



Opportunities

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Introduction

Tax Regime Balance

Results: Fiscal Policy Implications

Opportunities

Introduction

Background

- ECON:
 - 20+ long-term country clients, including many in Sub-Saharan Africa
 - Third-party with significant experience in fiscal/economic reform processes
 - Connection with Norwegian funding (Royal Norwegian Embassy)
- Goals:
 - Provide fact-based fiscal and economic analysis at the micro-/macro-level
 - Avoid the emotional dimension and adhere to the quantitative dimension
 - Assist with the fiscal reform process through Government direction
 - Build trust with/between Government and private sector (no lectures)

Strategy & Status

- Strategy:
 - Government and private sector combined effort
 - Strategy advice provided under direction/communication with all parties
 - Continued third-party role as trust and confidence grows
 - ECON can/will only speaks for itself (all opinions are our own)

- Status:
 - Phase 1: June 2014 - July 2015
 - Phase 2: June 2015 – present

REACT Mining Model

Resource: natural resource focused

Economics: extensive analysis across all economic dimensions

Aggregating: micro-level modelling, macro-level capabilities

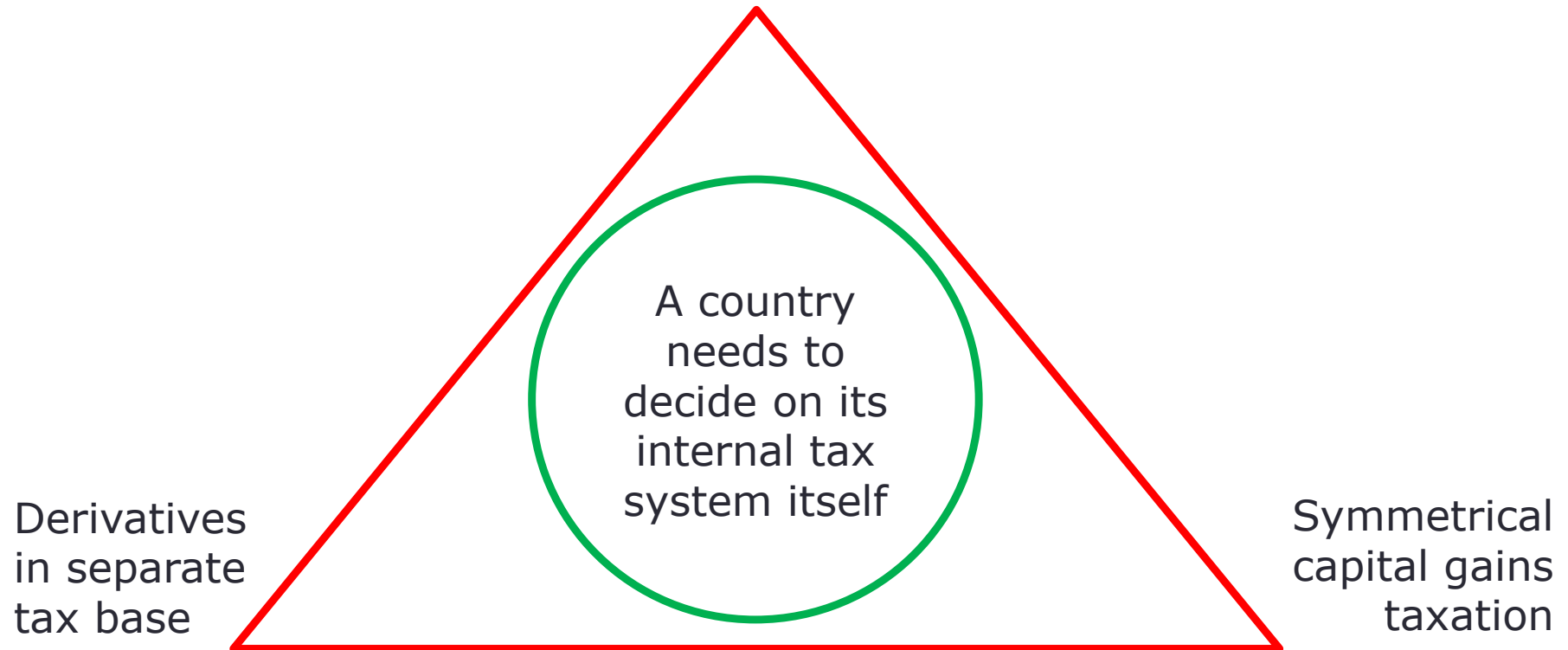
Commodities: multi-commodity capable

Tool: numerous public and private sector clients support

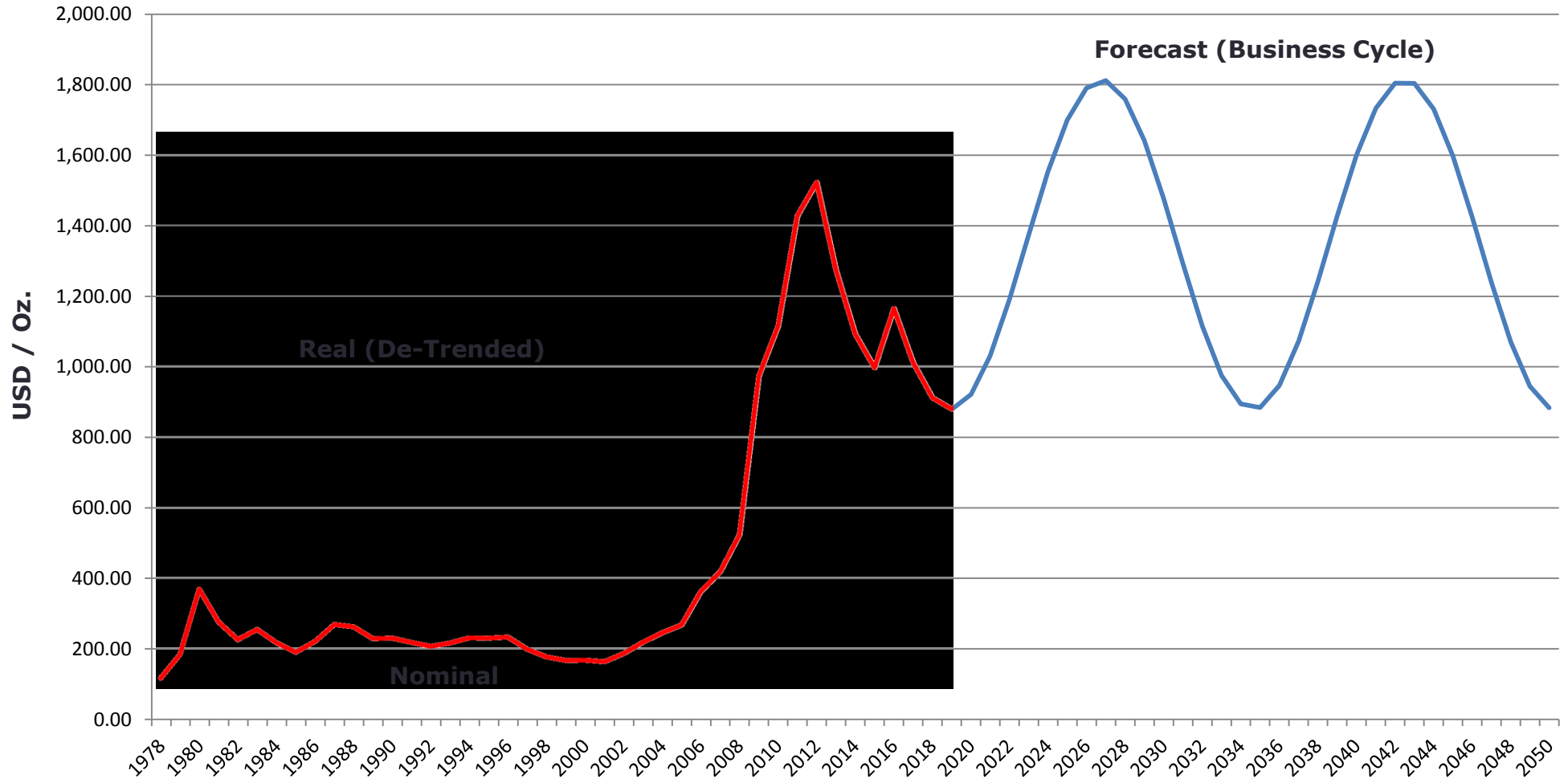
Tax Regime Balance

External and Internal Considerations

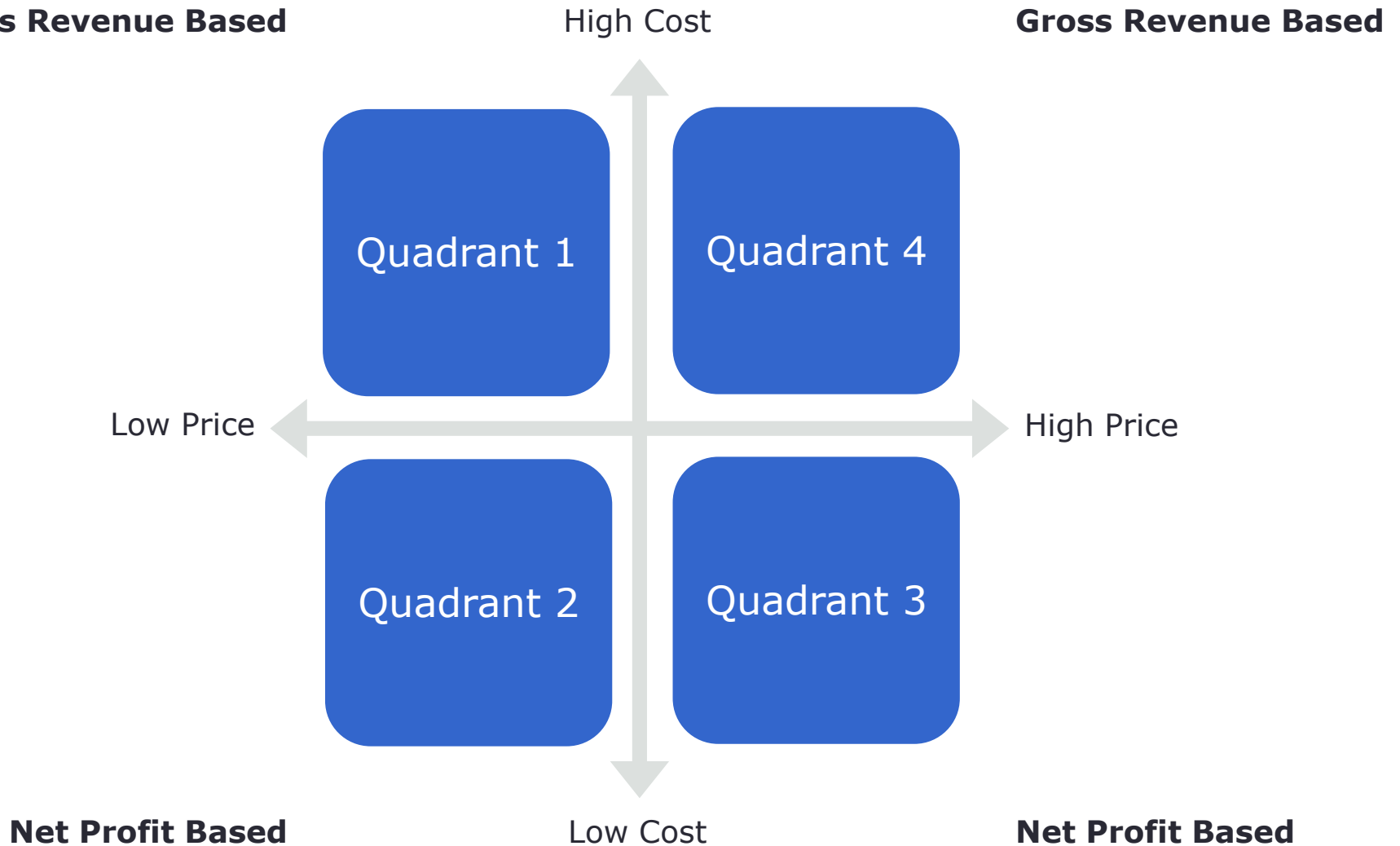
Withholding taxes on all non-transactions



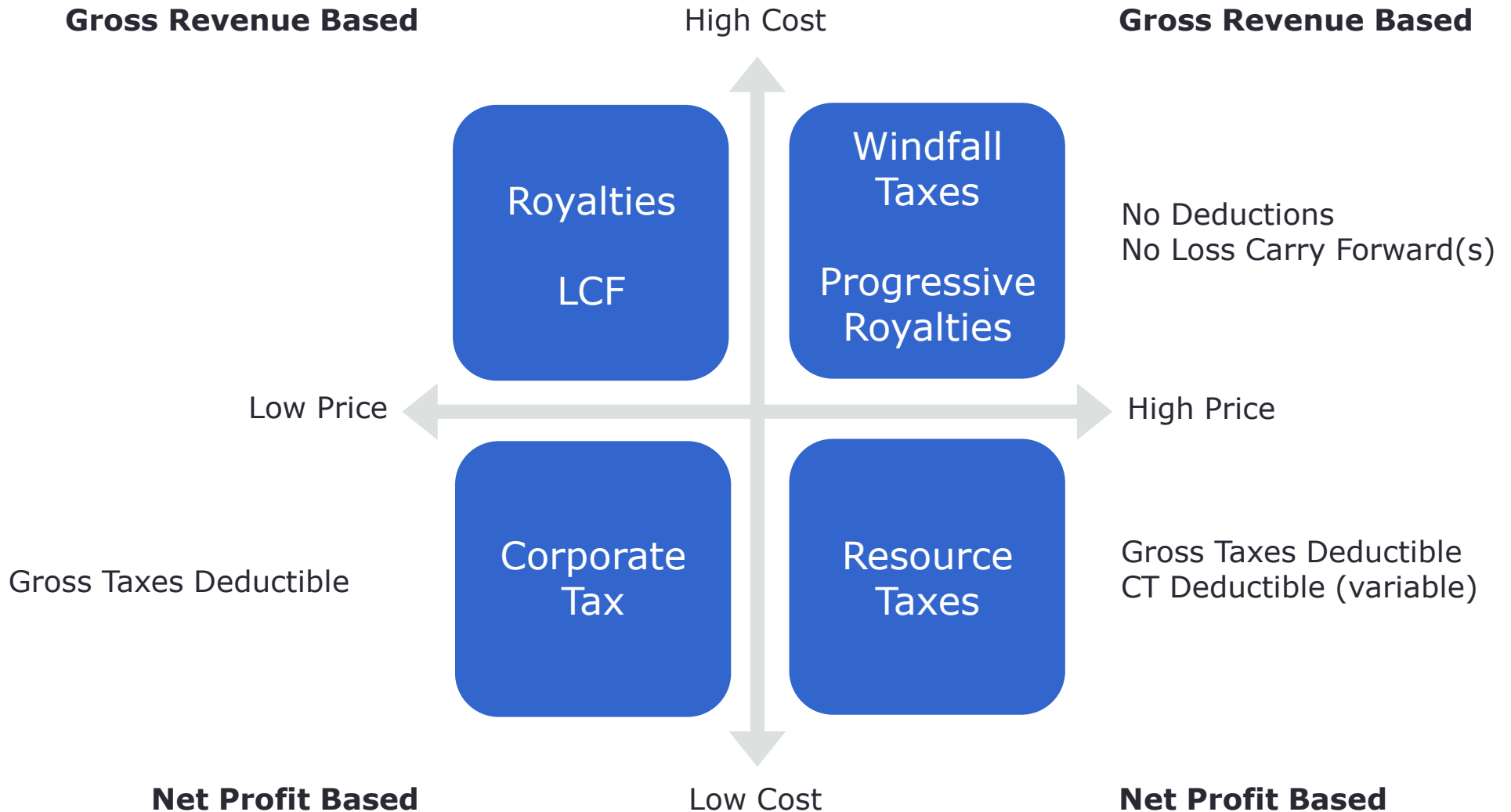
Commodity Price Forecast: Gold Example



Built to Last



Built to Last



Results: Fiscal Policy Implications

Overview

- Usual disclaimer applies (preliminary, indicative, on-going analysis, caution)
- Mining sector simulation results based on companies' mine-level data
- Dynamic economic modelling framework
- In-depth results not presented here (you can thank me later)

- Three main points:
 1. Royalties
 2. Indigenisation
 3. "Windfall Taxes"

Royalties

- Gross revenue taxes always bite
- Deductibility ensures balance
- Royalty rate levels must be robust to economic change
- Balance:
 - (+) Guaranteed revenue to government from current operations
 - (-) Increases the probability of closing operations

Indigenisation

- Modelled as a free carried interest
- Equity holding (not a tax)
- Decreases return on capital
- *Ex post* versus *ex ante* effects on return

- Levels to incentivize investment
 - 51 percent: does not incentivize new investments
 - 0-10 percent: broadly compatible with investment goals

- Balance
 - (+) Allows broader participation in mining sector activities
 - (-) Investment returns are very sensitive to equity re-allocations (all types)

Windfall Taxes

- No uniformly applicable windfall tax mechanism in the current tax regime
- Additional Profits Tax (APT): only applicable to Special Mining Leases
- Tax mechanism should be simple, transparent and uniformly applied

- Gross Taxes: progressive based on global market prices
- Net taxes: progressive based on rate-of-return or profitability

- Balance:
 - (+) Firms are indifferent to windfall taxes (theoretically)
 - (+) Large benefit to governments over time (business cycle)
 - (-) Difficult to calibrate correct trigger points (i.e., can be dangerous)

Opportunities

Where are we going?

- Opportunity
 1. a favorable juncture of circumstances
 2. a good chance for advancement or progress

- “Success is a journey, not a destination.” - Arthur Ashe

- Relevant parties: generally aligned goals
- Economic environment: downturns can create space for reform
- Political environment: motivation, understanding, analysis, discussion

⇒ Real possibility for new direction

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