

Liberia

CONNEX Supports Government to Recoup Lost State Revenue



The Challenge

The West African country Liberia is rich in natural resources, including minerals such as iron ore. In 2005, after the civil war in Liberia had ended, the contract for the first and largest mining project in the country was negotiated with an international investor. In 2011, when the first shipment of ore left the country, the Government of Liberia also negotiated an

Advance Pricing Agreement (APA) with the investor. An APA is a separate contract between the mining investor and the government. It standardizes how the tax is calculated and determines the long-term revenue from the project, using a formula that is based, in part, on the quality of the ore mined.

The APA from 2011 was based on the quality of the ore from the initial deposit exploited. However, in 2016, the investor proceeded to mining a new deposit with much higher ore quality. As the quality and value of ore is a key factor in the APA formula and resulting state revenues, the APA was no longer reflecting the true amount of tax the investor was supposed to be paying. In order to recoup the lost revenue, the Government needed to review the APA formula and renegotiate it with the investor. However, the Liberian Revenue Authority (LRA), the responsible agency, was only founded a few years ago and had never negotiated such an agreement before.

The Role of the CONNEX Support Unit

In early 2019, the Government of Liberia, through the LRA, requested technical support from CONNEX to review the APA formula. Firstly, they sought to verify their interpretation of potential for renegotiation; secondly, they realized that they would require technical support in renegotiating the APA with the investor. A mining economic and financial expert commissioned by the CONNEX Support Unit worked closely with the LRA to review all the necessary documents. He confirmed their assessment and recommended to engage the investor in renegotiations.

The CONNEX expert also worked with the LRA to prepare for the renegotiation, supporting them to coordinate their negotiation position and meet the investor on a level playing field. He joined hands with a legal expert from the CONNEX collaboration partner International Senior Lawyers Project-UK (ISLP-UK). The legal expertise complemented the economic, fiscal and strategic advice provided by the CONNEX expert. Most of the advice by the experts was provided remotely through an exchange with the LRA officials via email and phone. The CONNEX expert was also physically present at all



four negotiations rounds, spread over five months, and was able to provide on-the-spot advice as the LRA led the negotiations.

Impact

The Government of Liberia through the LRA and the investor successfully concluded negotiations in January 2020. They agreed on a new APA formula for the higher-grade iron ore, which also implied a supplementary payment for the past years. The new APA hence resulted in a 25% increase in government royalty revenue from the iron ore project to USD 22.3 million dollars for the period July 2017 – June 2019. The renegotiated formula ensures that the project will continue to be appropriately priced in the future. An increase in royalty revenues of up to 24% - between USD 12 and USD 17 million dollars, depending on external factors such as the global price of iron ore – can be expected.

The support during the renegotiation process further improved the capacity of the Liberia Revenue Authority. This was the first time the agency would be negotiating an agreement with an investor and the process provided multiple lessons for those involved as well as the agency itself. It will serve as 'best practice' model for negotiations in a similar context. The knowledge and experience gained will also help the LRA position itself in the tax compliance management of multinational investments especially in the natural resource sector.

Imprint

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