensing Exports of rough or uncut diamonds are restricted, except under license issued by the Minister</p>																																													
16.	Ghana TPR 2008	<p>Export registration Exports of cocoa and gold are subject to a foreign exchange surrender and conversion requirement, administered by the Bank of Ghana.</p> <p>Export taxes Export taxes are applied on cocoa and hydrocarbons. The tax rate for cocoa beans is determined by the Minister of Finance and Economic Planning; The rates on hydrocarbons are US\$0.09 per litre on aviation turbine kerosene and US\$0.03 per litre on gas oil.</p> <p>Export controls and licensing Exports of round or unprocessed logs, raw rattan cane and bamboo, and parrots are prohibited. Export permits or certificates are required for a number of products</p> <p>Goods subject to specific export requirements, 2007</p> <table border="1"> <thead> <tr> <th>Commodities</th> <th>Requirement</th> <th>Authorizing body</th> </tr> </thead> <tbody> <tr> <td>Cocoa beans</td> <td>Fumigation and quality assurance</td> <td>Ghana Cocoa Marketing Board's Control Division</td> </tr> <tr> <td>Sawn lumber</td> <td>Permit</td> <td>Forestry Commission</td> </tr> <tr> <td>Mineral ore</td> <td>Permit</td> <td>Minerals Commission</td> </tr> <tr> <td>Manufactured/processed goods</td> <td>Certificate</td> <td>Ghana Standards Board</td> </tr> <tr> <td>Fresh/processed fish</td> <td>Certificate</td> <td>Ghana Standards Board</td> </tr> <tr> <td>Coffee, shea nuts, and cashew nuts</td> <td>Quality certificate</td> <td>Ghana Cocoa Marketing Board</td> </tr> <tr> <td>Food/agricultural products (e.g. yam, pineapple, plantain, palm oil, etc.)</td> <td>Phytosanitary certificate</td> <td>Plant Protection and Regulatory Services</td> </tr> <tr> <td>Rock and rock samples</td> <td>Certificate</td> <td>Geological Survey Department</td> </tr> <tr> <td>Wildlife</td> <td>Permit</td> <td>Department of Game and Wildlife</td> </tr> <tr> <td>Pets</td> <td>..</td> <td>Veterinary Services in the Ministry of Food and Agriculture</td> </tr> <tr> <td>Chemicals</td> <td>Certificate</td> <td>Environment Protection Agency</td> </tr> <tr> <td>Pharmaceuticals</td> <td>..</td> <td>Food and Drugs Board</td> </tr> <tr> <td>Antiques</td> <td>Permit</td> <td>Museum and Monuments Board</td> </tr> <tr> <td>Timber and wood products</td> <td>Permit</td> <td>Forestry Commission</td> </tr> </tbody> </table>	Commodities	Requirement	Authorizing body	Cocoa beans	Fumigation and quality assurance	Ghana Cocoa Marketing Board's Control Division	Sawn lumber	Permit	Forestry Commission	Mineral ore	Permit	Minerals Commission	Manufactured/processed goods	Certificate	Ghana Standards Board	Fresh/processed fish	Certificate	Ghana Standards Board	Coffee, shea nuts, and cashew nuts	Quality certificate	Ghana Cocoa Marketing Board	Food/agricultural products (e.g. yam, pineapple, plantain, palm oil, etc.)	Phytosanitary certificate	Plant Protection and Regulatory Services	Rock and rock samples	Certificate	Geological Survey Department	Wildlife	Permit	Department of Game and Wildlife	Pets	..	Veterinary Services in the Ministry of Food and Agriculture	Chemicals	Certificate	Environment Protection Agency	Pharmaceuticals	..	Food and Drugs Board	Antiques	Permit	Museum and Monuments Board	Timber and wood products	Permit	Forestry Commission
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17.	Guinea Bissau, TPR 2012	<p>Export registration Apart from the license to engage in foreign trade, a special license, issued for the current season only, is needed to export cashew nuts.</p> <p>Export taxes Goods exported, re-exported or in transit are liable to the payment of fees for customs services rendered; depending on the goods, these fees are applied either at an ad valorem rate (not more than 1% of the f.o.b. value) or at a specific rate; Exports of some agricultural and animal products are subject to an ad valorem rural contribution tax at a rate which varies with the product as follows: <i>Contribuição predial rústica, 2011</i></p> <table border="1" data-bbox="510 435 1989 635"> <thead> <tr> <th>Description</th> <th>Rate</th> </tr> </thead> <tbody> <tr> <td>Rubber</td> <td>0.5</td> </tr> <tr> <td>Groundnuts (in shell or shelled), rice, coconuts, cashew nuts, wood (in logs or sawn), palm oil</td> <td>1</td> </tr> <tr> <td>Leather, skins (of crocodile, otter and other wild animals), other natural products</td> <td>2</td> </tr> </tbody> </table> <p>Cashew nut exports are also subject to: an "extraordinary" 6% tax, and the advance payment on industrial and commercial profits tax; A private-sector contribution, fixed at CFAF 50 per kilogram of cashew nuts exported, is also collected for the same purposes. Moreover, cashew nut exports are also subject to a levy (1.5 CFAF/kg) for the benefit of the Chamber of Commerce, Industry and Agriculture.</p> <p>Goods in transit Goods in transit are subject to a tax levied at the rate of 2% of the c.i.f. value; customs escort charges would also appear to be applied.</p> <p>Export controls and licensing All cashew nut exports must be accompanied by a certificate of origin, issued by the Ministry responsible for trade; the relevant tax is fixed at CFAF 10,000. Cashew nut exports are also subject to weight controls; the weighing is done by private companies, in the presence of customs and Ministry of Trade officials. Moreover, cashew nuts may only be exported by sea, through the port of Bissau.</p>	Description	Rate	Rubber	0.5	Groundnuts (in shell or shelled), rice, coconuts, cashew nuts, wood (in logs or sawn), palm oil	1	Leather, skins (of crocodile, otter and other wild animals), other natural products	2
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18.	Kenya TPR 2012	<p>Export procedures Export consignments of animals and animal products require an international veterinary certificate issued by the Director of Veterinary Services, at a fee averaging K Sh 500. For health-related products, certification is required on the premises where the product is processed, manufactured or stored prior to exportation. This certification is issued by the health authorities, for a fee of K Sh 1000.</p> <p>Export taxes An export tax on hides and skins of 40% applies. An export tax of 20% applies to scrap metal, to support local demand for metals.</p> <p>Export controls and licensing In October 2008, the Government placed a ban on the export of maize to prevent a further shortfall in its supply to the local market; <u>In 2010, the EAC Council of Ministers restricted the export of used automobile batteries, lead scrap, crude and refined lead, and all other forms of scrap metals, to support the region's demand for metals</u></p>								

19.	Lesotho TPR 2009	<p>Export registration The only special export registration or documentation requirements relate to exports of diamonds, for which the exporter must obtain an export permit and pay export duties;</p> <p>Export controls and licensing Some livestock and livestock products are subject to export controls. Only licensed diamond dealers or producers, or their accredited agents, may export diamonds Exports of diamonds are subject to VAT</p>
20.	Madagascar TPR 2008	<p>Export charges A charge is applied to fishery products; a charge of 1.5% of the f.o.b. value is applied to worked wood; and a mining charge of 2% is applied to mining products. Forestry charges are levied on the exportation of specimens of fauna and flora: at the rate of 4% of the f.o.b. price for live specimens; 2% of the f.o.b. price for processed products (e.g., essential oils); and 1% of the f.o.b. price for specimens that have been reproduced (e.g., by horticultural centres).</p> <p>Export controls and licensing Madagascar has prohibited the exportation of any species of wood in rough or semi-finished form since July 2007, but authorizes exports in finished form (for example, works of art; craft articles or parts of musical instruments made of ebony, rosewood or palisander). The export of medicinal plants and archaeological or historical objects is prohibited. An exit permit is required by anyone exporting more than 250 grams of jewellery for non-commercial purposes.</p>
21.	Malawi TPR 2010	<p>Export taxes The Customs Tariff Schedule (Fourth Schedule) allows for export duties on tea, sugar, and raw, unprocessed, and unmanufactured tobacco. At present, none of these products is subject to any export taxes</p> <p>Export controls and licensing Malawi prohibits the export of scrap metal and petroleum products. Exportation of petroleum products is not allowed as they are a strategic product for Malawi. Until recently, maize exports were also banned. Malawi has also at times temporarily banned the export of rice, for food security reasons Malawi maintains an export licensing regime. Goods requiring an export licence are implements of war, certain metals and minerals, petroleum products, wild animals, maize and maize products, unmanufactured tobacco, tea, scrap metal, cotton, soya beans, and rice.</p>
22.	Mali Source: TPR 2010	<p>Export taxes and levies The production of gold, which for the most part is exported, is subject to a levy of 3% ad valorem. Exports of cotton are also subject to a 3%.</p> <p>Export controls and licensing According to the regulations, the absolute prohibition regime applies to exports of young bovine breeding animals, whereas the restrictive regime (conditional prohibition) affects the following: (i) exports of meat and live animals (which require a health or animal health certificate issued by the Ministry of Livestock); (ii) game (which requires a permit or certificate in conformity with the CITES, issued by the competent technical services); (iii) plants (a phytosanitary certificate issued by the competent technical services); and (iv) works of art (authorization from the Ministry responsible for art and culture).</p>
23.	Mauritania TPR 2011	<p>Export taxes The minimum flat rate tax is levied on exports of pelagic fish at the rate of 2%. All products exported are subject to payment of a statistical fee of 1%. In the case of cattle exports, the exporters appear to be subject to a shipment tax, at municipality level, which ranges on average from UM 50 to UM 100 for bovine animals, from UM 8 to UM 20 for small ruminants, and from UM 60 to UM 200 for camelids.</p>

		<p>Export controls In order to overcome malnutrition and iodine deficiency, in 2008 the Government decided to prohibit the exportation of some species of fish, such as mullet, and to open up sales outlets for fish in the interior of the country.</p>																																						
24.	Mauritius TPR 2008	<p>Export registration Tea may only be exported by companies or individuals licensed by the Tea Board.</p> <p>Export controls and licensing Export permits are required for products considered "strategic" or "sensitive" to the economy, and goods eligible for preferential treatment in importing countries, as follows:</p> <p>Controlled export goods, July 2007</p> <table border="1" data-bbox="510 440 2004 1038"> <thead> <tr> <th>H.S. Code</th> <th>Description</th> </tr> </thead> <tbody> <tr> <td>01.01-01.06, excluding 01.01-01.06.12</td> <td>Live animals</td> </tr> <tr> <td>02.01-02.10</td> <td>Meat and edible meat offal of bovine animals, swine, sheep, goats, horses, asses, mules or hinnies (fresh, chilled, frozen)</td> </tr> <tr> <td>07.01-07.12</td> <td>Vegetables (fresh and dried)</td> </tr> <tr> <td>09.10</td> <td>Spices (ginger, saffron, turmeric, and other spices classified under HS No. 09.10)</td> </tr> <tr> <td>10.06</td> <td>Rice</td> </tr> <tr> <td>11.01</td> <td>Wheat or meslin flour</td> </tr> <tr> <td>16.02</td> <td>Other prepared or preserved meat, meat offal or blood</td> </tr> <tr> <td>17.01</td> <td>Sugar</td> </tr> <tr> <td>17.04</td> <td>Sugar confectioneries and products with sugar content</td> </tr> <tr> <td>20.09</td> <td>Fruit juices</td> </tr> <tr> <td>22.02</td> <td>Non-alcoholic beverages (soft drinks)</td> </tr> <tr> <td>25.05</td> <td>Sand</td> </tr> <tr> <td>25.21</td> <td>Limestone</td> </tr> <tr> <td>25.23</td> <td>Portland cement</td> </tr> <tr> <td>30.01</td> <td>Organs (animals)</td> </tr> <tr> <td>30.02</td> <td>Research vaccines (dead or live attenuated, freeze-dried or wet form)</td> </tr> <tr> <td>50.01-63.10</td> <td>Textiles and textile articles for export to USA and Canada</td> </tr> <tr> <td>67.01</td> <td>Birds' feathers</td> </tr> </tbody> </table> <p>Permits are issued by the Ministry in charge of commerce and are valid for a maximum of six months. In certain cases, prior approval is required from the relevant authorities, e.g. the Mauritius Sugar Syndicate for sugar, the Tea Board for tea, the Agricultural Marketing Board (AMB) for spices, the Ministry in charge of health for pharmaceuticals, and the MAIF for certain agricultural products. The export of certain agricultural and fishery products must be cleared by the AMB. A quota applies to exports of chilled fish.</p>	H.S. Code	Description	01.01-01.06, excluding 01.01-01.06.12	Live animals	02.01-02.10	Meat and edible meat offal of bovine animals, swine, sheep, goats, horses, asses, mules or hinnies (fresh, chilled, frozen)	07.01-07.12	Vegetables (fresh and dried)	09.10	Spices (ginger, saffron, turmeric, and other spices classified under HS No. 09.10)	10.06	Rice	11.01	Wheat or meslin flour	16.02	Other prepared or preserved meat, meat offal or blood	17.01	Sugar	17.04	Sugar confectioneries and products with sugar content	20.09	Fruit juices	22.02	Non-alcoholic beverages (soft drinks)	25.05	Sand	25.21	Limestone	25.23	Portland cement	30.01	Organs (animals)	30.02	Research vaccines (dead or live attenuated, freeze-dried or wet form)	50.01-63.10	Textiles and textile articles for export to USA and Canada	67.01	Birds' feathers
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25.	Morocco TPR 2009	<p>Export taxes The export of products subject to technical controls requires payment of an "inspection tax", unless the control concerns products whose export is subject to payment of a "special inspection tax".</p> <p>Export controls The products subject to quantitative restrictions and export licensing include cereal flour (except rice flour), charcoal, collections and specimens for various collections (zoological, botanical, mineralogical and archaeological), and antiques over 100 years old, substances and equipment</p>																																						

		using ozone-depleting substances, wheat and meslin, rye, barley, oats, maize, rice, grain sorghum, other cereals, groats and semolina of common flour and barley (in order to guarantee food security and offset the boom in global prices).
26.	Mozambique TPR 2009	<p>Export taxes Mozambique imposes an export tax of between 18% and 22% of the f.o.b. customs value on raw cashews; since the 2003-04 cashew campaign the rate has been 18%. Although no other specific export tax appears to be applied, certain items, which are almost entirely exported, are subject to charges, e.g. cotton, fishery products, forestry products, and mining product. A royalty of Mt 2,000/m³ applies to exports of unprocessed precious tropical wood, with a 25% reduction applying if processed.</p> <p>Export controls and licensing Special export regulations apply to certain products including plant and vegetable matter (requiring a phytosanitary certificate); animals and products thereof (requiring a sanitary certificate); products subject to export taxes, such as cashews; precious metals, gemstones, and mineral products (requiring licensing by the Ministry of Mining); gold and silver, which may only be exported by the Bank of Mozambique. Since 2002, a prohibition applies to exports of unprocessed wood, reserved to local processors, but not to exports of unprocessed precious tropical wood species, such as ebony and rosewood.</p>
27.	Namibia TPR 2009	<p>Export taxes There is a 10% tax on unprocessed diamond exports. Export levies apply to live exports of slaughter-ready cattle at N\$39.50 per head, and small stock (sheep and goats) at N\$7.90 per head. All these export levies include a 15% VAT. Raw hides and skins (wet and dry salted), and pickled hides and skins are subjected to an export levy of 60% and 15% respectively. Furthermore, an export levy is payable on slaughter cattle (cattle > 450 kg = 30%).</p> <p>Export prohibition, control and licensing Non-automatic permits are required for: medicines; live animals and genetic materials; all ostrich-breeding materials; meat and game products; protected species under CITES; plants and plant products; firearms and explosives; minerals, including diamonds and gold; coins and bank notes; certain works of art and archaeological findings; and oysters. Export permits for maize, wheat, and mahangu are required from the Namibian Agronomic Board at a cost of N\$50.00.</p> <p>The Namibia Diamond Trading Company, a 50:50 joint venture between De Beers and the Government and operated by De Beers, markets all Namibia's diamonds. Through the Namdeb Diamond Corporation (also a 50:50 joint venture between Namibia and De Beers) some diamond production is made available for sorting and sale in Namibia and 15% of production of cuttable diamonds are sold for local processing.</p>
28.	Niger TPR 2009	<p>Export taxes A 3% statistical export charge applies to all goods exported, except mineral substances (subject to the mining levy regime). The taxable base is the c.i.f. value, except for exports of live animals, products of animal or plant origin or fisheries products, mineral products and articles in cast iron, iron and steel, for which the taxable base is a unit value. A special re-export tax (TSR) applies to the re-export of goods in transit to countries outside the Franc Zone; the rate is determined according to the category of the goods: those in Chapter 24 of the HS (tobacco, cigars, cigarillos and cigarettes) are taxed at 5% if their destination is a member country of ECOWAS but outside the Franc Zone (for example, Nigeria or Ghana), and 15% for other destinations; all other products are taxed at 10%. The taxable base for the TSR on consumer goods is a minimum export value (rice, tea, soap, sugar, edible oils, etc.) and cigarettes. Since 2006, a flat rate tax is imposed on cigarettes intended for special transit and/or re-export at a rate of 0.25% of the c.i.f. value. Niger has a large re-export trade (for example, cigarettes), mainly going to Nigeria, which is Niger's second most important trade partner. All export transactions for commercial purposes whose c.i.f. value is CFAF 2 million or more require presentation of the NIF (tax identification number). An advance of 7% on profits tax (ISB) is required for all customs and port operations by persons with no NIF; persons with a NIF but without any certificate showing exemption from payment pay an advance of 4%. The basis for the advance on the ISB is the f.o.b. value of the goods at the exit point.</p>

		<p>Export controls and licensing Since 1998, Niger has imposed an export ban on seed cotton in order to guarantee the development of the cotton subsector. As part of the measures taken to offset the 2005 food crisis, the re-export of milled rice has been banned since 2005. Likewise, since 2005 the export or re-export of millet, sorghum, maize (corn), cassava flour and cattle feed has (provisionally) been banned.</p>
29.	Nigeria TPR 2011	<p>Export taxes An administrative levy of US\$5 per tonne is applied to exports of cocoa, and of US\$3 per tonne to exports of other raw materials. Additionally, a 0.5% levy is imposed on all exports in lieu of preshipment inspection.</p> <p>Export controls and licensing Exports of raw hides and skins, timber (rough or sawn), scrap metals, unprocessed rubber latex and rubber lumps, maize, artefacts and antiquities, wildlife animals classified as endangered species and their products and all "goods imported", are prohibited. Nigeria's food safety regulations require export licences for unprocessed food products.</p>
30.	Rwanda TPR 2012	<p>Export controls and licensing Licenses are required for export of hide and skins, and minerals.</p>
31.	Senegal TPR 2009	<p>Export taxes An annual royalty of 3% of the pit-head value (difference between the f.o.b. value of the mineral substance and all the costs incurred from the pit-head to the delivery point) is levied on gold exports.</p> <p>Export controls and licensing The export of the following goods requires an authorization: gold, hides and skins, and petroleum products. Senegal also imposes prohibitions and licensing under the multilateral environmental agreements it has signed such as CITES and makes the export of certain species of wild fauna and flora subject to prior authorization</p>
32.	Sierra Leone TPR 2005	<p>Export taxes Exports of cocoa and coffee products are subject to a levy, currently set at 2.5% of the f.o.b. export value. Since 1980, a 3% tax is levied on all diamond exports valued by GGDO, in conjunction with Diamond Counsellors International. Under the Mine Policy of 1998, revenue from this tax is spread over five destinations/recipients: income tax (0.75%); Diamond Area Community Development Fund (0.75%), Consolidated Fund (0.75%); Independent Valuer Fee (0.45%), and Monitoring Fee (0.30%). Diamonds exported under special dispensations are charged an extra 2% tax in lieu of a license fee, in addition to the usual 3% export tax.</p> <p>Export controls and licensing A special permit issued by the Ministry of Agriculture and Natural Resources is required for the exportation of plants and charcoal. Gold and diamonds, as well as any other goods or materials as may be prescribed by law, are subject to export licensing requirements. During 2002 and 2003 foreign nationals were subject to higher fees for diamond export licenses than those charged to locals. This discriminatory policy was adopted in order to encourage nationals to participate in the sector, which is considered vital to the economic development of Sierra Leone. A flat rate has been applied since 2004.</p>
33.	South Africa TPR 2009	<p>Export taxes and levies South Africa levies a 5% tax based on the value of exports of unpolished diamonds in order to promote the development of the local economy, develop skills, and create employment. There are also export levies on citrus fruit (R 0.0213 per kg) and on wine (in bulk R 0.05 per litre and R 0.08 per litre otherwise). Inspection fees are levied on exports of certain perishable goods in accordance with the inspection requirements.</p> <p>Export controls and licensing Export permits are required for a number of products (see Annex II)</p>

34.	Swaziland TPR 2009	<p>Export taxes and levies A Sugar Levy is charged at 5.75% of the proceeds from the net ex-mill export protocol sales to the EC, and applies two years in arrears.</p>
35.	Tanzania TPR 2012	<p>Export taxes Tanzania maintains an export tax on raw cashew nuts of either 15% of the f.o.b. value, or US\$160/tonne. Exports of raw hides and skins are also subject to an export tax, which was increased progressively during the review period from 20% to 90% of the f.o.b. value or T Sh 900/kg, whichever is higher.</p> <p>Export controls and licensing Tanzania prohibits exports of raw fish, scrap metals, and used batteries. For food-security reasons, temporary bans or restrictions may be applied on exports of certain crops, such as maize, rice, and beans. Exports of certain fish and fishery products are prohibited on sanitary and phytosanitary grounds. Exports of seashells species, sea turtles, and sea cucumber are also banned. Export licenses or permits are required for food/staple, forestry/wood log; wildlife; minerals and gemstones; and fisheries</p>
36.	Togo TPR 2012	<p>Export duties "Exports costs" have to be paid on the export of precious and semi-precious mineral substances. The amount payable is set at 4.5% of the corresponding official value, namely: diamonds (CFAF 5,000/gram), gold (CFAF 1,000/gram), and other mineral substances (CFAF 100/gram). Agricultural, livestock or fisheries products for wholesale sale or export are subject to a levy by way of advance payment on income tax or the flat-rate taxes payable in its stead. The basis for this levy is the f.o.b. value plus customs duties and taxes or the value used as a basis for the payment of VAT; for products exempt from VAT, the basis is the amount of the transaction. For exports and for wholesale sales on the Togolese market by economic operators in possession of a tax identification number, the rate is 1%, or 5% for wholesale sales by operators that do not have a tax identification number. A special 1% re-export tax is imposed on the re-export of goods stored in warehouses, irrespective of their final destination, although goods in transit are exempt.</p> <p>Goods in transit There is a non-refundable levy of 0.25% of the c.i.f. value on goods in transit.</p> <p>Export controls and licensing Commercial sales, including exports, of precious and semi-precious mineral substances require an authorization issued by the Minister responsible for mines, for which a bank guarantee of CFAF 20 million is necessary.</p>
37.	Tunisia TPR 2005	<p>Export taxes Tunisia now has two export taxes: one cyclical tax on exported scrap iron (90 dinars per ton), levied when scrap iron prices rise in order to discourage exports; and a "customs services fee" on crude oil exports (HS 2710), calculated as 3% of their value.</p> <p>Export controls and licensing There are several product groups that can only be exported with the prior authorization of the Ministry of Trade, valid for six months. The purpose is to prevent shortages and ensure the availability of inputs for domestic industry. The groups of products thus "excluded from the free exportation regime" are: Cereals and cereal flours, and food preparations obtained therefrom; Forage and animal feed; Molasses; Oilseed cake; Certain minerals; Waste and scrap of iron, steel, copper and aluminium; Coal and petroleum products; Certain chemical elements and isotopes; Fertilizers; Raw and dehaired hides; Stationery; Precious metals and waste thereof; Bismuth and cobalt, titanium, beryllium, antimony, zirconium and their products; and Aircraft, balloons and dirigibles, parachutes, and ships.</p>

38.	Uganda TPR 2012	<p>Export taxes Uganda maintains a cess of 1% on exports of coffee, which is used for coffee development activities, 2% on cotton; and 20% ad valorem on raw hides and skins.</p>
39.	Zambia, TPR 2009	<p>Export taxes The 2008 Budget encouraged local value addition by introducing an export levy of 15% on the export of copper concentrates and cotton seed (subsequently raised in the 2009 Budget to 20% for cotton seed), in recognition of the availability of local capacity to process these products. An export tax also exists on scrap metal, which is considered an important input for manufacturing.</p> <p>Export controls and licensing Export prohibitions apply to certain types of logs under international agreements, and occasionally for grains (during drought years). There are no general export licensing requirements (except for prescribed goods) although certain goods, such as fertilizers, live animals, gemstones, and firearms, require special export permits.</p>
40.	Zimbabwe TPR 2011	<p>Export taxes A ban on the export of unprocessed chrome ore has been in place, in principle, since 1996; it has been suspended on several occasions, with an export tax being applied instead, assessed at the rate of 15% of the f.o.b. customs value between January and August 2010; thereafter, in response to widespread evasion, the tax rate was raised to 20% and the tax base was broadened to include chrome ore and chrome fines, as well as semi-processed chrome concentrates. In addition, export tax payments from input tax credit claims were foreclosed. At present, the export tax is not in force, as the export ban was reinstated in April 2011. Exports of live wildlife specimens and fertile eggs are subject to an ad valorem levy of 20%.</p> <p>Export controls and licensing Zimbabwe's non-automatic export licensing regime covers a range of strategic goods, including a number of agricultural commodities, as follows:</p>

Goods subject to export controls and/or licensing, 2011		
In force	Description	Conditions/Requirements
05.10.2010-present	Cotton (lint, meal, seed, and cake)	Permit from the Ministry of Agriculture, Mechanization and Irrigation Development (Secretary's signature), conditional on: (1) Cotton Growers Association Support letter; (2) Agricultural Marketing Authority support letter (Livestock Meat Advisory Council support in the case of meal and cake)
05.10.2010-present	Potatoes	Permit from the Ministry of Agriculture, Mechanization and Irrigation Development (Secretary's signature), conditional on: (1) Phytosanitary Certificate
05.10.2010-present	Bees, beans, bean meal, tomatoes, seed for planting (cereals, trees, vegetables)	Permit from the Ministry of Agriculture, Mechanization and Irrigation Development (Director's signature), conditional on: (1) Phytosanitary Certificate
05.10.2010-present	Baby corn, fruit (citrus and non-citrus), coffee beans, ground nuts, juko beans, katambora grass, manure, tea, vegetables (dried and fresh), rice in the grain ^a	Permit from the Ministry of Agriculture, Mechanization and Irrigation Development (Chief Economist's signature), conditional on: (1) Phytosanitary Certificate
05.10.2010-present	Poultry products (1-day-old chicks, hatching eggs, ostrich meat, ostrich eggs), animal oils and fats (lard, tallow, dripping), animal semen and animal embryo, animal feed stuffs, beef, veal, butter, ghee, cream, cattle, meat, meat meal, blood meal, carcass meal, milk (pasteurized, sterilized, UHT, lacto, condensed), milk powder (skimmed and full cream)	Permit from the Ministry of Agriculture, Mechanization and Irrigation Development (Director's signature), conditional on: (1) Veterinary Health Certificate
05.10.2010-present	Hides and skins	Permit from the Ministry of Agriculture, Mechanization and Irrigation Development (Director's signature), conditional on: (1) Veterinary Health Certificate; (2) Ministry of Industry and Commerce support letter
05.10.2010-present	Bones, bone meal, cheese, ice cream, honey, mopane worms	Permit from the Ministry of Agriculture, Mechanization and Irrigation Development (Chief Economist's signature), conditional on: (1) Veterinary Health Certificate
05.10.2010-present	Fish (dried and fresh)	Permits to fish breeders in export processing zones have been suspended
2001-present	Any equipment or machinery needed for local use on mining, farming, manufacturing or industrial locations	Conditions set out in Statutory Instrument 362/2001
..	Indigenous plants ^b and wildlife	(1) Permit from the Director of Parks and Wild Life Management Authority; (2) Licence from the Ministry of Industry and Commerce (may not be required if the permit is endorsed to that effect and total export value does not exceed US\$5,000)
..	Precious metals, precious and semi-precious stones (rough and uncut), and minerals (ore, concentrate or other unmanufactured product thereof) produced in Zimbabwe ^c	May only be exported by the Minerals Marketing Corporation of Zimbabwe or the Reserve Bank of Zimbabwe (gold and silver), unless the exporter has an exemption certificate to export on his behalf

Table III.8 (cont'd)

In force	Description	Conditions/Requirements
..	Dangerous drugs	Same as import control procedures (see Table III.6)
..	National monuments and relics	Permit from the Director of Museums and Monuments
..	Firearms and ammunition	Commercial exportation allowed only on presentation of a licence from the Ministry of Industry and Commerce, except for firearms manufactured in Zimbabwe

Other export prohibitions include the following to ensure adequate supply of the goods on the domestic market, or to stimulate local value added:

Export prohibitions and suspensions, 2005-11

In force	Description
Export prohibitions	
2005-present	Seeds
2007-01.11.2009; 01.01.2010-20.04.2011	Unprocessed chrome ores and fines
..	Diamonds
05.10.2010-present	Maize and wheat seed, GMO-free maize grain, mealie meal, rapoko (grain, meal and malt), sunflower
05.10.2010-present	Goats
05.10.2010-present	Fertilizer
..	Scrap metal
Export suspensions	
05.10.2010-present	Wheat, sorghum (grain, meal and malt), mhunga (grain, meal and malt), soya (beans, meal and cake), corn soya blend, oil seeds (cake, cake meal, offal and residues from oil seeds), flour, maize meal, barley, barley malt
05.10.2010-present	Table eggs, frozen chickens and their products ^a

.. Not available.

a An export permit may only be given in special circumstances, after consultation with the Import and Export Committee.

Note: No information available for the following non-WTO members: Algeria, Comoros, Ethiopia, Eritrea, Equatorial Guinea, Liberia, Libya, Sao Tome and Ppe, Seychelles, Somalia, Soudan, South Sudan
Cape Verde, a WTO member has no information available

Annex 2: South Africa Exports Permit Requirements

Table AIII.3
Export permits, 2009

Tariff heading	Description	Controlling authorities
Schedule 1		
1209.99.10	Wattle seed*	W
2530.90	Lithium ore; sugulite (also known as lavulite or lazulite), unworked or simply sawn or roughly shaped	M
2607.00	Lead ores and concentrates	I
2611.00	Tungsten ores and concentrates	I
26.13	Molybdenum ores and concentrates	I
2615.90	Tantalum ores and concentrates	I
2710.11.02	Petrol	M
2710.11.01	Aviation spirit	M
2710.11.09	Power kerosene	M
2710.11.15	Illuminating kerosene	M
2710.11.26		
2710.11.30	Distillate fuel for use in compression ignition internal combustion piston engines (diesel or semi-diesel); and residual fuel oils	M
2711.13	Butanes	M
3002.90.90	Human blood and preparations thereof	H
4403.99	Sawn logs of yellowwood (<i>Podocarpus Falcatus</i> , <i>Podocarpus Henkelii</i> , <i>Podocarpus Latifolius</i>), stinkwood (<i>Ocotea Bullata</i>), and blackwood (<i>Acacia Melanoxylon</i>)	W
4407.99	Sawn yellowwood (<i>Podocarpus Falcatus</i> , <i>Podocarpus Henkelii</i> , <i>Podocarpus Latifolius</i>), stinkwood (<i>Ocotea Bullata</i>), and blackwood (<i>Acacia Melanoxylon</i>)	W
47.07	Recovered (waste and scrap) of paper or paperboard	I
7103.10	"Tigers' eye", including its related varieties and any articles consisting wholly or partly of tiger's eye or its related varieties, but excluding properly finished, and finally and completely polished cabochons, beads, eggs, spheres, tumbled stones, and carvings cut therefrom or otherwise processed or tumbled"	M
7103.10	Sugulite (also known as lavulite or lazulite), unworked or simply sawn or roughly shaped	M
72.04	Ferrous waste and scrap; remelting scrap ingots of iron or steel	I
7403.12	Refined copper: wire bars; billets; and other than cathodes and sections of cathodes	I
7403.13		
7403.19		
7403.21	Copper-zinc base alloys (brass)	I
7403.22	Copper-tin base alloys (bronze)	I
7403.23	Copper-nickel base alloys (cupro-nickel) or copper-nickel-zinc base alloys (nickel silver)	I
7404.00	Copper waste and scrap	I
7503.00	Nickel waste and scrap	I
7602.00	Aluminum waste and scrap	I
7801.10	Lead ingots	I
7802.00	Lead waste and scrap	E
78.04	Lead plates, sheets, strip, and foil; and lead powders and flakes	I
7805.00	Lead tubes, pipes, and tube or pipe fittings (e.g. couplings, elbows, and sleeves)	I
7806.00	Other articles of lead	I
7902.00	Zinc waste and scrap	I
8002.00	Tin waste and scrap	I
81.01	Tungsten (Wolfram) and articles thereof, including waste and scrap	I
81.02	Molybdenum and articles thereof, including waste and scrap	I
81.03	Tantalum and articles thereof, including waste and scrap	I
8104.20	Magnesium waste and scrap	I
81.07	Cadmium and articles thereof, including waste and scrap	E
8110.00	Antimony and articles thereof, including waste and scrap	E
8111.00	Manganese and articles thereof, including waste and scrap	E
81.12	Beryllium, chromium, germanium, vanadium, gallium, hafnium, indium, niobium (columbium), and articles of these metals, including waste and scrap (but excluding Rhenium and Thallium)	E

Table AIII.3 (cont'd)

Tariff heading	Description	Controlling authorities
87.02 87.03 87.04	Motor cars and other motor vehicles principally designed for the transport of persons and goods, but excluding vehicles exported by diplomatic and foreign representatives and new vehicles exported by local manufacturers or their appointed agents (excluding sub-headings No. 8702.10.10, 8703.10.10, 8703.21.23, 8703.21.60, 8703.21.70, 8703.31.80, 8704.10, 8704.21.10, 8704.21.40, 8704.22.10, 8704.22.20, 8704.23.10, 8704.23.20, 8704.31.30, 8704.31.50, 8704.32.10, 8704.90.05, and 8704.90.30)	I
	Schedule 2	
2903.19.10	1,1,1-Trichloroethane (methyl chloroform)	E
2903.39	Bromomethane (methyl bromide)	E
2903.41	Trichlorofluoromethane (CFC 11)	E
2903.42	Dichlorodifluoromethane (CFC 12)	E
2903.43	Trichlorotrifluoroethanes (CFC 113)	E
2903.44	Dichlorotetrafluoroethanes (CFC 114)	E
2903.45.05	Chlorotrifluoromethane	E
2903.45.10	Pentachlorofluoroethane	E
2903.45.15	Tetrachlorodifluoroethane	E
2903.45.20	Heptachlorofluoropropane	E
2903.45.25	Hexachlorodifluoropropane	E
2903.45.30	Pentachlorotrifluoropropane	E
2903.45.35	Tetrachlorotrifluoropropane	E
2903.45.40	Trichloropentafluoropropane	E
2903.45.45	Dichlorohexafluoropropane	E
2903.45.50	Chloroheptafluoropropane	E
2903.45.90	Other derivatives perhalogenated only with fluorine and chlorine: other	E
2903.46	Bromochlorodifluoromethane (Halon 1211), bromotrifluoromethane (Halon 1301) and dibromotetrafluoroethanes (Halon 2402)	E
2903.49.01	Chlorodifluoromethane	E
2903.49.03	Dichlorotrifluoroethanes	E
2903.49.05	Chlorotetrafluoroethanes	E
2903.49.07	Dichlorofluoroethanes	E
2903.49.09	Dichlorodifluoroethanes	E
2903.49.11	Dichloropentafluoropropanes	E
2903.49.19	Other derivatives of methane, ethane or propane, halogenated only with fluorine and chlorine	E
2903.49.20	Derivatives of methane, ethane or propane, halogenated only with fluorine and bromine	E
2903.49.90	Other	E
3808.91.10	Containing bromomethane (methyl bromite) or bromochloromethane	E
3808.92.30	Other, containing bromomethane (methyl bromite) or bromochloromethane	E
3808.93.81		
3808.94.85		
3808.99.10		
3813.00.17	Other, containing bromochlorodifluoromethane, bromotrifluoromethane or dibromotetrafluoroethane	E
3813.00.19	Other, containing methane, ethane or propane hydrobromofluorocarbons (HBFCs)	E
3813.00.21	Other, containing methane, ethane or propane hydrochlorofluorocarbons (HCFCs)	E
3813.00.23	Other, containing bromochloromethane	E
3814.00.10	Containing methane, ethane or propane chlorofluorocarbons (CFCs), whether or not containing HCFCs	E
3814.00.20	Containing methane, ethane or propane HCFCs but not containing CFCs	E
3814.00.30	Containing carbon tetrachloride, bromochloromethane or 1,1,1-trichloroethane (methyl chloroform)	E
3824.71	Containing CFCs, whether or not containing HCFCs, perfluorocarbons (PFCs) or hydrofluorocarbons (HFCs)	E
3824.72	Containing bromochlorodifluoromethane, bromotrifluoromethane or dibromotetrafluoroethane	E
3824.73	Containing HBFCs	E
3824.74	Containing HCFCs, whether or not containing PFCs or HFCs but not containing CFCs	E
3824.75	Containing carbon tetrachloride	E
3824.76	Containing 1,1,1-trichloroethane (methyl chloroform)	E

Table AIII.3 (cont'd)

Tariff heading	Description	Controlling authorities
3824.77	Containing bromomethane (methyl bromide) or bromochloromethane	E
3824.78	Containing PFCs or HFCs, but not containing CFCs or HCFCs	E
3824.79	Other	E
	Schedule 3nd	
2806.10	Hydrochloric acid	P
2807.00	Sulphuric acid	P
2841.61	Potassium permanganate	P
2902.30	Toluene	P
2909.11	Diethyl ether	P
2914.11	Acetone	P
2914.12	Methyl ethyl ketone	P
2914.31	1-Phenyl-2-propanone	P
2915.24	Acetic anhydride	P
2916.34	Phenylacetic acid	P
2922.43	Anthranilic acid	P
2924.23	N-acetylanthranilic acid	P
2932.91	Isosafrole	P
2932.92	Methylenedioxyphenyl-2-propanone	P
2932.93	Piperonal	P
2932.94	Safrole	P
2933.32	Piperidine	P
2939.41	Ephedrine	P
2939.42	Pseudoephedrine	P
2939.49	Nerophedrene	P
2939.61	Ergometrine	P
2939.62	Ergotamine	P
2939.63	Lysergic acid	P

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- Addressing food security as a global public good through information and support to regional integration, markets and agriculture

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