



## The political economy of timber taxation in Ghana

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### Introduction

This policy brief presents the argument that the governance of timber resources in Ghana, while failing to support officially stated policy objectives, serves the private interests of politicians. This argument is supported by a case study of the political economy of timber governance in Ghana with emphasis on the allocation and taxation of timber. Specifically, it is shown that politicians in Ghana have maintained discretionary control over timber rights allocation and a low taxation level. It is suggested that this state of affairs, and its reproduction over decades despite numerous attempts at reform, may – at least partly – be explained through patron-client relations between the political elite and timber firms in Ghana.

### Background

Ghana's timber resources are located in the Southern-most one-third of the country (High Forest Zone). Timber utilization is organised through a concession regime where the forest administration allocates long (typically 40 years) and short term (typically 5 years) leases to private timber firms in return for payment of various fees (Table 1). The current forest legislation is crafted under the umbrella of the 1994 Forest and Wildlife Policy, which stipulates a forest (fiscal) regime capturing the full resource rent to the benefit of all segments of the Ghanaian society and to ensure efficient resource utilization. The means to achieve this end is identified as competitive bidding for timber rights.



## Policy Conclusions

- Timber harvesting is under-taxed and extra-legal procedures characterize the allocation of timber rights, both of which run against official policy directives.
- This demise is most likely the result of patron-client relations that reproduce political power structures and provide rent seeking opportunities to timber firms in good standing with the political elite.
- These relationships may go a long way in explaining the slow pace of forest policy reform in Ghana, e.g. in relation to REDD and FLEGT.

### Results

#### *(i) Timber rights allocation and allocation processes*

No official statistics or information is available on timber rights allocation in Ghana. We therefore compiled a database on timber rights in existence in 2005 by combining pieces of information from various sources, i.e. government reports, papers and internal documents and files. We estimate a total area of 3.2 million ha of forest under various forms of timber rights: 1.8 million ha are under long-term contracts (typically between 40 and 99 years) and 1.4 million ha under short-term (typically 5 year) contracts.

The data show that only six of 50 long-term contracts allocated since the enactment of competitive bidding on April 23, 2003, have been allocated following the competitive bidding process. The remaining 44 contracts have been allocated administratively.

The 1.4 million ha of short-term timber rights are allocated in the form of Timber Utilization Permits (TUPs) and Salvage Felling Permits (SFPs). Both of these are meant for a specified (smaller) number of trees: TUPs to district assemblies, town committees, rural community groups and NGOs for social and community purposes and SFPs for salvage of timber trees from smaller areas undergoing development, e.g. road con-

struction. Yet, the data show that all TUPs, 124 in total, have been granted to timber firms, not community groups. Further, all TUPs have been granted to large tracts of forest – an average of 31.7 km<sup>2</sup> – and not a specified number of trees. Likewise, all 448 SFPs in the database have been allocated to firms, and cover on average 22.9 km<sup>2</sup>.

#### *(ii) Taxation level*

To investigate the taxation level, we relate the 2005 timber tax revenues to the stumpage value of the harvest in that year. Stumpage value is defined as the maximum amount that the most efficient logging company would be willing to pay the forest owner for the right to harvest a tree; assuming that prices of timber are set in a freely operating market and that a large number of firms are in competition. These conditions are not fulfilled in Ghana, and hence we used international log prices as basis for our analysis.

Costs of felling, hauling, transport and port handling were obtained through a survey with 20 timber firms in Ghana.

The stumpage value of the 2005 timber harvest is estimated at USD 307 million based on a harvest of 3.3 million m<sup>3</sup> (0.9 million m<sup>3</sup> officially recorded and 2.4 million m<sup>3</sup> of unrecorded – illegal – harvest) (see also Hansen and Treue 2008). The total 2005 timber revenues are estimated at USD 19.9 million. Thus, timber fees and taxes constitute approximately 6% and 23% of the stumpage value based on the total and recorded harvest, respectively (Table 1).

*Table 1: Approximate 2005 revenues from timber fees and taxes in Ghana*

Fee/tax	Total revenue	Share of total timber tax revenue
	<i>Million USD</i>	<i>Per cent</i>
Stumpage fee and concession rent	8.9	45
1% and 2 % export levies	5.5	28
Air-dried export lumber levy	0.3	1
Corporate tax	5.2	26
Total	19.9	100

Table 2 illustrates the approximate distribution of 2005 timber revenues assuming an immediate and 100 % collection as well as distribution. The Forestry Commission appropriates approximately half of the total revenues through its share of the stumpage fees and all export levies. The corporate tax revenue – comprising 26 % of the total revenue – goes to the government's Consolidated Fund. The beneficiaries (District Assemblies, Stools and Traditional Councils) receive USD 3.6 million, equal to 18 % of total revenues, but comprising a mere 1 % and 4 % of the stumpage value of the total and recorded harvests, respectively.



Table 2. Approximate 2005 distribution of revenues from timber fees and taxes in Ghana.

Beneficiary	Distribution of revenues	
	Million USD	Per cent
Forestry Commission	10.4	52
Office of Administrator of Stool Lands	0.4	2
District Assemblies	2.0	10
Stools	0.9	5
Traditional Councils	0.7	4
Consolidated Fund	5.2	26
Forest Plantation Development Fund	0.3	1
Total	19.9	100

Note: Distribution under the assumption of immediate and 100 % collection rate of invoiced fees, and immediate distribution.

To illustrate that 2005 is not an unusual year, we compare the ratio between the volume-weighted royalty rate and the free-on-board (FOB) export price of logs and lumber, respectively, for the period 1976–2005 (Figure 1). The timber taxation has remained at a low level throughout the observed period; the royalty-log price ratio does not exceed 4% in any year, except for 1994 and 1995. Yet, these years should be considered as »outliers«, since Ghana at that time experienced a log export boom of low-value species.

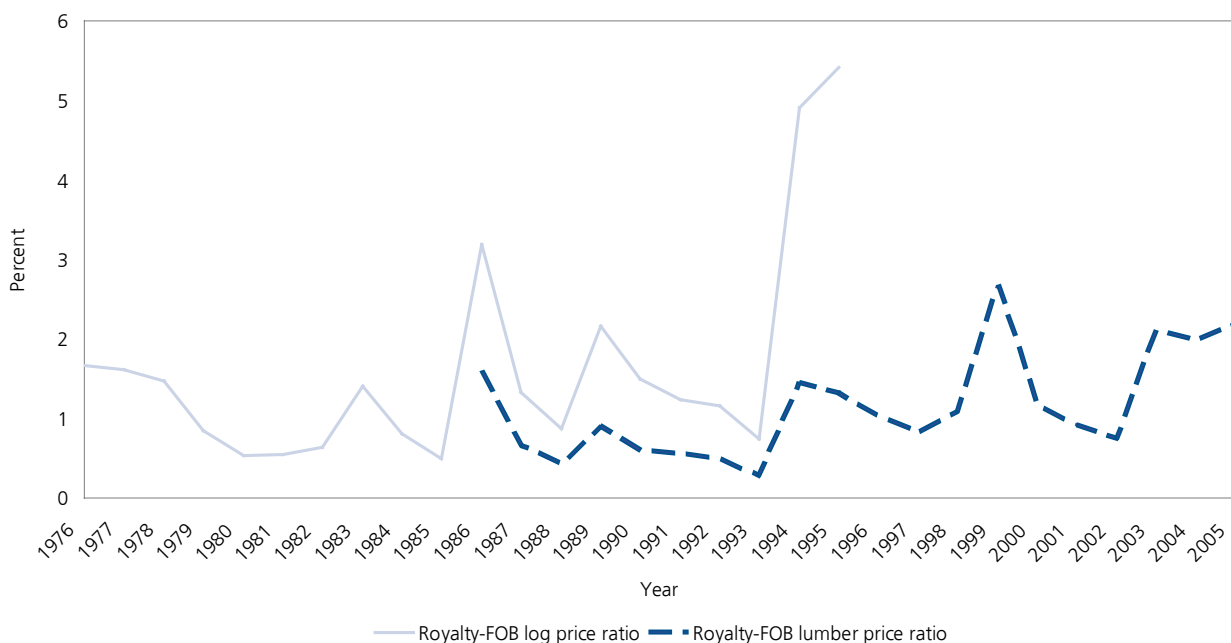
## Discussion and conclusions

The presented results illustrate that politicians in Ghana remain in control of timber rights allocation and that taxation policies and their implementation have maintained a low taxation level. This state of affairs goes against the official

forest policy justifications of revenue maximization and provision of incentives for efficiency in resource use to the logging and timber processing industry.

Is this demise the result of ignorance, lack of information and irrational behaviour of politicians and policy makers? Hardly. It makes little sense to assume that politicians and policy makers should not be aware of, and give appropriate attention to, the implications of taxation policies that have important consequences at national level for revenues, resource conservation and environmental services. Admittedly, there are problems of asymmetric information, i.e. determining operators' cost, and incomplete information on international pricing of logs and wood products, but these can hardly explain an allocation and taxation regime that over decades have maintained a taxation level way below the stumpage value.

Figure 1: Volume weighed royalty rate/stumpage fee rate as percentage of weighed FOB log export price and weighed FOB lumber export price in Ghana, 1976-2005.





Are politicians in Ghana simply responding to the demands of a powerful and efficient lobby? In relation to taxation in Ghana, the wood processing firms, organized in the Ghana Timber Millers' Organization, would candidate as a strong lobby. The number of significant wood processing firms is relatively small, and many of the firms are associated in larger business groups. Moreover, these firms have large stakes in the regulation as they have benefited from low forest fees, absence of competitive bidding, and favourable corporate tax rebates and holidays. Yet, we find it odd if politicians should be »captured« to a degree where they allow policies that promote gross economic inefficiencies and violate the interests of other stakeholders. After all, the state has maintained substantive power over the resource and resource rents, which should insulate politicians from such demands, and the timber sector is not that important for the Ghanaian economy (ISSER 2008).

The current state of affairs – that has persisted despite numerous attempts at reform over the past decades – is rather the result of patron-client relations in which the political elite distributes patronage, in the shape of lucrative timber rights, to clients within and outside the timber sector in return for political support. As an example, the widespread allocation of TUPs and SFPs in Ghana since 2001 may imply a special form of discretionary allocation where timber rights are allocated as an ex-post reward for political support. These allocations are spread between hundreds of firms, many of which have no previous or subsequent track record in the timber sector, which, together with their timing immediately after the 2000 elections, may imply allocation as reward for political support.

In sum, we suggest that politicians, through discretionary control over timber rights and low forest fees, wield control over attractive rent-seeking opportunities which are exchanged for political support through patron-client networks. Lobbying and low capacity may be complementary explanations, but can hardly on their own explain the observed outcomes. Thus, while acting in ways that are economically, ecologically and socially harmful, politicians are politically rational. The distortion is reproduced because it, at least up to this point, has been associated with low political costs.

The existence of such relationships may go a long way in explaining the slow pace of forest policy reform in Ghana and must be taken into consideration in current forest policy discussions in Ghana (and elsewhere), notably readiness activities in connection with Reducing Emissions from Deforestation and forest Degradation (REDD) and Forest Law Enforcement, Governance and Trade (FLEGT) initiatives.

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#### Read more

Hansen, C.P.; Lund, J.F., 2011 The political economy of timber taxation: The case of Ghana. *Forest Policy and Economics* 13, 630–641.

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