

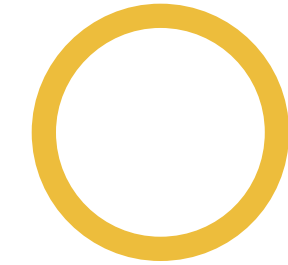
Mining Development Framework

Cielo Magno, Ph.D.

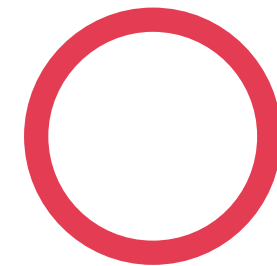
National Coordinator, Bantay Kita



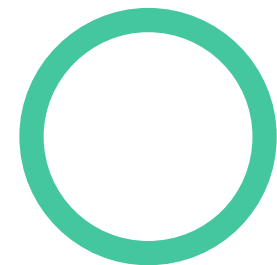
OUTLINE



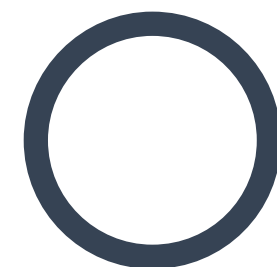
**Discussion of the Mining for
Development Framework**



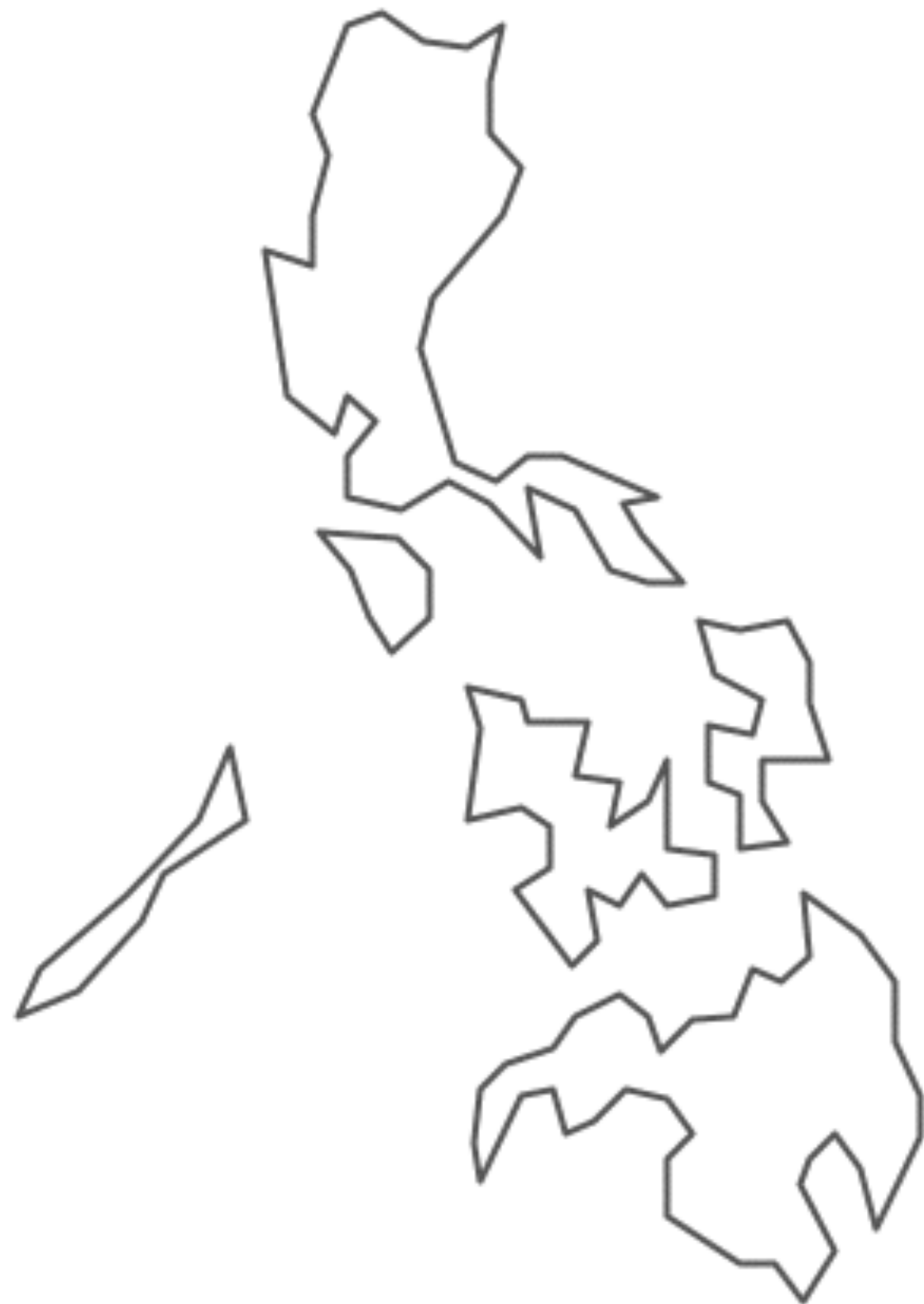
**Philippine
Context**



Assessment



Recommendations



SUSTAINABLE DEVELOPMENT



- Sustainable development is defined as **“development that meets the needs of the present without compromising the ability of the future generations to meet their needs”** (United Nations, 1987)

MAINSTREAM PARADIGM



**INVESTMENT IN
MINING IS SCARCE**



**NEED FOR
COMPETITIVE
TAX RATES**



**GENERATE
EMPLOYMENT**



**INCREASE
ECONOMIC
ACTIVITY**



**GENERATE
SUSTAINABLE
DEVELOPMENT**

EXPERIENCE IN AFRICA



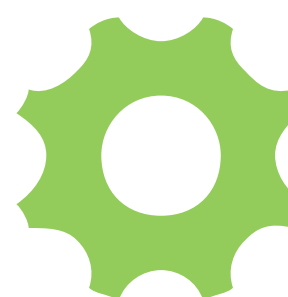
No tangible
benefits even after
windfall demand
from 2004-2008

Human Development
Index remained low



Implemented
competitive fiscal
regimes

Angola, Equatorial
Guinea, Nigeria and
Sudan



Employment was
limited

**Extractive industry is a
capital-intensive industry,
not labour intensive**



Investments did not
translate to
development gains

**Fiscal regime was not linked to
development of downstream
industry and wider
development agenda**

Does the
mainstream
paradigm work
for developing
countries?



MINING DEVELOPMENT FRAMEWORK IN DEVELOPING COUNTRIES



| UNCTAD: Current context of developing countries is different from development experience of mineral-rich developed countries

Transportation cost was high which made local processing possible for developed countries .

Mineral extraction is taking place as response to needs of external users and not their development needs.

Human resources in developing countries is limited in developing endogenous learning and innovation.

MINING DEVELOPMENT FRAMEWORK IN DEVELOPING COUNTRIES



UNCTAD: Current context of developing countries is different from development experience of mineral-rich developed countries.

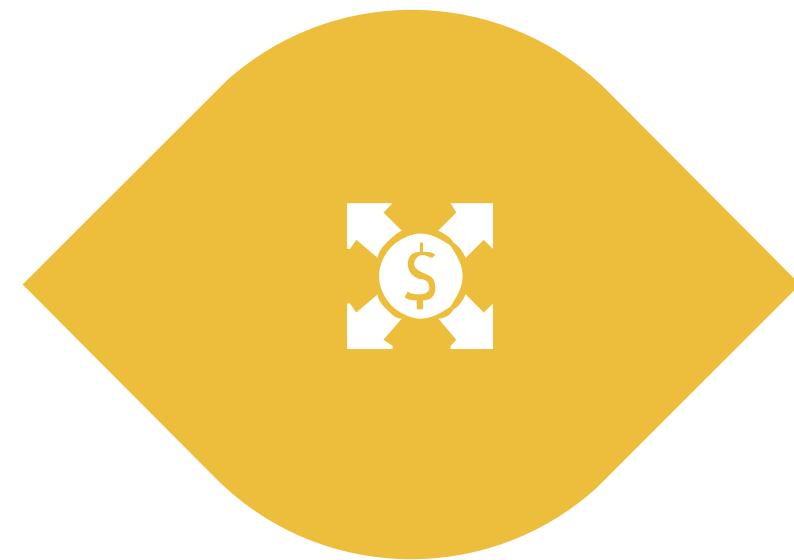
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MINING DEVELOPMENT FRAMEWORK IN DEVELOPING COUNTRIES

UNCTAD: A different overall development strategy must be undertaken:



Build a
diversified economy



Investment in
**human capital, infrastructure
and productive capacity**

TAXATION PRINCIPLES FOR MINING



- | Certainty, fiscal stability, and administrative convenience apart from neutrality.
- | Government has to secure an appropriate share from its minerals above regular tax.
- | Manage exploitation and account for negative externalities.
- | Global Practices

FORMS OF MINING ROYALTIES



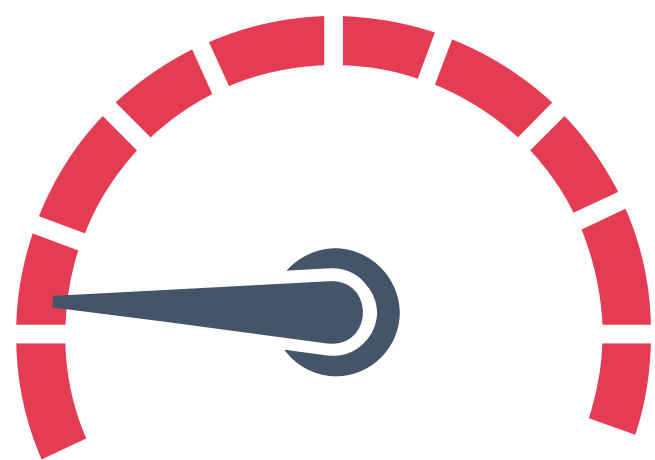
Unit based (specific royalty)	Tax base is a physical unit (volume or weight)
Ad valorem	Based on the value of production
Profit based	Tax base is an accounting concept of profit
Economic rent	Tax base is a direct measure of economic rent
Hybrid systems	Combining a profit or rent based system with an ad valorem system
Production sharing	Tax base is a physical unit (volume or weight)
	Based on the value of production

EFFECTIVE TAX RATES, MINING

Source: Otto, 2002

Measure of the burden of all tax collected
by the government from mining.

Lowest Taxing Quartile



Sweden
Chile
Zimbabwe
Argentina
China

Second Lowest Taxing Quartile



Bolivia
South Africa
Philippines
Kazakhstan

Second Highest Taxing Quartile



Tanzania
Poland
Mexico
Greenland

Highest Taxing Quartile



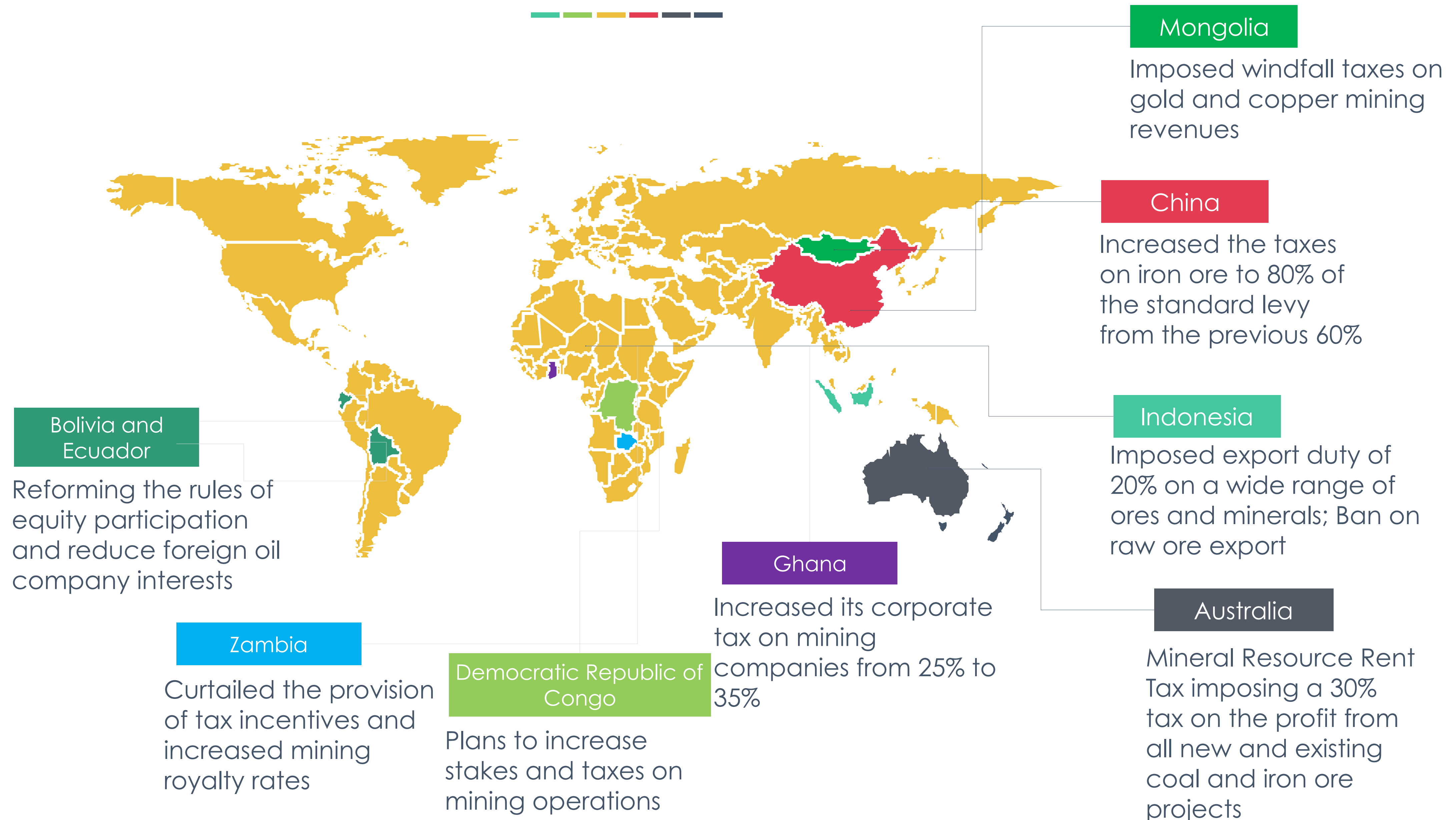
Ghana
Uzbekistan
Ontario (Canada)
Mongolia
Cote d'Ivoire
Indonesia

COMPARISON OF KEY TAX RATES



Taxes and Incentives		Philippines	Papua New Guinea	Indonesia	Vietnam
Corporate Income Tax		30%	37% ^d 40% ^e	25%	32-50% ⁿ
Mineral Taxes	Gold	2% ^a	2% ^a	3.75% ^h	15% ^o
	Nickel			4-5% ⁱ	10%
	Copper			4% ^j	10%
	Additional tax in mineral reservation areas	5% ^b		10% (on profit)	
	Tax to indigenous communities	1% ^c			
Export tax		-		20%	10%
Withholding tax on dividends		15%	15%	20%	-
Withholding tax on royalties		30%	10-15% ^g	20%	-
Withholding tax on interests		20%	10-15% ^g	20%	-

TAXATION



MINING IN THE PHILIPPINES

In figures



5th

**Most Mineralized
Country in the
World**

3rd

**Biggest Gold
Reserves**

4th

**Biggest Copper
Reserves**

5th

**Biggest Nickel
Reserves**

1st

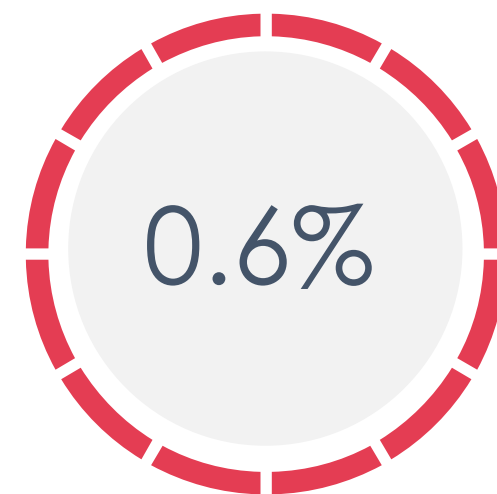
**Top Nickel
Producer (2013)**



Of Gross Domestic Product (2013)



Of Total Exports (2013)

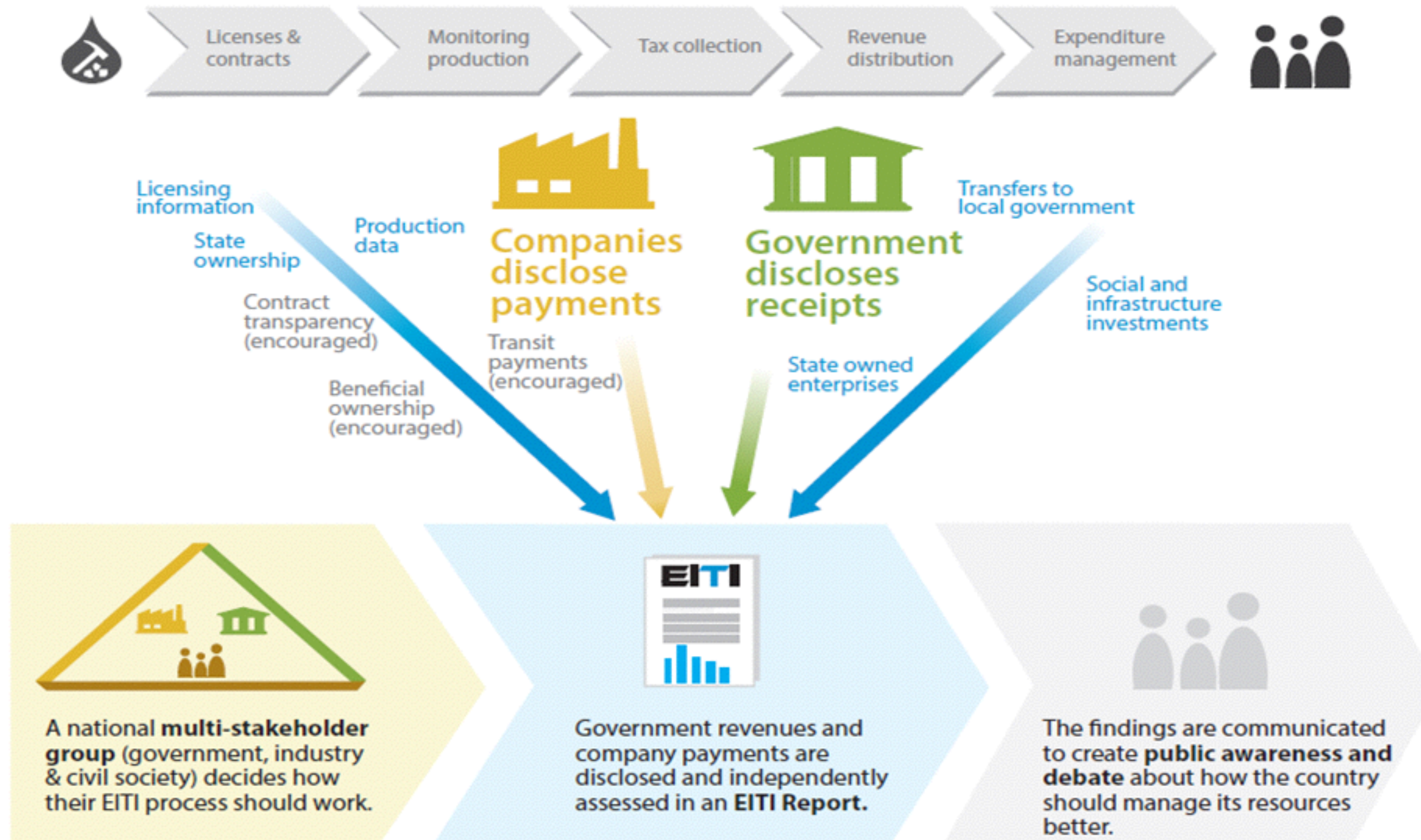


Of Total Employment (2013)



Billion pesos worth of government revenues (2013) based on EITI reconciled payments

Governance



**BUSINESS
& HUMAN RIGHTS**

Protect

Respect

Remedy


Linkages and Diversification

- Downstream Industry
 - Indonesia
 - Ban on export of raw ore
 - 20% export tax on some minerals
 - Diversification of foreign investments
 - South Africa
 - Export tax on minerals
 - Iron ore industrial complex
 - Zambia
 - Ban on export of raw ore



engineers without borders
ingénieurs sans frontières
Canada



 ventures

Location
Canada



Established
2012

Portfolios
Inclusive Global
Markets

Venture Leader
Jeff Geipel

Sector
Mining

Type

Mining Shared Value

After a year of researching, planning and network building, Mining Shared Value is shifting into execution mode. Among other projects, we are excited to announce that we will be organizing a local procurement-focused session at the 2014 PDAC Convention - the world's largest mining event.

Sovereign Wealth Fund/Natural Resource Fund

Government-owned

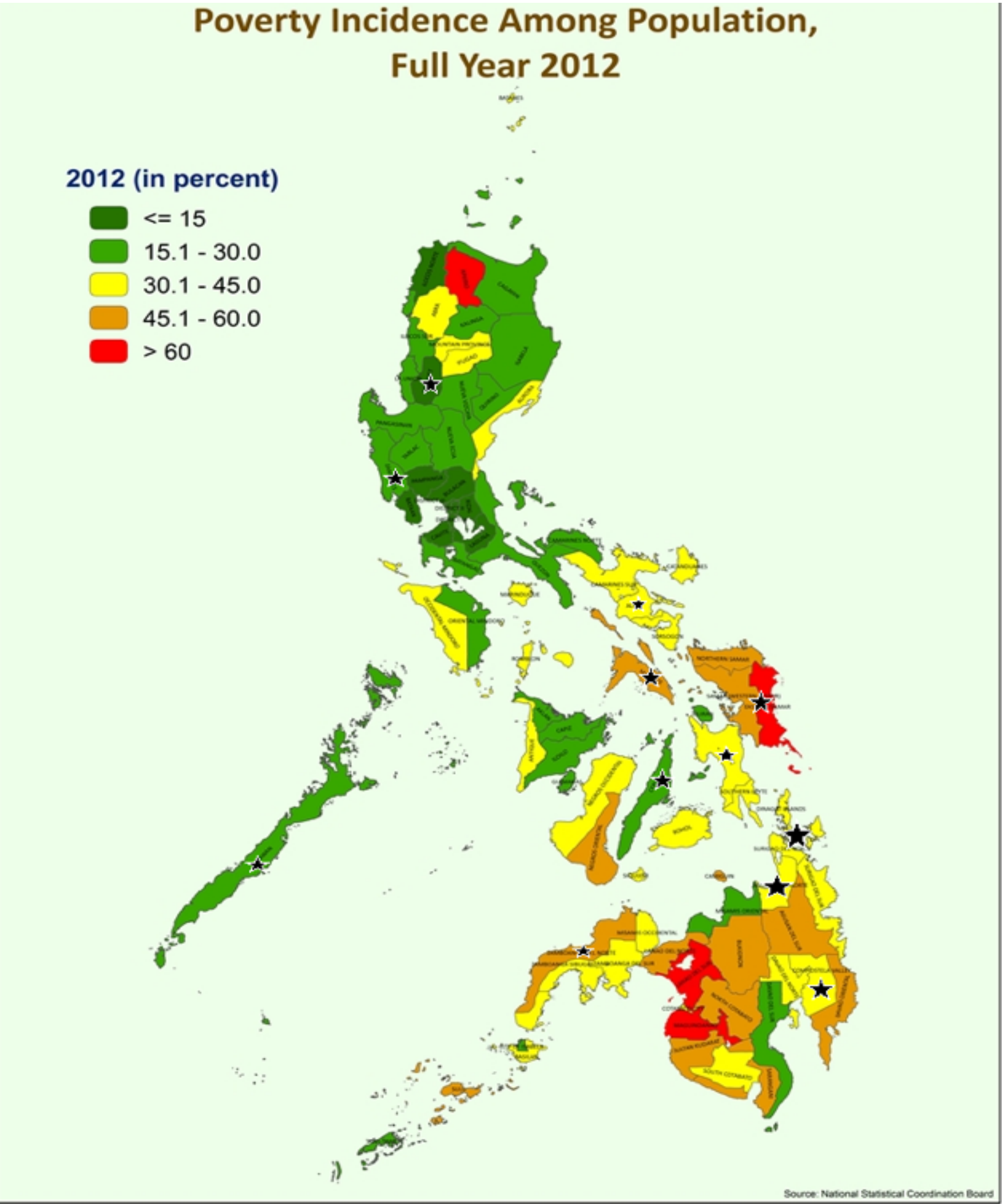
Macroeconomic objective(s)

At least a portion invested in foreign assets

NOT a bank, national oil company or central bank reserves

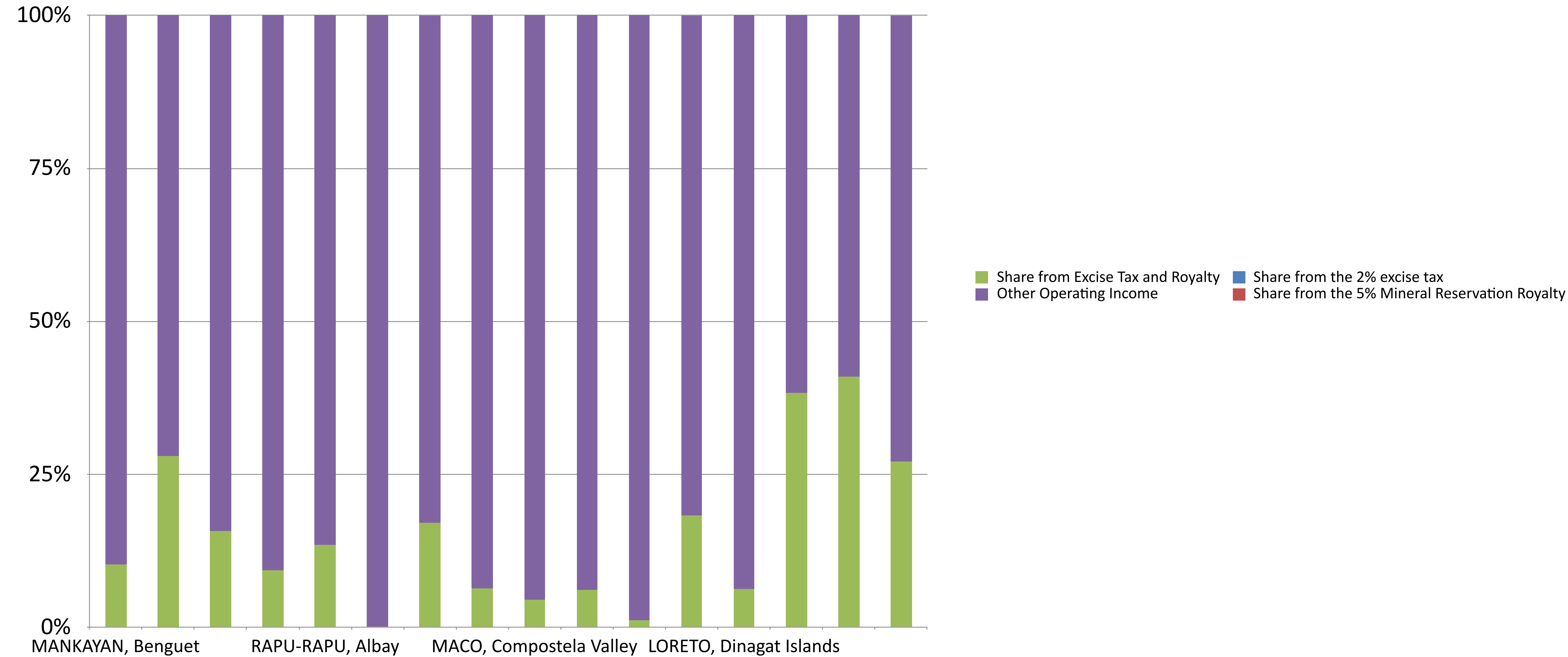
Source of financing: oil, gas or mineral revenues

POVERTY INCIDENCE IN MINING PROVINCES

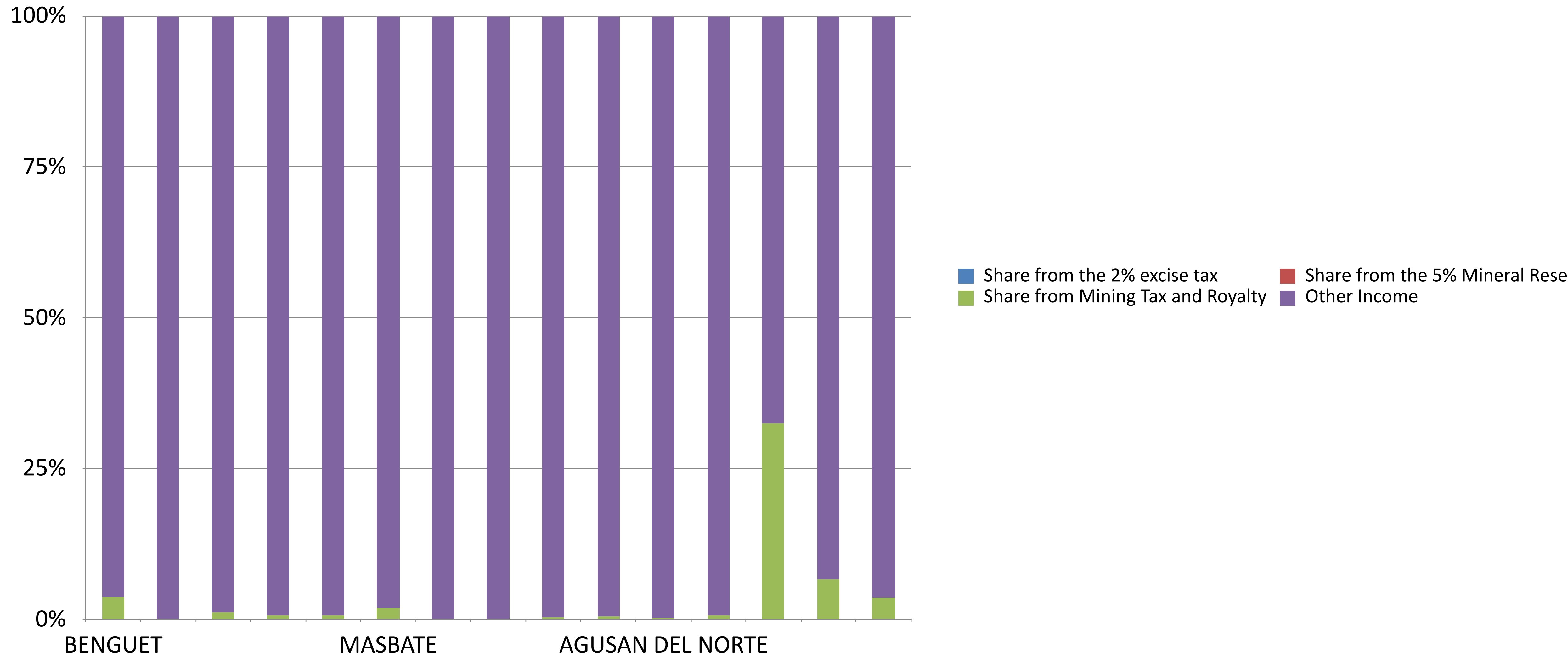


Poverty Incidence of Select Provinces with Mining, 2012	
Philippines	25.2
Benguet	3.7
Zambales	16
Palawan	26.4
Albay	41
Masbate	51.3
Cebu	22.7
Eastern Samar	63.7
Leyte	39.2
Zamboanga del Norte	54.4
Compostela Valley	36.7
Agusan del Norte	34.7
Surigao del Sur	36
Surigao del Norte	41.8

Share from National Wealth as Percentage of the Operating Income of Select Mining Municipalities , 2012



Share from National Wealth as Percentage of the Operating Income of Select Mining Provinces , 2012



4 NECESSARY CONDITIONS

MINING DEVELOPMENT FRAMEWORK



**Good
governance of
the public and
extractive
sector**



**Link the
extractive
sector and the
rest of the
economy**



**Institutional
capacity**



**Fair share in the
extraction of
resources**

MINING TAXATION IN THE PHILIPPINES



- National Government

- excise tax (2% of revenue)
- royalty in mineral reservations (5% of revenue)
- CIT (30% of profit)
- VAT

- Local Governments

- Local business tax (1% of revenue);
- Real property tax (maximum of 2 per cent of the assessed value of the real property);
- Community tax;
- Occupation fees;
- Registration and permit fees;

- Indigenous Peoples

- Minimum 1 % of gross revenue

GOVERNMENT TAKE FROM MINING, 2013



Excise Tax on Minerals	1,486,034,335.00
Total Revenues	74,301,716,750.00
Total Expenses	43,430,997,345.18
Total Income Before Tax	30,870,719,404.82
Government Take	17%
Industry Take	83%

IS 84% GOVERNMENT TAKE POSSIBLE?



	Cost at 58%	Cost at 70%	Cost at 80%	Cost at 90%	Cost at 91.5%
Revenues	74,301,716,750	74,301,716,750	74,301,716,750	74,301,716,750	74,301,716,750
Total Cost	43,430,997,345	52,011,201,725	59,441,373,400	66,871,545,075	67,986,070,826
Income Before Tax	30,870,719,405	22,290,515,025	14,860,343,350	7,430,171,675	6,315,645,924
Government Receipt 2013	5,376,239,684	5,376,239,684	5,376,239,684	5,376,239,684	5,376,239,684
Government Take	17%	24%	36%	72%	85%
Industry	83%	76%	64%	28%	15%



Recommendations

**Taxation to
reflect current
context of the
Philippines**

Weak institutional policy

Limited implementation of
good governance measures

Weak regulatory capacity

Biodiversity hotspot

Weak tax administration

**Promote slow utilisation
of minerals to give
leeway in strengthening
institutions**

Design tax regime that
ensures profit for mining
companies but at the same
time gives government and
local communities a fair
share from their resources

AREAS FOR REFORM



- ✓ STRENGTHENING MONITORING
OF IP ROYALTIES
- ✓ INSTITUTIONALIZING ACCOUNTABILITY
MECHANISMS
- ✓ STRENGTHENING REGULATORY
CAPACITY
- ✓ DEVELOPMENT OF
DOWNSTREAM INDUSTRY

Mining Development Framework

Cielo Magno, Ph.D.

National Coordinator, Bantay Kita

