

What's the catch? Fiscal Policies for Fisheries in five African Countries*

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The taxation of fisheries: rationale and overarching debates

Many low-income countries (LICs) have long struggled to increase their domestic revenue mobilisation, which is often seen as a necessary step to achieve a more sustained economic development. A wider fiscal space can lead to more funds being available for social spending and infrastructure investment, both of which are required to improve livelihood opportunities for their citizens. A decreased dependence on external aid to finance domestic policies, coupled with more frequent bargaining about revenue extraction between the government and the population, could also lead to better governance outcome.



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... /... The current economic downturn, caused by the COVID-19 pandemic, has also further highlighted the role of fiscal policies as a buffer in time of crisis. During the recovery from the pandemic, governments of LICs all over the world will be looking for new sources of revenue. However, it will not necessarily be easy to individuate them, as most LICs have economic structures in which many activities are hard to tax (Moore and Prichard 2017).

In this context, various voices have pointed towards the need of LICs to focus on fiscal policies targeting the production of environmental goods or climate “bads”. This focus could lead to both an increased availability of domestic revenue and to a more sustainable management of natural resources, reducing future impacts from their overexploitation and from climate change (WB 2019). Improving the taxation of extractive sectors had already been individuated as a dangling fruit for LICs (Moore and Prichard 2017), and the topic of forestry taxation in tropical areas has recently seen a resurgence of interest during the pandemic (WB 2021). One aspect which has so far received very limited investigation is the potential role of the taxation of fisheries. Considering that close to 56 million people are employed in fisheries in the Global South, and that fish products are the most traded food commodities in the world (FAO 2020), understanding what role fiscal policies can play in increasing their economic in LICs contribution warrants further investigation.

The taxation and regulation of fisheries in high-income countries (HICs) has been a subject of academic analysis since at least the mid-1950s (Gordon 1954, Scott 1955). Academic attention towards the same issue in LICs only emerged much later, following the establishment of exclusive economic zones at the end of third United Nations Conference on the Law of the Sea in 1982 (Neiland 2004). Since then, fisheries’ developmental role has received quite some

attention, although the focus was usually more on their contribution to poverty alleviation and food security (Béné et al. 2003, 2009, 2010, 2016, Neiland 2004,) and less on that to economic growth and revenue mobilisation (Cunningham et al. 2009). Indeed, if fisheries are best conceived as a source of economic wealth or as a social safety net for rural populations was for years an important academic debate (Cunningham et al. 2009, Béné et al 2010, Nunan 2014).

The reasons for the existence of different points of view are multiple. First, even in HICs, taxes, licenses and fees specific to the fisheries sector are generally employed to ensure their optimal management rather than to mobilise public revenue. While economics theory suggests that taxes on fishing effort or catch are an efficient mechanism to ensure that fishing harvest remains sustainable, the rate at which they will do so has long been seen as politically complex to justify even in HICs (Grainger and Parker 2013). Therefore, even in many HICs cases, para-fiscal revenue from fisheries is not enough to cover for the entirety of its management cost, so that it is not uncommon for the sector to be a net fiscal receiver (Arnason et al. 2000). Fisheries-specific contribution to public revenue could theoretically accrue through taxes on their rent, but these can only be charged once the latter exist, which is generally not the case in HICs, let alone LICs (Gunnlaugsson et al. 2018, Gunnlaugsson and Agnarsson 2019, FAO 2020). That is, in most cases, fisheries can only contribute to revenue mobilisation through the same general tax handles of other industries, that is through Corporate Income Tax (CIT) and Value Added Tax (VAT), and not through industry-specific charges.

Second, the fisheries sector of many LICs is usually characterised by the coexistence of two very different types of actors. On the one extreme there are the fleets from distant water fishing nations, and more generally industrial fishing fleets, targeting high value species,

usually destined to export markets and usually supported by subsidies from their home countries (Kaczynski and Fluharty 2002, Gagern and van den Bergh 2013). On the other, there are traditional and artisanal fishermen, generally utilising simple fishing gear, targeting species directed to the domestic markets and operating closer to the coast (Okafor-Yarwood 2019, Okafor-Yarwood and Belhabib 2020). Both of these actors are subjected to a range of diverse regulations, including fees and taxes. However, these emanate from, and accrue to, different sources, i.e. central and/or local government agencies, as well as dedicated management bodies (Kaczynski and Fluharty 2002, Horemans and Kébé 2006, Béné et al 2009, Nunan 2014).

Both sets of actors are also involved, to different extents, in the practice of illegal, unreported and unregulated fishing, which is increasingly seen as one of the main dangers to the preservation of fish stocks worldwide, and particularly in LICs (FAO 2014, Vrancken et al. 2019, Witbooi 2020). Apart from having a direct impact on the sustainability of fish stock and on the sector contribution to public revenue, IUUF also contributes to the paucity of available data on fisheries in LICs, which span from catch level to number of fishermen and boats involved (Belhabib et al. 2015, Zeller et al. 2016, 2018, 2020). As information on all these aspects are required for efficient fishery management, it is unlikely that significant progresses on the sector sustainability and economic contribution in LICs will be achieved without dedicating more resources to the monitoring of current practices.

While the issue of data scarcity interests all LICs, it is especially relevant for Sub-Saharan Africa. It is currently estimated that between 5.4 and 7.8 million people are directly engaged in fish harvesting in the continent, and that between 5.2 and 17.6 million are engaged in post-harvest activities. Its contribution to GDP is substantial in specific countries, such as Ghana, Sierra Leone

or DRC, while negligible in others, and its contribution to the balance of trade follows a similar logic. The one apparently common trend is that of deterioration of the fish stock, as the most up-to-date estimates show that catches have been steadily declining for over 30 years, despite an increase in fishing effort.

What is virtually absent from the literature is a quantification of the sector contribution to domestic revenue mobilisation in the continent, especially outside of payments made within the context of fishing agreements with distant water fishing nations. As previously mentioned, very few sector-specific taxes are generally levied on fisheries, so that much of the sector contribution is subsumed within CIT or VAT statistics. Therefore, the project explored if publicly available data could be used to quantify fisheries contribution to these two tax handles in five selected countries – Guinea, Mauritania, Senegal, Sierra Leone and Uganda.

The fisheries sector is of particular economic relevance in all these countries, accounting for significant share of total and agricultural GDP, as well as providing employment opportunities for hundreds of thousands of their inhabitants and representing an important source of foreign exchange earnings. However, they also differ in the relevance of processing capacity, as Senegal and Uganda have both export and domestic production of high-value products, which is less substantial in Mauritania – where the processing industry has concentrated on fishmeal – and lacking in Guinea and Sierra Leone. The contribution of fishing agreements with distant water fishing nations also varies significantly, as Mauritania and Senegal have sizeable agreements with the EU, which Guinea and Sierra Leone are currently lacking. While these agreements represent a significant revenue source for their governments, they are also subjected to quite some criticism, due to their contribution to resource overexploitation and to the increase in compe-

tion between the artisanal and the industrial sectors.

► Fisheries revenue contribution in the selected countries: data and estimates

The attempt to quantify fisheries' revenue contribution in the selected countries followed two separate but parallel lines. First, a data request form was submitted to the revenue authorities of all 5 countries, in order to obtain first-hand information about actual revenue collected from the sector under specific tax handles. Second, information from available international datasets was to be combined to estimate the overall CIT and VAT potential from the sector. The comparison of the data obtained from each country revenue authority with the estimates produced was to give an indication of the current tax gap in the sector.

Various complications were encountered in the process of data collection, both from revenue authorities and from available international datasets. Regarding the former, data was obtained from national authorities from 4 of the selected countries¹, but differences in reporting structure made any comparison amongst the group tentative at best. What nevertheless emerged is that revenue from the fisheries sector has a vastly different relevance across the 4 economies, as its contribution ranges from 0.05% of total revenue in Uganda to 10.61% of total revenue in Mauritania. It must also be noted that the case of Uganda does not seem to be related to its status as a landlocked country, as the sector contribution to total revenue in Guinea is 0.53%. The other trend which emerged is that more information is generally available on levies on export and on registration of foreign vessels than it is on the sector contribution to domestic revenue,

which is unavailable in all but one case.

Regarding international datasets, issues were encountered in accessing data on cost of fishing and catch value from the originally identified source, which implied abandoning the aim of estimating the sector CIT contribution. Nevertheless, data from the Food and Agricultural Organisation fishery division still allowed for the estimation of the potential VAT contribution. The obtained estimates show that this contribution also varies significantly across the 5 selected countries, due to both differences in the structure of their fisheries sector – significant processing capacity are only present in Senegal and Uganda, and to a lesser extent in Mauritania – and to what is subjected to VAT – all types of processed fish in Guinea, Sierra Leone and Uganda, only frozen and filleted fish in Mauritania and only filleted fish in Senegal. Consequently, the estimated VAT potential ranges from an average of 0.09% of total VAT collection in Senegal to 15.69% of total VAT collection in Mauritania. However, it must also be noted that, due to the lack of official figures, comparison between the estimated VAT potential and actual collection was only possible for Uganda, for which case the difference between the two figures is of an order of magnitude. Given the absence of alternative points of comparison, is then hard to judge how close to the actual collection gaps is to the produced estimates. Overall, the attempt at estimating revenue contributions from currently available sources suggests that data quality must improve before these estimates can really be relied upon. In the meanwhile, it might be a better – although lengthier – way to collaborate directly with revenue authorities and fisheries departments, supporting efforts in collating available information.

1. Senegal is the only country for which no data was received.

► Main issues for African fisheries: expert interviews

Six experts' interviews were also carried out, aimed at acquiring a better understanding of how some of the issues identified in the literature are impacting the fisheries sector in the African continent, and consequently its development and economic contribution. Specifically, the themes covered were: the connection between subsidies and fishing activities of distant water fishing nations; the positive and negative consequences of fishing agreements between African states and the latter; the impact of illegal, unreported and unregulated fishing on the fisheries sector of West Africa; co-management of artisanal fisheries between central and local governments; and the availability of different types of data required for fisheries management in the African continent.

The interviews highlighted several issues in the current management of fisheries in Sub-Saharan Africa, many of which impacts on the sector development, and consequently on its revenue contribution. With regard to sectoral subsidies, WTO negotiations will likely end within the next year, and will probably impact the continent both directly and indirectly. The first set of impacts will regard African states capacity to subsidise their industrial fleet, which will very likely be curtailed, although subsidies towards the artisanal sector will probably still be allowed. With regard to indirect impacts, these will mostly be felt through a reduction in the profitability of fishing agreements, as the number of foreign vessels founding it profitable to travel to African waters will reduce. The overall revenue impact is almost definitely going to be negative in the short run, although it is not clear what the impact will be in the medium run, as less competition might allow for the growth of the domestic industry.

Fishing agreements themselves could be made more profitable regardless of subsidies level, as many African countries are missing out potential revenue due to a lack of up-to-date information for their negotiating teams and of regional coordination. However, distant water fishing nations also need to monitor their fleets more closely, as they have so far seemed reluctant to strictly enforce the terms of the agreements when these require fining of their own fleets. Consequently, some of these vessels are involved in illegal, unregulated and unreported fishing, which was confirmed as a blight on the sector in the continent. Stricter controls from distant water fishing nations on their fleet, including a prohibition to domesticate in coastal states and a duty to report all beneficial ownership structure, could help increase the effectiveness of economic sanction against these malpractices. However, coastal states should also increase and harmonise fines across regions, as a low level in anyone country ends up impacting all the others which share a fish stock with it. Greater institutional coordination between fisheries departments and navy could also increase monitoring and surveillance efficacy, helping to better deliver a return on the investments in physical capacity made in the last period.

Artisanal actors are also involved in illegal and unregulated fishing, but their malpractices are seen as less detrimental, and more generally connected to poor management of the whole sub-sector, although with differences across countries. A better management of artisanal fisheries would be in the interest of most African states, although this would not necessarily imply a greater contribution to state coffers, as their tax potential is perceived to be generally low. However, the sector is very heterogeneous, and if more investments were to be directed towards it, some actors, such as fish aggregators, could eventually become revenue contributors. However, any fiscal reform of the sub-sector would require much better data, as currently

not enough detailed information is available to devise finely tuned policies, and the risk of producing social damage is great. The problem of lack of data is though much wider than simply the artisanal sub-sector, as information about stock levels, tax expenditure towards subsidies and inter-African trade is also generally lacking.

► Conclusion and policy recommendations

As the literature revealed, there are no reasons to introduce fisheries-specific taxes until it can be proved that they are producing a rent, and this will only happen when they are properly managed. From the analysis of the selected countries and the experts' interviews, it is apparent that this is far from being the case across the African continent. Therefore, the focus should first be directed towards increasing fisheries viability and sustainability, in order to favour their development. This could in and of itself increase their revenue contribution, as at least industrial actors are subjected to normal fiscal charges. From the above analysis, the following recommendations can be made.

- **There is a clear need of better data on the biological, social and economic contributions of the fisheries sector to improve the quality of its management.** Data is fundamental to devise effective management strategies, plan fiscal reforms or negotiate fishing agreements. However, it is also costly and lengthy to collect, and there are financial and capacity constraints in many African statistical agencies. Hence, data collection could be an important area for donor support, especially when it comes to the artisanal sector, of which very little is known. All data collected should also be gender disaggregated, as female fishermen are likely to face different issues than their male counterpart.

- **Negotiating capacity is at times scarce, and this impacts the quality of fishing agreements, currently the main source of revenue for African states.** Technical assistance to negotiators team could help some African states to obtain better terms in their fishing agreements, especially if joined with better data access. This support could be directed at the national level or at a regional level. The latter could for example lead to the creation of a negotiating team within ECOWAS, capable of supporting national teams during their own negotiations.

- **Promote the participation of CSOs in fishing agreements negotiations to increase the impact of spending through dedicated funds.** Increasing the transparency of the current negotiations of fishing agreements is seen as a fundamental step to improve their efficacy to promote domestic fisheries' development. Fishing communities are those more impacted by the activities of industrial vessels from DW-FNs, and should therefore be part of the negotiation, as they know their need better than anyone else and can hold the government accountable for the promises made.

- **There needs to be greater focus on the practices of EU vessels, as many have been found in breach of fishing agreements terms with little consequences.** Both the literature and the interviews have revealed that the EU is often not coherent with the stated scope of its fisheries policies when it comes to the behaviour of distant water fishing fleets. A more thorough enforcement of fines for breach of the agreements would signal coastal states that there is more than lip-service when it comes to IUUF, and decrease the pressure on fish resources which is currently impacting the sector viability.

- **Devise a common EU policy towards domestication of fleets in coastal state and beneficial ownership of vessels within the fisheries sector.** Both of these practices have been individuated as problematic for coastal states, and it should be well within the commission capacity to provide a legal framework to reduce their impact.

- **Support the inclusion of artisanal vessels from least developed countries within the SDTs of the current WTO negotiations, but not that of industrial ones.** There currently are different proposals at the WTO when it comes to the treatment of subsidies towards overcapacity in least developed countries. In the opinion of all the experts interviewed, they should be allowed, at least in the short term, towards artisanal actors, but not towards industrial ones. Supporting this position would help maintain sector viability in the short run, while not impacting its sustainability.

- **Support tax expenditure studies in the fisheries sector.** Currently, very little is known about subsidies towards fisheries in many LICs. However, these will have to be made public in the context of the new WTO agreement. This will represent the ideal moment to assess their cost-effectiveness, as they reduce the sector revenue contribution and might not contribute to its growth.

- **Focus on the promotion of processing capacity, in order to increase domestic value addition in fish products.** This should help both boosting decent employment in the sector and its capacity to generate tax revenue and foreign exchange earnings. Support could take different forms, as industrial incentives towards the sector will be allowed under the new WTO agreement, but it is not clear if the one used so far have delivered much benefits. Technical assistance on how to deal with EU non-tariff barriers could also be important, as this often repre-

sents a significant obstacle for new investments.

- **Still very little is known about the impact of co-management practices in most countries, both on the sustainability of fishing practices and on local revenue.** Both of these areas should warrant further attention, as it seems unlikely that the policy of decentralising resource management will be reversed. Local governments are often lacking alternative sources of revenue, and might therefore be tempted to see fishing licensing purely as revenue generating activities, impacting the sustainability of artisanal fisheries. Examples exist of both cases where co-management led to better environmental and social outcomes and of the opposite situation. Efforts in expanding and systematising this knowledge could be useful to integrate local governments in management strategies.

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