UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

STRENGTHENING DEVELOPMENT LINKAGES FROM THE MINERAL RESOURCE SECTOR IN ECCAS COUNTRIES

Regional Workshop
Brazzaville, Republic of the Congo
28 to 30 September 2016

Maximising fiscal benefits

by

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UNCTAD
Regional workshop on strengthening development linkages from the mineral resource sector in the Economic Community of Central African States

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Session 5: Strengthening development linkages: Fiscal linkages

Maximising fiscal benefits

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Outline

1. **The revenue objective**
2. **Key challenges**
3. **Implications for fiscal policy**
4. **Optimising government benefits**
5. **Concluding remarks**

1. The revenue objective

The AMV (2009)

- Obtain an adequate share of mineral revenue
- Utilise revenues to eradicate poverty and finance growth and development

2. Key challenges

A. Characteristics of mineral resources (projects)

High risk

Quality & extent of resources unknown

Depletable

Long lead times

Capital intensive

Government

Profitability uncertain

Investor

Environmental and social costs

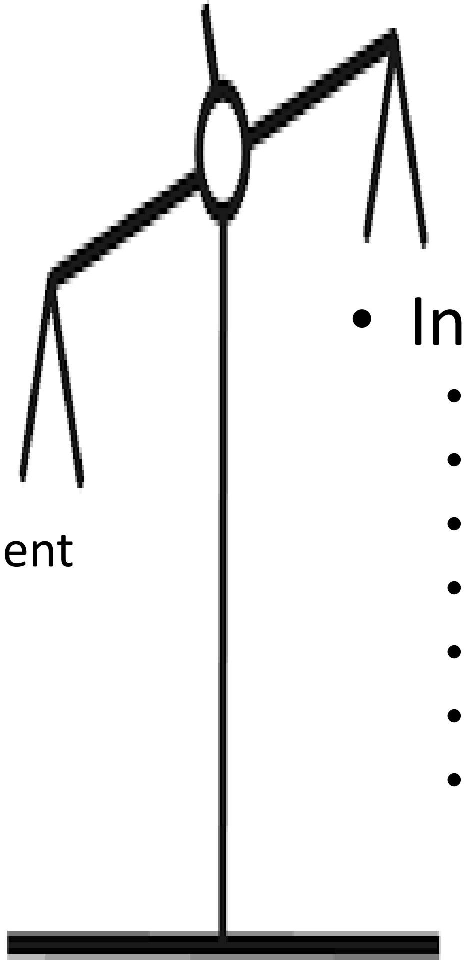
Price volatility

Minerals without reference price

B. Conflicting interests

Obtain as much value as possible

- Governments
  - Sufficient incentive to attract investment
  - Extensive exploration
  - Train and employ citizens
  - Procure local inputs
  - Retain forex
  - Right to impose taxes
  - Compensation for social costs
  - Intergenerational equity



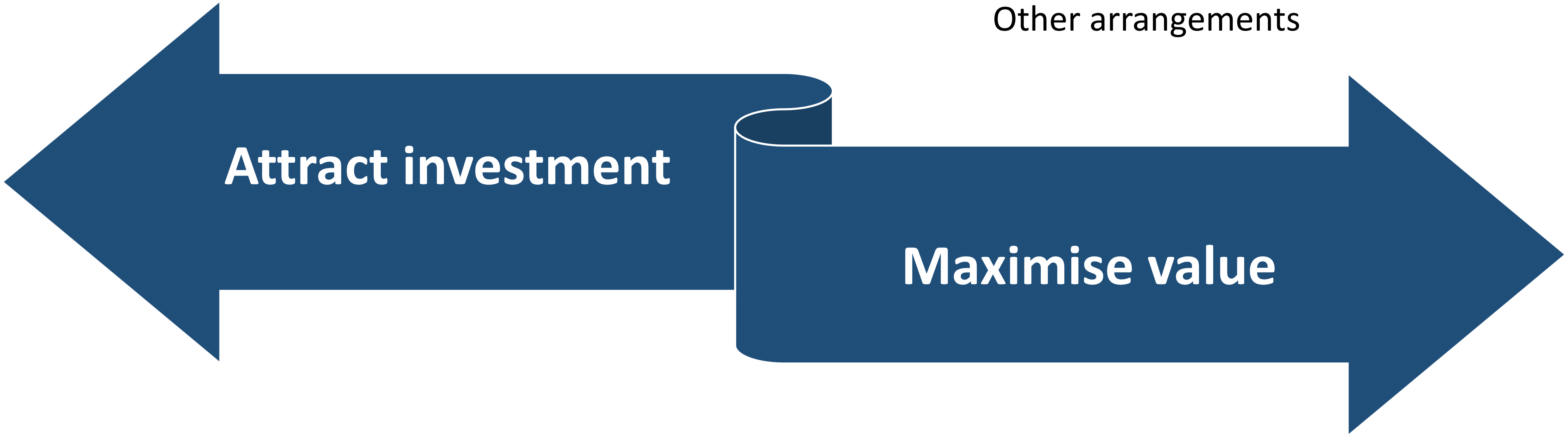
- Investors
  - Sufficient incentives to cover risks
  - Focused exploration
  - Faster payback
  - Employ skilled competitive labour
  - Procure competitive inputs
  - Repatriate profits
  - Stable political and tax regime

Compensate for risks and maximise profits

C. Conflicting objectives

Incentives

Taxes
Other arrangements



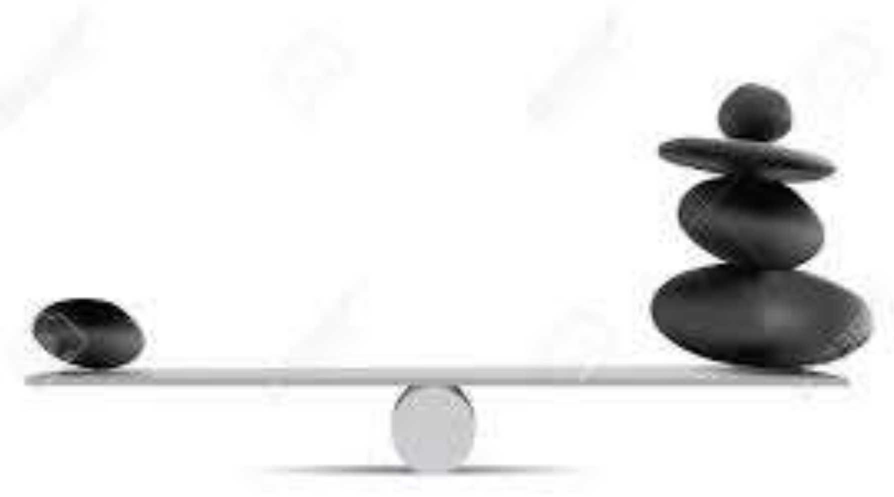
Promote exploration
&
exploitation

Compensation for depletion and
environmental and social costs
&
Accelerate development

Government

3. Implications for fiscal policies

A. Resolving the 'conflicts'



- Promote realisation of rent
- Facilitate equitable distribution of rent
- Promote achievement of other development goals

B. Examples of fiscal instruments

- Resource rent tax

Characteristics	Merits	Demerits
Accounts for threshold rate of return on capital	Equitable	Complex administration
Rate of tax	Does not impact cut-off grade	Susceptible to leakages
Allowable deductions		
Ring fencing		

B. Examples of fiscal instruments

- Economic rents (Royalties)

Type of instrument	Merits	Demerits
Revenue-Based (Per Unit / Ad valorem)	Simple **Easy to administer**	Regressive May fail to capture windfall rent
	Suitable for regimes with low tax administration capacity	May increase mine **cut-off grade** (Reducing resource size & mine life)
	Stable & predictable government revenue stream (Especially unit-based variant)	May collapse marginal mines (which still create socio-economic benefits)
Profit-Based	Midway between revenue-based and profitability	
Profitability-Based	Progressive	**Complex** for weak tax administration regimes
	May capture **windfall rent**	Unstable Unpredictable revenue streams

B. Examples of fiscal instruments

- Customs duties

- Government equity

- Stabilisation

4. Optimising Government benefits

A. Achieving the right balance

- A minimum take
- Avoid high front end taxes
- Profitability-based taxes to capture windfall
- Incentives for contributing to development goals
    - Training, infrastructure development, linkages, etc.

B. Addressing leakages

- Tax justice
  - Allowable deductions
  - Transfer pricing
  - Mispricing
  - Tax avoidance
  - Tax havens
  - Etc.

C. Price discovery

- Auctions

- Minerals without reference prices

D. Managing the benefits

- Prudent investments
  - Poverty reduction
  - Development capital
  - Intergenerational equity
  - Local community benefits

- Revenue transparency

5. Concluding remarks

- The capacity factor

- Account for negative externalities (Environmental and social costs)

Thank you for your attention

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