

# Motoring taxes in sub-Saharan Africa: an opportunity for a double dividend?

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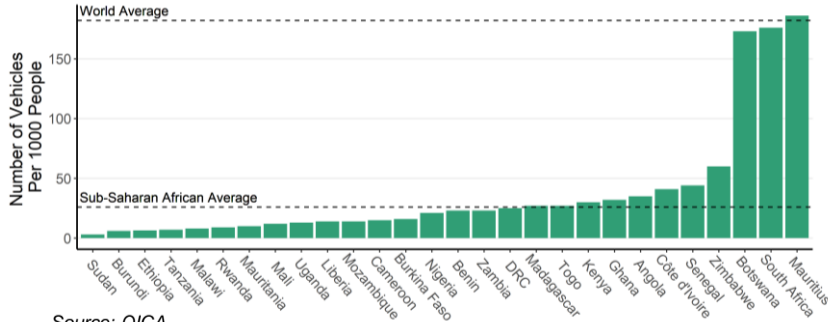
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## Economic and environmental context

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# Vehicle ownership is still low

- High economic growth has led to an increase in vehicle ownership, but vehicle ownership is still very low → 26 per 1000 in 2015, compared to 182 per 1000 in the world.



- But vehicles are heavily concentrated in cities
- Vehicles are of very poor quality

# Growing concerns about environmental and social costs of motoring

## **Congestion is a big and growing problem**

- For example, 4-15% loss in city-wide GDP across Kampala, Nairobi, and Lagos

## **Many deaths due to air pollution and road fatalities**

- SSA has more deaths due to air pollution than world average (187 per 100,000 to 114 per 100,000)
- SSA has more deaths due to road fatalities than world average (28 per 100,000 to 16 per 100,000)

## **Greenhouse gas emissions from transport are very low**

- SSA has lower emissions than world average (0.19t per capita to 0.79t)
- But governments are keen to manage emissions in line with Paris Agreement obligations

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## Existing taxes on motoring in sub-Saharan Africa

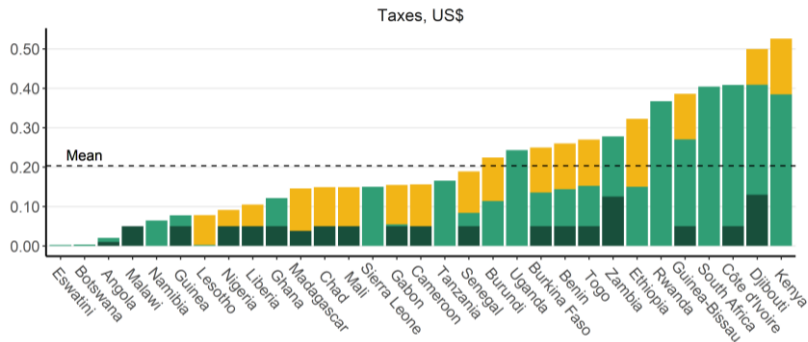
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# Facts about motoring taxes in sub-Saharan Africa

- Taxes on fuel vary a lot between countries, but subsidies and undercollection are a problem

# Taxes on fuel vary a lot between countries

Official taxes on 1 litre of imported gasoline, with a pre-tax price of \$0.50



In Ethiopia, undercollection and 'stabilisation' programmes reduce the tax from \$0.31 to a net subsidy of \$0.09.

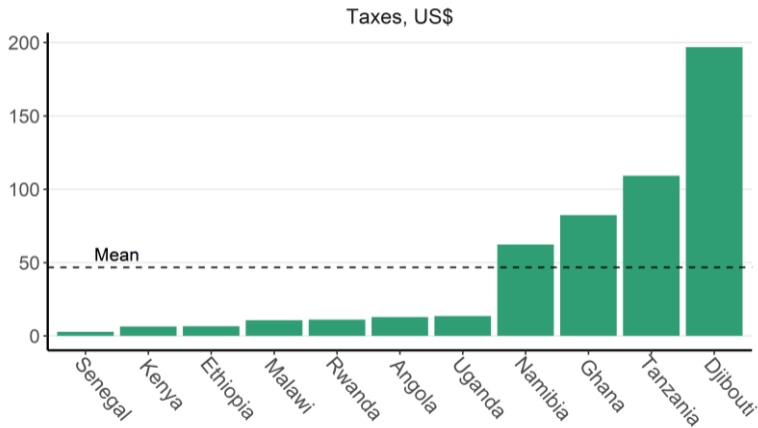
## Facts about motoring taxes in sub-Saharan Africa

- Taxes on fuel vary a lot between countries, but subsidies and undercollection are a problem
- Taxes on vehicle ownership are low, and do not exist in many countries



# Taxes on vehicle ownership only exist in some SSA countries **TaxDev**

Annual taxes on a five year old vehicle, with an engine size of 1600cc



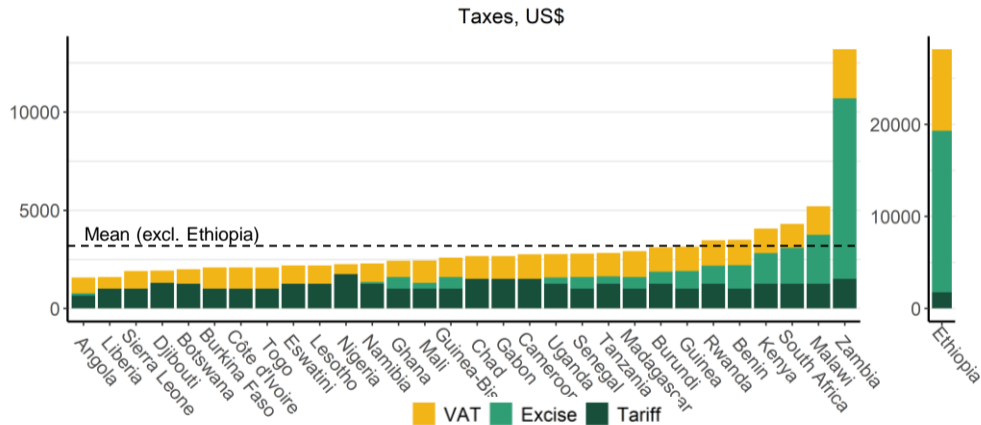
Source: own research

## Facts about motoring taxes in sub-Saharan Africa

- Taxes on fuel vary a lot between countries, but subsidies and undercollection are a problem
- Taxes on vehicle ownership are low, and do not exist in many countries
- Taxes on vehicle purchase are generally very high

# Taxes on vehicle purchase are very high

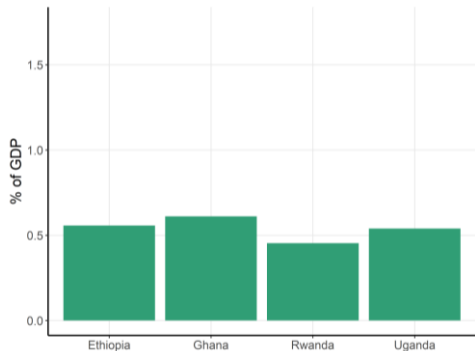
Taxes on a five year old imported car, with an engine size of 1600cc and a pre-tax price of \$5000



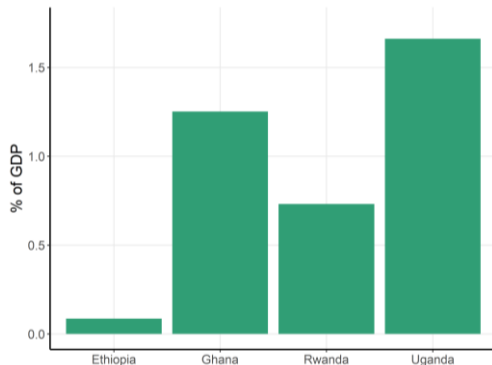
Source: EY / KPMG [VAT], WTO [tariff], own research [excise]

# Motoring tax revenues are fairly high

## Taxes on vehicle import



## Taxes on fuel



Combined, motoring taxes raise between 0.8% and 2.1% of GDP – a similar level to EU countries

Source: Ethiopian Ministry of Revenue, Ghana Revenue Authority, Rwanda Revenue Authority, Uganda Revenue Authority

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## Conclusion and Policy Options

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# Motoring taxes – a double dividend?

- Motoring taxes *already* raise significant revenues in many SSA countries
  - These are widespread because they are easy to administer and very progressive
- Sub-Saharan African countries suffer from motoring-related problems: congestion, air pollution, road accidents, greenhouse gas emissions
  - These are heavily concentrated in urban areas
- These problems are linked with with:
  - Vehicle use (a parked car does little harm)
  - The time and place of driving
  - The type of vehicle driven
- Countries have an opportunity to reform motoring taxes to make them better targeted to deal with the problems associated with motoring
  - Vehicle purchase taxes are a poor way to deal with motoring problems

# Potential Policy Options

### Increase taxes on fuel

- Fuel taxes target vehicle use, and more polluting cars pay more
- Fuel taxes are often politically unpopular (even if they are progressive)

### Increase / introduce vehicle ownership taxes

- Vehicle ownership taxes can target drivers in urban areas and cars with higher emissions
- Certain vehicles (e.g. minibuses) can be exempted
- Vehicle ownership taxes are harder to administer

### Higher parking charges in urban areas

- Directly targets urban areas
- Set up costs

### Reform vehicle purchase taxes

- Some countries may have scope to reduce vehicle purchase taxes
- Other countries may wish to base purchase taxes directly on emissions standards / fuel efficiency



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