



SASPEN Conference: Sustainability of Social Protection  
Johannesburg, 20-21 October 2015



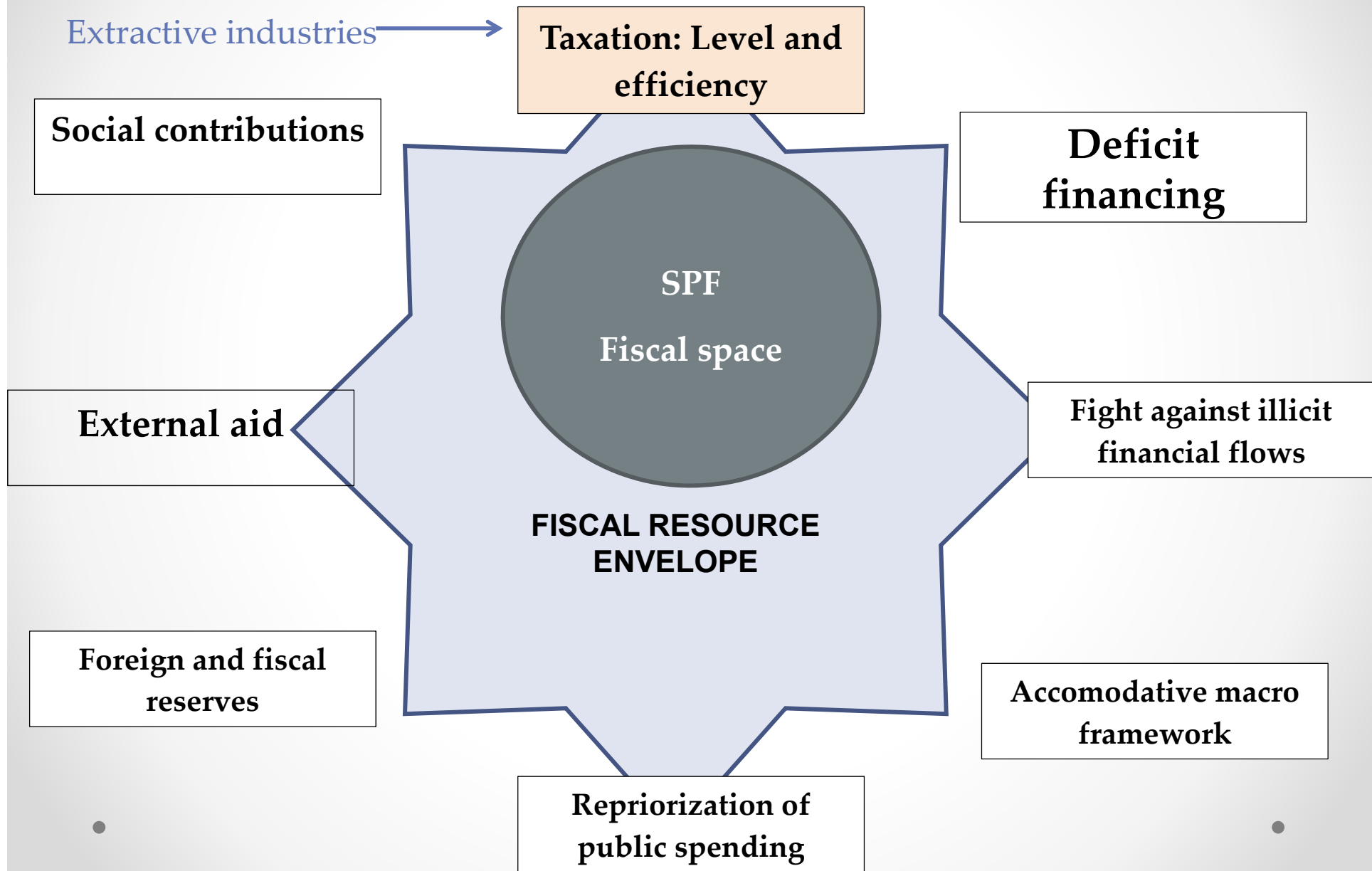
## **Financing social protection: The importance of extractive industries**

Victoire Umuhire/Christoph Ernst  
SOCPRO, ILO Geneva  
[umuhire@ilo.org](mailto:umuhire@ilo.org)/[ernst@ilo.org](mailto:ernst@ilo.org)

# Definition: From fiscal space to fiscal diamond

- Availability of government's budgetary room to meet a particular purpose, subject to financial stability and debt sustainability (Heller, 2005)
- Gap between stable debt-to-GDP ratio and limit beyond which debt follows «explosive path (IMF, 2010)
- Resources to meet MDGs and other development goals while maintaining fiscal sustainability (UNDP)
- Hence...fiscal diamond (Roy, 2009, 2012)
- Fiscal space depends on policy space!

# Fiscal diamond



# Increasing Tax Revenues

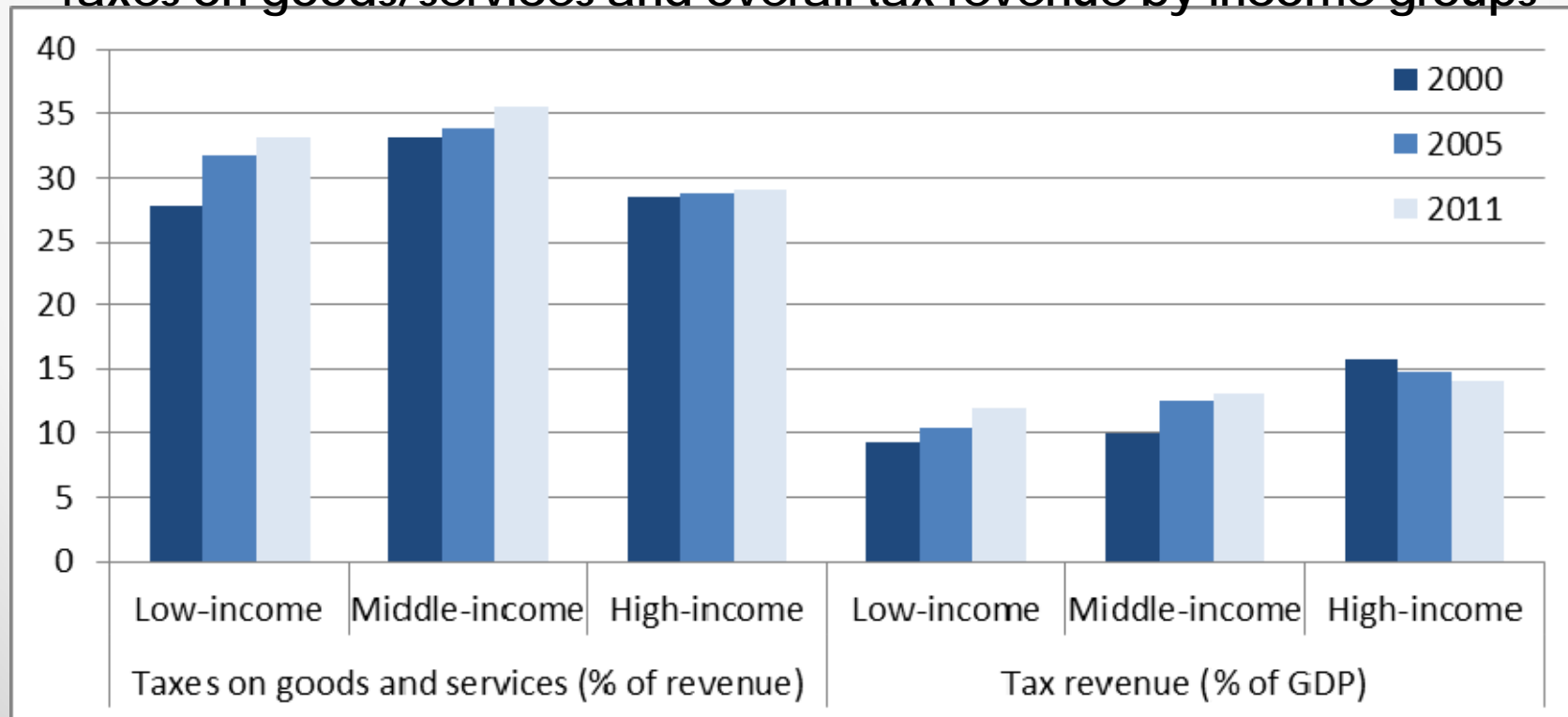
- Income taxes
- Corporate taxes, including the financial sector, **extractive sector**
- Property and inheritance taxes
- Tariffs (imports/exports)
- Consumption/sales taxes, tolls

MORE PROGRESSIVE



MORE REGRESSIVE

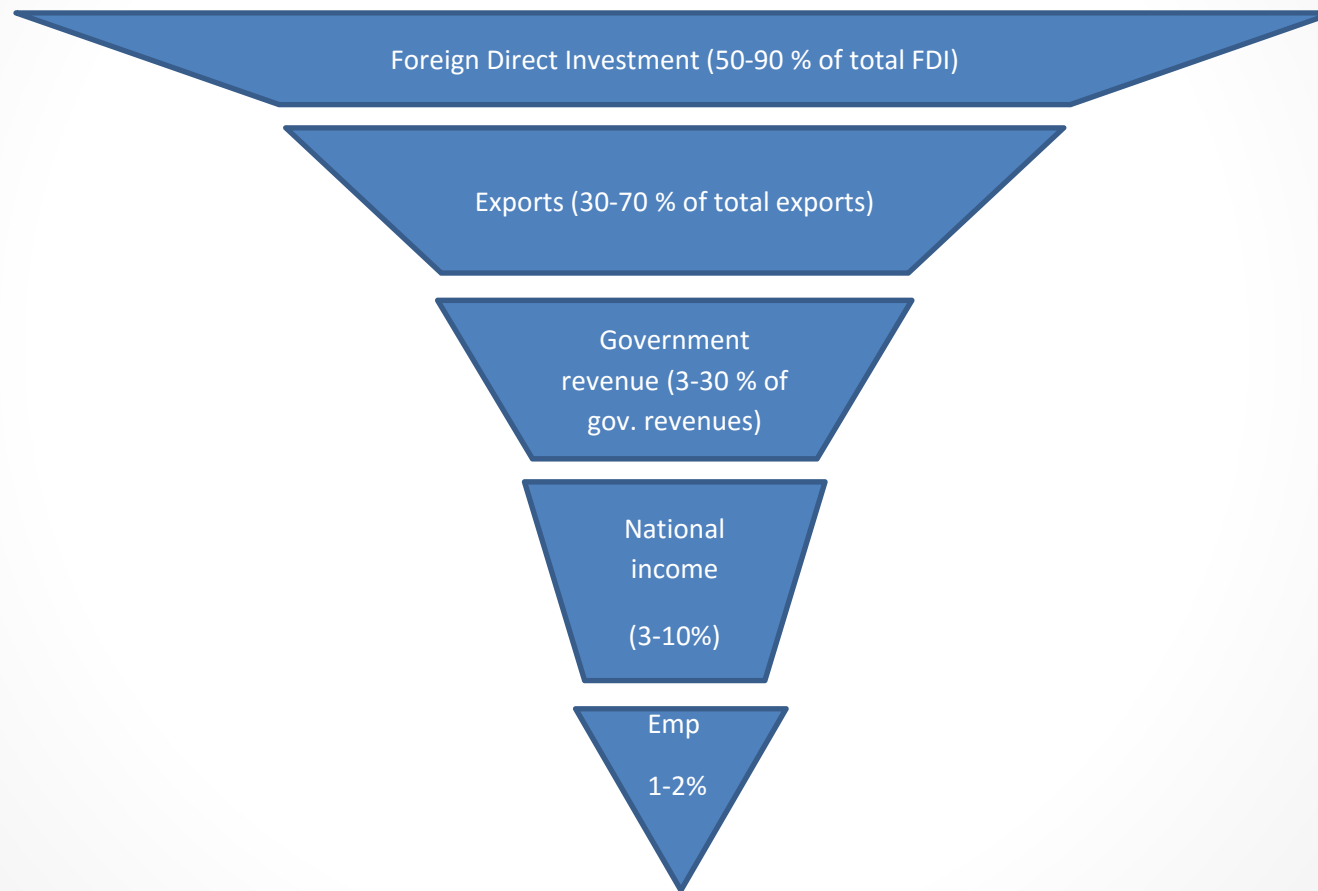
Taxes on goods/services and overall tax revenue by income groups



# The potential of extractive industries



# Macroeconomic benefits to mining developing countries



Source: ICMM, 2012 and own estimations.

# Mining's contribution to GDP & exports over time in major mining exporting countries

	2010 Production value (as % of world)	2000 Production value (as % of GDP)	2010 Production value (as % of GDP)	2010 Export contribution	Changes in export contribution 1996-2010*
1 Australia	15.6	14.7	7.8	40.3	25.0
2 China	15.0	9.4	1.2	1.5	4.0
3 Brazil	10.2	6.9	2.3	19.0	6.0
4 Chile	6.8	9.3	14.7	65.9	17.0
5 Russian Federation	6.2	9.6	1.9	6.6	7.0
6 South Africa	5.9	11.3	7.5	37.4	-2
7 India	5.6	2.6	1.5	17.9	18.0
8 United States	5.0	10.0	0.2	6.2	-12
9 Peru	4.1	4.2	12.0	62.7	14.0
10 Canada	3.0	7.0	0.9	11.9	24.0
11 Indonesia	2.6	4.4	1.7	10.6	56.0
12 Ukraine	2.0	1.6	6.7	8.2	51.0
13 Mexico	1.8	2.2	0.8	4.9	46.0
14 Kazakhstan	1.6	2.1	4.9	13.1	24.0
15 Iran, Islam. Rep.	0.9	0.7	1.3	3.7	30.0
16 Philippines	0.9	0.4	2.1	6.8	17.0
17 Sweden	0.9	0.9	0.9	5.3	-22
18 Ghana	0.9	0.9	12.7	25.4	27.0
19 Zambia	0.8	0.5	23.8	83.6	0.0
20 Papua New Guinea	0.7	1.2	33.4	54.0	33.0

Source: ICMM, 2012.

# Labour share of extractive industries, selected countries, 2013

<b>Country</b>	<b>Labour Share (%)</b>
Australia	2.33
Canada*	1.71
Norway	2.76
Azerbaijan	0.94
Brazil	0.39
Chile	3.16
Ecuador	0.68
Indonesia	1.27
Kazakhstan	2.91
Mongolia*	4.42
Namibia	1.98
Peru	1.26
Qatar	6.19
Russian Federation	2.16
South Africa	2.61
Zambia*	1.67

Source: ILOSTAT



# Major challenges in mining

- Wealth not equitably distributed among society
- Limited linkages to the rest of economy
- Corruption and lack of transparency
- Limited bargaining power vis-à-vis TNCs
- Macro issues:
  - Dutch-disease leading to a decline in economic diversification
  - Price volatility affecting public expenditures

# State participation in mining

## Forms

- Joint ventures
- Production sharing
- Exploitation by state-owned enterprises
- Recent re-nationalization of mining sector/enterprises (Bolivia, Argentina- YPF)




- ✓ There is no blueprint of which form is better, private or public, it all depends....
- ✓ Various nuances between full privatization or full state-owned enterprise status
- ✓ Effective management of public sector needed in both cases

# Share of public revenues in rents, oil, copper, gold

		2004	2012	Cumulative share
<b>Oil</b>	Angola	63.2	95.1	83.3
	Colombia	32.7	55.1	41.1
	Ecuador	71.8	93.5	76.3
	B.R. Venezuela	58.4	70.9	64.1
<b>Copper</b>	Chile	50.9	55.5	51.9
	Peru	23.5	47	32.7
	Zambia	0.8	30.5*	17.5
<b>Gold</b>	Ghana	20.1	32.8	27.7
	Mali	21.4	28.3*	33.6
	Peru	23.7	29.9	27.7
	U.R. Tanzania	17.3	28.5	17.9

Source: UNCTAD, 2014

# Raising the tax base

1. Production-based taxation
  2. Profit-based taxation
  3. Environmental taxes
-  tax admin/compliance

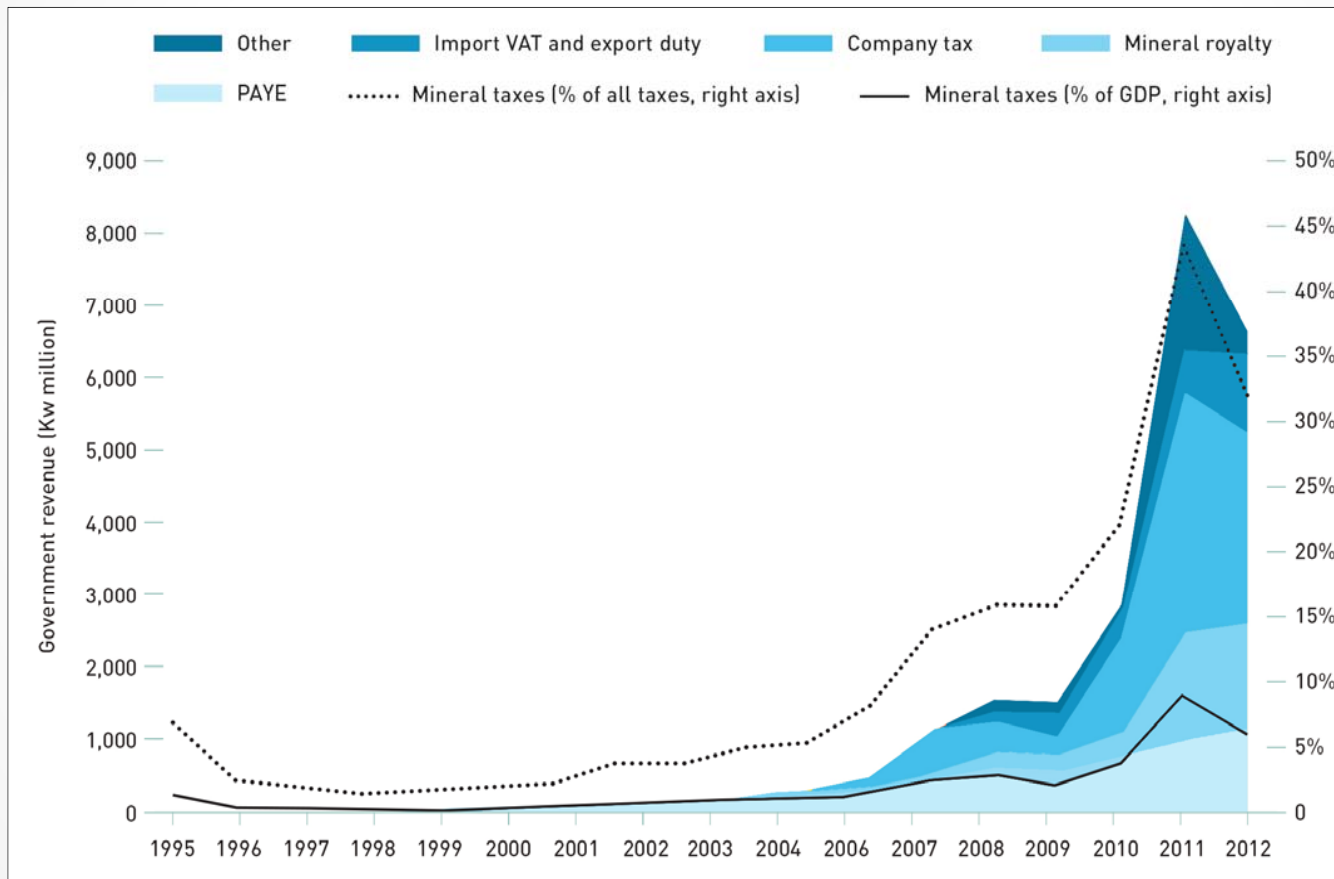
## Zambia: Changes in the fiscal regime for mining

Measure/Year	2006	2010
Royalty	0.60%	6%
Corporate Income Tax	25%	30%
Variable Income Tax	No	Yes
Windfall tax	No	No*
Custom duties	Exports = 0	15 % for unprocessed copper
Income of foreign subcontractors & interest	0%	15%

Source: Simpasa et al., 2013, based on Zambia Revenue Authority and IMF Country Report No. 12/200.

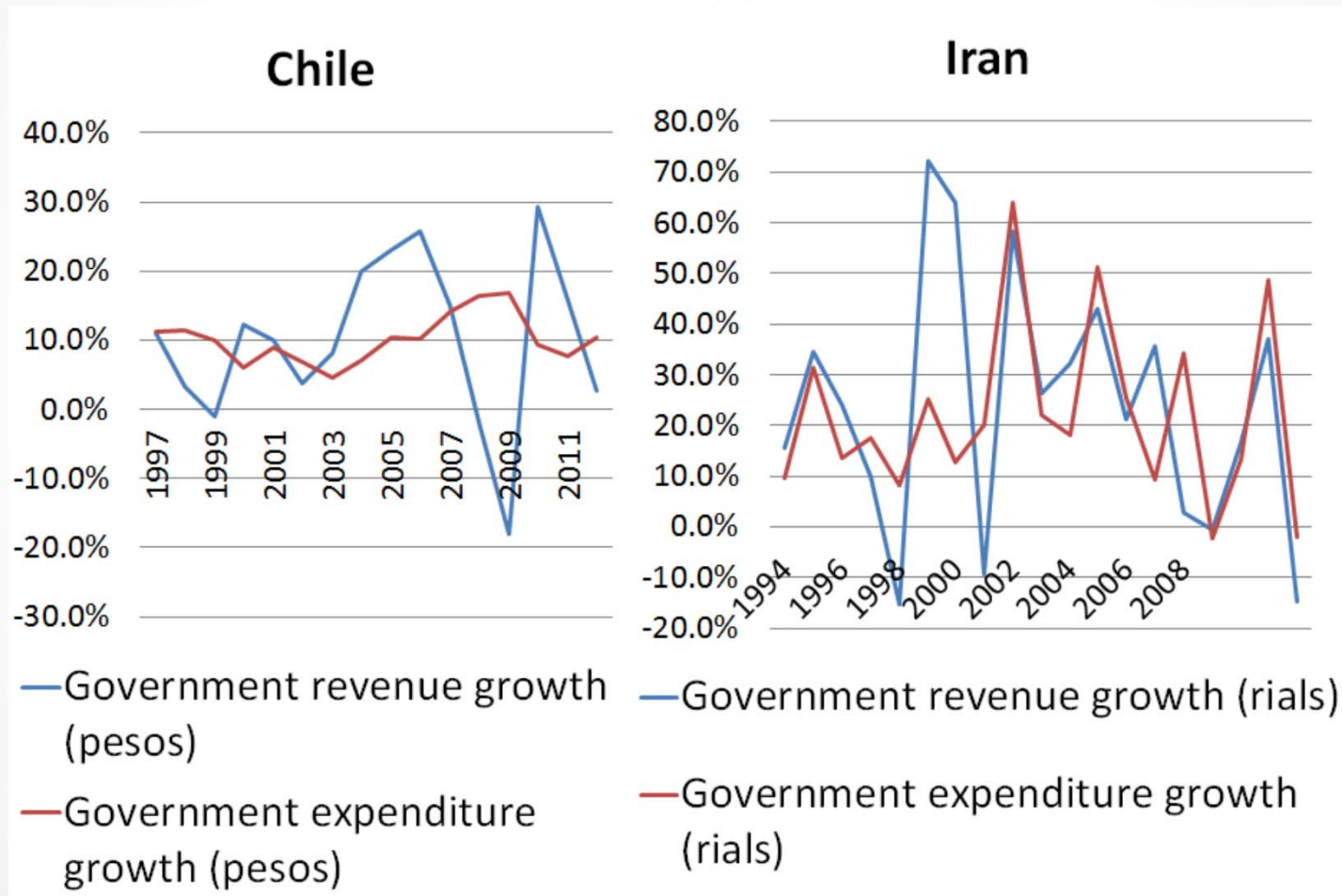
Note: \* introduced in 2008, but then abolished after the global financial crisis.

# Fiscal revenues from the mining sector in Zambia



Source: ICM (2014) based on original data from the Zambia Revenue Authority

# Price volatility and public revenues-expenditures



Source: National Resource Governance Institute

# Sovereign Wealth Funds based on fiscal reserves

Human Development Fund,  
Mongolia

Fight against rising inequality:  
Cash transfers  
Spending on pensions,  
housing  
Education & health care



Africa

Country	Fund name	Assets*	Inception	Origin
China	China Investment Corporation	652.7	2007	Non-Commodity
China	SAFE Investment Company	567.9	1997	Non-Commodity
China – Hong Kong	Hong Kong Monetary Authority Investment Portfolio	400.2	1993	Non-Commodity
China	National Social Security Fund	201.6	2000	Non-Commodity
Russia	Reserve Fund	88.9	2008	Oil
Russia	National Welfare Fund	79.9	2008	Oil
Kazakhstan	Samruk-Kazyna JSC	77.5	2008	Non-Commodity
Algeria	Revenue Regulation Fund	77.2	2000	Oil & Gas
Kazakhstan	Kazakhstan National Fund	77.0	2000	Oil
Libya	Libyan Investment Authority	66.0	2006	Oil
Iran	National Development Fund of Iran	62.0	2011	Oil & Gas
Malaysia	Khazanah Nasional	40.5	1993	Non-Commodity
Azerbaijan	State Oil Fund	37.3	1999	Oil
Iraq	Development Fund for Iraq	18.0	2003	Oil
Timor-Leste	Timor-Leste Petroleum Fund	16.6	2005	Oil & Gas
Chile	Social and Economic Stabilization Fund	15.2	2007	Copper
Russia	Russian Direct Investment Fund	13.0	2011	Non-Commodity
Peru	Fiscal Stabilization Fund	7.1	1999	Non-Commodity
Chile	Pension Reserve Fund	7.0	2006	Copper
Botswana	Pula Fund	6.9	1994	Diamonds & Minerals
Mexico	Oil Revenues Stabilization Fund of Mexico	6.0	2000	Oil
Brazil	Sovereign Fund of Brazil	5.3	2008	Non-Commodity
China	China-Africa Development Fund	5.0	2007	Non-Commodity
Angola	Fundo Soberano de Angola	5.0	2012	Oil
Kazakhstan	National Investment Corporation	2.0	2012	Oil
Nigeria	Nigerian Sovereign Investment Authority	1.4	2012	Oil
Panama	Fondo de Ahorro de Panamá	1.2	2012	Non-Commodity
Senegal	Senegal FONSI	1.0	2012	Non-Commodity
Palestine	Palestine Investment Fund	0.8	2003	Non-Commodity
Venezuela	FEM	0.8	1998	Oil
Kiribati	Revenue Equalization Reserve Fund	0.6	1956	Phosphates
Vietnam	State Capital Investment Corporation	0.5	2006	Non-Commodity
Ghana	Ghana Petroleum Funds	0.5	2011	Oil
Gabon	Gabon Sovereign Wealth Fund	0.4	1998	Oil
Indonesia	Government Investment Unit	0.3	2006	Non-Commodity
Mauritania	National Fund for Hydrocarbon Reserves	0.3	2006	Oil & Gas
Mongolia	Fiscal Stability Fund	0.3	2011	Minerals
Equatorial Guinea	Fund for Future Generations	0.1	2002	Oil
<b>Total</b>		<b>2,543.9</b>		

Notes: Developing countries only; LDCs are shown in bold.  
Source: SWF Institute (2014) \* in billions of current US dollars



# Conclusion



- ✓ Growth perspective of extractive industries is promising
- ✓ Bargaining power has changed in favour of MDCs as new (Southern) actors emerged
- ✓ Increased competition led to a sort of implicit basic tax harmonization without affecting negatively investment flows
- ✓ Global and national initiatives to increase transparency around contracts with TNCs and taxation issues
- ✓ Importance to link these revenues to social protection