IM4DC

Action Research Report

SUMMARY

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School/Centre:
Centre for Exploration Targeting

University/Institutions:
The University of Western Australia

Key themes:
Governance and Regulation

Key countries:
Burkino Faso, Ghana, Mali, South Africa, Tanzania, Brazil, Chile, Colombia, Guyana, Peru

Completion:
May 2015

Research aims:
This research analysed the fiscal regimes that apply to gold mining in contrasting jurisdictions across ten African and South American countries to determine relative attractiveness for development.

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Evaluating the Attractiveness of Fiscal Regimes for New Gold Developments: African & South American Peer Country Comparisons

The outlook for gold mining investment and the rate of development of the gold industry across selected economies in both Africa and South America is dependent, amongst other factors, upon the present and future gold production and government share of the gold mining revenues in these regions. Minerals policy therefore needs to be both competitive, to help grow the sector, and equitable, to ensure the government and people also benefit from the sector's growth. However, each jurisdiction operates under a different mineral policy and often stakeholders, including both the government officials themselves and the gold mining companies, are unclear as to the relative degree of global competitiveness of the mineral policy regime in each country. That is, whilst the specific constituent parameters within the respective minerals policies are made clear, such as level of royalty payable, corporation tax rates and mandatory government ownership stakes, the holistic split of economic rents between the private and public sectors under the mineral policy is far from clear.

In this report, the perceived and actual impact of government mineral policy upon the government share from gold mining revenues is assessed for ten key countries in which the gold sector is of relevance in advancing economic growth. Five South American and five African jurisdictions are considered; Burkina Faso, Ghana, Mali, South Africa and Tanzania from Africa, and Brazil, Chile, Colombia, Guyana and Peru in South America.

The perceived impact is determined from the well-established Fraser Institute survey, published each year, and which most recently compared 122 minerals jurisdictions globally. The actual impact is determined from quantitative modelling of the financial performance of a hypothetical gold mining development in each country. The technical parameters of the project are held constant; instead the differing mineral policies in each jurisdiction are applied to determine the resultant impact upon the relative share of the economic rents delivered to both private and public sectors.

It is clear from the authors' experiences, that representatives of government and other stakeholders in developing countries tend to focus not on the overall government share of likely future margins from gold mining (a top-down perspective), but rather on the details of royalty and taxation structure (a bottom-up perspective). The overall competitiveness and risk/return split between the mining company (as investor) and the state (as co-investor) are surprisingly secondary and largely unknown factors.

The preliminary results of this research have already been communicated via the IM4DC Mineral Policy and Economics course held in Perth in April-May 2015. This overview report is supported by ten separate detailed individual country reports that describe the gold industry and provide details of the specific mineral policy for each country. Summaries for each are incorporated into the overview as Appendices.

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