

African Mining Investment Environment Survey 2011



Africa is a mineral-rich continent with untapped value to be unlocked. Of the industries that continue to attract investment and drive economic growth in most African countries, mining is high up on the list as can be seen from the fact that Mining and Metals deals in Africa in 2010 amounted to 8% of the global total¹. Managing natural resources remains crucial to the economic and environmental sustainability of several countries. Some of the most successful mining-based economies have balanced the involvement of private enterprise and the state.



¹ 'Africa: a golden opportunity. A spotlight on mining and metals transactions', Ernst & Young, February 2011

Overview

As Africa embarks on its growth trajectory, the value that lies beneath can only be unlocked by investors who understand the mining and investment environment in each country.

The analysis indicates that Botswana is a country that can be looked to as one that got the balance right between state and citizen participation and lower tax rates. Although Namibia is also high up on the favorable mining investment radar, it is currently reviewing its mining tax legislation. It is important to note that the recent proposed "revenue-based taxation" has been reconsidered and either removed in its entirety or reduced in scope of application. Ghana has potential as an investment destination, being ranked seventh on the Global Mining and Metals mergers and acquisitions list of target countries in 2010. Ghana is also attractive to many investors due to its high GDP growth rate, the recent discovery of oil as well as a stable and democratic political system.

Zambia shows good potential with the world's ever increasing demand for copper. Its high tax rate and cost of doing business may however be a deterrent for some investors. The country's established mining track record and political stability has not stopped investors who take a long term view from tapping into opportunities. High foreign direct investment figures

are showing that investors are seeing the benefit above the cost and uncertainties.

Any mining investor in Africa will be well advised to understand what infrastructure needs a country has and even be prepared at times to contribute to these infrastructure needs.

Whether government participation is required does not appear to drive investment decisions. What drives decisions is infrastructure, ease of doing business and certainty on the cost structure and the regulatory environment. There is however the rare cases where the upside potential outweighs all these obstacles. With the debate on resource nationalism continuing around the globe, coupled with Africa's potential and the heightened interest in the continent due to its growth potential, an understanding of the investment environment in Africa is valuable.

This report compares 13 mining African countries according to the following criteria:

- ▶ Whether they allow or disallow private ownership and transfer of different mining rights
- ▶ Whether they promote or discourage mining investment through the use of incentives
- ▶ The extent to which they use levies, royalties or taxes to fund the treasury requirements
- ▶ The requirement of local participation in mining projects

- ▶ The requirement of the rehabilitation of the environment after it has been mined and the tax deductibility thereof, and
- ▶ Whether or not the country is a participant of the Kimberley Process (KP), or a candidate/compliant country of the Extractive Industries' Transparency Initiative (EITI).

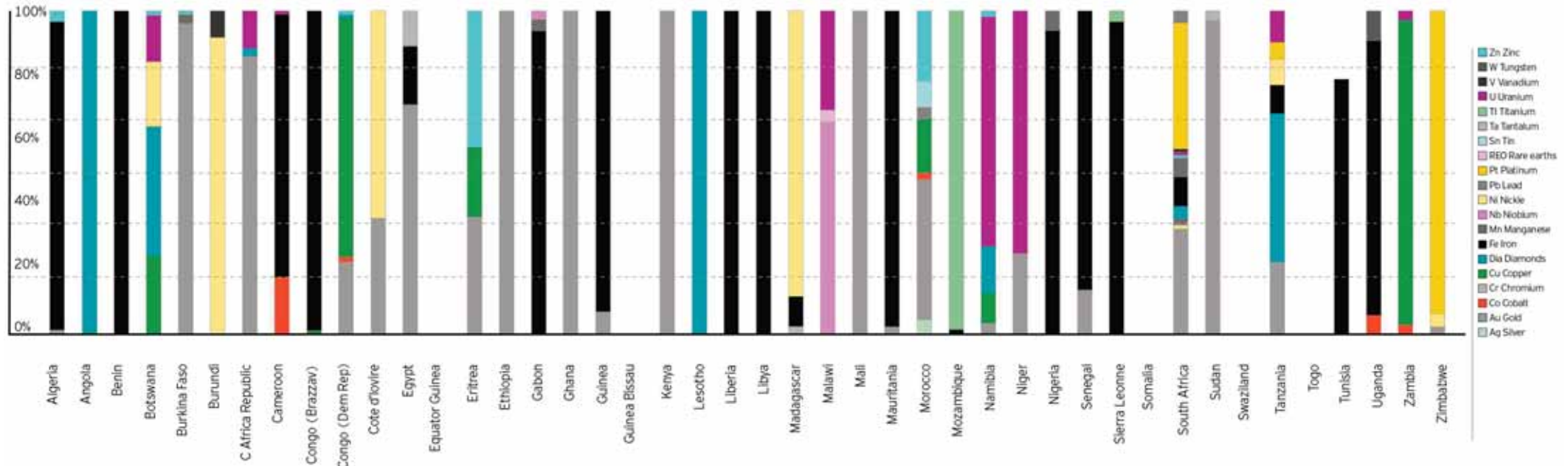
The report will help determine whether there is any correlation between these criteria and the relative contribution of mining to the gross domestic product (GDP) of the respective countries.

It will also detail 'leading practice', where countries have created a balanced mix of investor-friendly legislation, an attractive tax regime and state and private enterprise investment. Such countries, according to the report, derive proportionately higher revenues from mining than the rest. The report is not about the merits and demerits of state participation in mining or the merits of resource nationalism or nationalization.

It has been initiated due to the higher demand for resource nationalism globally and hence also in Africa.

Countries included are those where the commodities per country were greater than 1000mt. If a particular country's percentage contribution to the selected commodity was more than 10%, the country was selected. The base data can be depicted as follows:

Resources mined as percentage of overall mining per country



Source: Data from Raw Materials Group: www.rmg.se, accessed June 2011, Ernst & Young analysis



If one overlays the mergers and acquisitions activity per country in *Africa: a golden opportunity - A spotlight on mining and metals transactions*, Ernst & Young 2011, it becomes clear that the potential identified and being capitalized on still lies in South Africa along with Zambia and Zimbabwe, with West Africa emerging as the hotspot for investment.

The report is revised annually, including more countries as they become relevant, or removing them when they no longer meet the criteria. This year we have added Algeria, Angola and Mauritania to the countries being reviewed. The reasons for this have been the potential shown by these countries to become significant mining players and because of their significant mineral reserves and resources. The following countries have been removed from this year's survey: Gabon, Madagascar and Nigeria. The key reason for their removal has been small growth in their mining potential.

Method

The report is a product of desktop research, document review and interviews of Ernst & Young professionals based in the 13 countries. The information in this report reflects data as at July 2011.

Link to Africa Interactive

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Why the comparison?

Africa faces new challenges. It has to improve the competitiveness of its mining industry, while ensuring a more equitable distribution of the benefits flowing from the industry to the majority of its residents. While mining creates jobs and boosts tax revenues in developing countries, its benefits are sometimes overshadowed by two themes:

1. Criticism that the industry does not sufficiently address its environmental impact and is not doing enough to mitigate the degradation of the environment
2. Increasing calls for beneficiation

This report was triggered by resource nationalism. Developing and developed countries have over the past 5 to 10 years intensified calls for mining companies to make higher contributions to the countries in which their operations are based.

This is evidenced by examples such as Zambia attempting to introduce a windfall tax during the copper price boom and South Africa, Ghana and Nigeria revising their mining and related legislation. Beyond taxation, some stakeholders and countries are even advocating full scale nationalization. On the other hand, Botswana presents a good example of how African governments can balance collective and individual participation in mining.

In *Business risks facing mining and metals 2011-2012*, Ernst & Young 2011, resource nationalism was identified as the number one risk for mining and metals companies as governments globally continue to make demands in order to increase their slice of the profit pie. Because the mining and metals sector rebounded quickly from the global financial crisis, it became an early target to help restore treasury conditions. On the other hand, political instability or an unstable political environment was identified as the number 1 barrier to investment in Africa (41% of the respondents) in Ernst & Young's first 'Africa Attractiveness Survey' in May 2011.

From the outset of 2011 we have seen numerous countries changing their fiscal environment (taxes, royalties), and some have invoked 'use it or lose it' clauses. Governments worldwide have also been looking to increase local participation in projects and we think that this trend will only increase. South Africa's new royalty regime came into effect on 1 March 2010 and the Australian Government's proposed Minerals Resource Rent Tax is still on track with its draft legislation.

Countries under review in this survey

- ▶ Central - Angola, Democratic Republic of Congo (DRC), and Zambia
- ▶ East - Tanzania
- ▶ North - Algeria
- ▶ Southern & Other - Botswana, Mozambique, Namibia, South Africa and Zimbabwe
- ▶ West - Ghana, Guinea and Mauritania



Criteria

A - 1. Can private enterprises own the surface rights? A - 2. If no - is the enterprise required to pay any compensation to government?	Yes/No
B. Are mineral rights owned by the State while mining rights are awarded to those conducting mining operations?	Yes/No
C. Are mineral rights/mining rights transferable?	Yes/No
D. Does the government enter into fiscal stability agreements with mines?	Yes/No
E - 1. Does the country charge a royalty to mines? E - 2. If yes - is the royalty tax deductible?	Yes/No
F. Does the country provide any incentives to encourage investment in the mining industry? Are these incentives: <ul style="list-style-type: none"> ▸ Relating to tax ▸ Relating to other 	Yes/No
G. Can mining rights/mineral rights be amortized for tax purposes?	Yes/No
H. Does the country have rules requiring a mining company to rehabilitate the environment where it has been mined? If yes, are the amounts tax deductible?	Yes/No
I - 1. Does the country have rules requiring a mining company to incur social responsibility expenditure e.g., schools/hospitals etc? I - 2. If any costs are incurred are these costs tax deductible?	Yes/No
J. Is local participation a requirement for mining in the country?	Yes/No
K. If so, what % local participation is required?	Range
L. What rates of income tax are applied in respect of mining taxable income?	Range

Criteria	Algeria	Angola	Botswana	DRC	Ghana	Guinea	Mauritania	Mozambique	Namibia	South Africa	Tanzania	Zambia	Zimbabwe
A - 1 Surface rights	●	●	●	●	●	●	●	●	●	●	●	●	●
A - 2 Government compensation	○	●	○	○	●	○	●	○	○	○	●	○	○
B Ownership mineral/mining rights	●	●	●	●	●	●	●	●	●	●	●	●	●
C Transferability	●	●	●	●	●	●	●	●	●	●	●	●	●
D Fiscal stability agreements	●	●	●	●	●	●	●	●	●	●	●	●	●
E - 1 Royalties	●	●	●	●	●	●	●	●	●	●	●	●	●
E - 2 Tax deductible	●	●	●	●	●	●	●	●	●	●	●	●	●
F - 1 Investment incentives	●	●	●	●	●	●	●	●	●	●	●	●	●
F- Tax	●	●	●	●	●	●	●	●	●	●	●	●	●
F- Other	●	●	○	○	●	●	●	●	●	●	●	●	●
G Amortization	●	●	●	●	●	●	●	●	●	●	●	●	●
H - 1 Environmental rehabilitation	●	●	●	●	●	●	●	●	●	●	●	●	●
H - 2 Tax deductible	●	●	●	●	●	●	●	●	●	●	●	●	●
I - 1 Social responsibility	●	●	●	●	●	●	●	●	●	●	●	●	●
I - 2 Tax deductible	●	●	●	●	●	●	●	●	●	●	●	●	●
J Local participation	●	●	●	●	●	●	●	●	●	●	●	●	●
K % of local participation	51 - 70%	10 - 15%	N/A	N/A	10 - 15%	10 - 15%	10 - 15%	N/A	N/A	20 - 50%	Any % subject to government negotiations	Any % subject to government negotiations	51 - 70%
L Income tax rates	31 - 40%	31 - 40%	20 - 30%	20 - 30%	20 - 30%	31 - 40%	20 - 30%	31 - 40%	31 - 40%	20 - 30%	20 - 30%	31 - 40%	20 - 30%

Key to colours	
●	Yes
●	Yes - provided certain requirements are met
○	N/A
●	Information not available
●	No
●	Any % subject to government negotiations

Some observations

Of the 13 countries compared, **mining grew most** in Zambia, and least in Namibia. The full standings are as follows:

Country rankings	Mining and quarrying annual growth rate (%)
1. Zambia	15.7
2. Mozambique	3.0
3. Tanzania	1.2
4. DRC	-0.2
5. Mauritania	-2.0
6. Angola	-2.7
7. South Africa	-4.2
8. Algeria	-6.0
9. Guinea	-7.3
10. Ghana	-10.5
11. Botswana	-21.0
12. Zimbabwe	-29.5
13. Namibia	-45.0

Source: *African Statistical Yearbook 2011*, African Development Bank Group, African Union, Economic Commission for Africa, Ernst & Young analysis

Of the 13 countries compared, **mining contributes the highest percentage to the GDP** of Angola, and the lowest in Zambia. The full standings are as follows:

Country rankings	% Contribution of mining to GDP
1. Angola	69.1
2. Algeria	33.5
3. Botswana	29.1
4. Guinea	21.0
5. Mauritania	20.0
6. Namibia	10.8
7. South Africa	9.1
8. Zimbabwe	5.7
9. Tanzania	3.6
10. DRC	3.6
11. Ghana	2.0
12. Mozambique	1.4
13. Zambia	1.3

Source: *African Statistical Yearbook 2011*, African Development Bank Group, African Union, Economic Commission for Africa, Ernst & Young analysis

A high and sustainable contribution of mining to the GDP of countries seems to be positively correlated with a combination of some of the factors such as low taxes rates, private ownership of surface rights, transferability of mining rights, economic freedom and political stability. No single factor will have a significant impact on the attractiveness of a mining economy. The success of a country's mining is influenced to various degrees by a favorable combination of the factors. For example, state participation in mining or the requirement that investors should have local partners can be found in countries that have a booming mining sector and also in a country where the mining investment environment is unattractive. It is the interplay of these factors that creates a favorable mining investment environment.

These tables demonstrate which factors are correlated, and in what way, with the prevalence of a favorable mining environment, looking at the mining contribution to GDP, in the countries surveyed.

1. Low taxes	The majority of the countries in the top half have tax rates between 31-40%, and two of the countries have rates lower than 30%.
2. Private ownership of surface rights	Of the countries in the top half, only Angola and Mauritania does not permit private ownership of surface rights.
3. Transferability of mining/mineral rights	Only one country, Angola, does not have transferable mining rights.
4. Economic freedom	Economic freedom improves the overall quality of life, promotes political and social progress, and supports environmental protection. Three countries in the top half have high scores for both indices of Economic Freedom. (For Guinea, one of the indices was not available.)
5. Political stability and rule of law	Of the top seven countries, only Guinea came close to a violent change of government in the past five years. The other countries had two or more successive elections in which a civilian government handed over to another.

It is not negatively correlated with:

1. Requirements of local ownership	There is no trend in this regard. Five of the countries in the top half require local ownership, as do four in the bottom half.
2. Rules relating to the rehabilitation of mining sites	All 13 countries require some form of rehabilitation of mined sites after mining.
3. GDP growth rate	Only two countries in the top half registered positive GDP growth rates, namely Angola and Algeria. The rest of the top half countries reflected negative economic growth rates. All the bottom half countries registered positive GDP growth rates.



Additional country information

	Algeria	Angola	Botswana	DRC	Ghana	Guinea	Mauritania	Mozambique	Namibia	South Africa	Tanzania	Zambia	Zimbabwe
EITI candidacy ¹	No	No	No	Yes	Yes	Yes	Yes	Yes	No	No	Yes	Yes	No
KP participation ²	No	Yes	Yes	Yes	Yes	Yes	No	No	Yes	Yes	Yes	No	Yes
Gini Coefficient 2010 ³ (Gini index lies between 0 (absolute equality) and 100 (absolute inequality))	35.3	58.6	61	44.4	42.8	43.3	39	47.1	74.3	57.8	34.6	50.7	50.1
2010 Index of Economic Freedom ⁴	56.9	48.4	70.3	41.4	60.2	51.8	52	56	62.2	62.8	58.3	58	21.4
2008 Economic Freedom of the World ⁵	5.0	3.89	7.09	4.93	6.83	N/A	6.34	5.74	6.85	6.65	5.98	7.18	3.57
2010/2011 Fraser Institute Policy Potential Index ⁶	N/A	N/A	74	7.8	45.1	40.2	N/A	N/A	57.9	23.4	32.4	34.9	22.4
Mining and quarrying annual growth rate 2009 (%) ⁷ (latest figures available)	-6.0	-2.7	-21	-0.2	-10.5	-7.3	-2.0	3.0	-45.0	-4.2	1.2	15.7	
Mining and quarrying as % of GDP 2009 ⁸ (latest figures available)	33.5	69.1	29.1	3.6	2.0	21.0	20.0	1.4	10.8	9.1	3.6	1.3	5.7
GDP growth 2009 (annual %) ⁹	2.1	0.7	-3.7	2.7	4.7	-0.3	-1.1	6.3	-0.8	-1.8	6.0	6.4	5.7

[1] "EITI countries", *EITI website*, <http://eititransparency.org/eiti>, accessed 20 September 2011

[2] "Participants world map", *Kimberley Process website*, <http://www.kimberleyprocess.com/>, accessed 20 September 2011

[3] *Human Development Report 2009*, United Nations Development Programme, 2009

[4] *2010 Index of economic freedom*, Heritage Foundation & The Wall Street Journal, November 2009

[5] *Economic freedom of the world: 2010 annual report*, Fraser Institute, 2010

[6] *Fraser Institute Survey of Mining Companies 2009/2010*, Fraser Institute, April 2010

[7] *African Statistical Yearbook 2011*, African Development Bank Group, African Union, Economic Commission for Africa, Ernst & Young analysis

[8] *African Statistical Yearbook 2011*, African Development Bank Group, African Union, Economic Commission for Africa, Ernst & Young analysis

[9] "GDP growth (annual %)", *World Bank website*, <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>, accessed 8 July 2011

World Bank Ease of doing business

	Algeria	Angola	Botswana	DRC	Ghana	Guinea	Mauritania	Mozambique	Namibia	South Africa	Tanzania	Zambia	Zimbabwe	
Ease of doing business overall rank	136	163	52	175	67	179	165	126	69	34	128	76	157	
Starting a Business	Procedures (number)	14	8	10	10	7	13	9	9	10	6	12	6	9
	Time (days)	24	68	61	84	12	41	19	13	66	22	29	18	90
	Cost (% of income per capita)	12.9	163	2.2	735.1	20.3	146.6	33.6	13.9	18.5	6	30.9	27.9	182.8
	Min. capital (% of income per capita)	34.4	28.7	0	0	11	519.1	412.1	0	0	0	0	0	0
Registering Property	Procedures (number)	11	7	5	6	5	6	4	8	9	6	9	5	5

World Bank Ease of doing business continued

		Algeria	Angola	Botswana	DRC	Ghana	Guinea	Mauritania	Mozambique	Namibia	South Africa	Tanzania	Zambia	Zimbabwe
Registering Property	Time (days)	47	184	16	54	34	104	49	42	23	24	73	40	31
	Cost (% of property value)	7.1	11.5	5	7	1	14	5.2	9.9	9.6	8.8	4.4	6.6	8.5
Paying Taxes*	Payments (number per year)	34	31	19	32	33	56	38	37	37	9	48	37	49
	Time (hours per year)	451	282	152	336	224	416	696	230	375	200	172	132	242
	Profit tax (%)	6.6	24.6	15.9	58.9	18.1	19.4	44.2	27.7	4	24.4	19.9	1.7	24
	Labor tax and contributions (%)	29.7	9	0	7.9	14.1	24.5	17.6	4.5	1	2.5	18	10.4	6.2
	Other taxes (%)	35.7	19.5	3.6	272.8	0.5	10.8	6.6	2.1	4.6	3.7	7.3	4	10.1
	Total tax rate (% of profit)	72	53.2	19.5	339.7	32.7	54.6	68.4	34.3	9.6	30.5	45.2	16.1	40.3
Trading Across Borders	Documents to export (number)	8	11	6	8	6	7	11	7	11	8	5	6	7
	Time to export (days)	17	52	28	44	19	35	39	23	29	30	24	44	53
	Cost to export (US\$ per container)	1,248	1,850	3,010	3,505	1,013	855	1,520	1,100	1,686	1,531	1,262	2,664	3,280
	Documents to import (number)	9	8	9	9	7	9	11	10	9	9	7	8	9
	Time to import (days)	23	49	41	63	29	32	42	30	24	35	31	56	73
	Cost to import (US\$ per container)	1,428	2,840	3,390	3,735	1,203	1,391	1,523	1,475	1,813	1,807	1,475	3,315	5,101
Enforcing Contracts	Procedures (number)	46	46	29	43	36	50	46	30	33	30	38	35	38
	Time (days)	630	1,011	625	625	487	276	370	730	270	600	462	471	410
	Cost (% of claim)	21.9	44.4	28.1	151.8	23	45	23.2	142.5	35.8	33.2	14.3	38.7	113.1
Closing a Business	Recovery rate (cents on the dollar)	41.7	8.4	63.7	1.1	23.7	19.4	10.3	17.7	41.5	34.4	21.9	27.2	0.2
	Time (years)	2.5	6.2	1.7	5.2	1.9	3.8	8	5	1.5	2	3	2.7	3.3
	Cost (% of estate)	7	22	15	29	22	8	9	9	15	18	22	9	22

*World Bank definitions available under 'Glossary of terms'

Source: World Bank Doing Business 2011, The International Bank for Reconstruction and Development / The World Bank; Various 'Doing Business in' country reports.

Historical figures

Mining and quarrying annual growth rate (%)	Algeria	Angola	Botswana	DRC	Ghana	Guinea	Mauritania	Mozambique	Namibia	South Africa	Tanzania	Zambia	Zimbabwe
2006	-2.5	0.2	7.9	10.7	3.5	-1.6	6.5	27.8	27.6	-0.6	15.6	7.3	-6
2007	-0.9	36.8	-2	2.5	101.5	2.4	14.7	19.3	0.5	0	10.7	3.6	-3
2008	3	10.2	-3.8	11.4	13.2	14.2	7.7	7.2	-2.9	-5.6	2.5	2.5	-29.5
2009	-6	-2.7	-21	-0.2	-10.5	-7.3	-2	3	-45	-4.2	1.2	15.7	N/A

Source: *African Statistical Yearbook 2011*, African Development Bank Group, African Union, Economic Commission for Africa; Ernst & Young calculations

Mining and quarrying as % of GDP	Algeria	Angola	Botswana	DRC	Ghana	Guinea	Mauritania	Mozambique	Namibia	South Africa	Tanzania	Zambia	Zimbabwe
2006	48.4	69.6	46	5.6	2.7	23.8	12.2	1.4	13.3	8.4	3.5	4.5	23.9
2007	46.4	69	44	6	2.7	21.1	16.6	1.5	11.8	8.7	3.9	4.7	22.6
2008	48.1	68.5	44.5	5.5	2.4	24.2	24	1.5	17.2	9.8	3.7	4.3	6.8
2009	33.5	69.1	29.1	3.6	2	21	20	1.4	10.8	9.1	3.6	1.3	5.7

Source: *African Statistical Yearbook 2011*, African Development Bank Group, African Union, Economic Commission for Africa; Ernst & Young calculations

Foreign direct investment inflow (millions US\$)	Algeria	Angola	Botswana	DRC	Ghana	Guinea	Mauritania	Mozambique	Namibia	South Africa	Tanzania	Zambia	Zimbabwe
2007	1662	9796	495	1808	855	386	138	427	733	5695	647	1324	69
2008	2594	16581	528	1727	1220	382	338	592	720	9006	679	939	52
2009	2761	11672	579*	664	1685	141	-38	893	516	5365	645	695	105
2010	2291	9942	529*	2939	2527	303*	14*	789	858	1553	700*	1041	105

* Estimates
Source: *World Investment Report 2011*, UNCTAD, July 2011





Glossary of terms

Amortization of mining/mineral right - Annual write-off allowed for tax purposes in respect of the cost of acquisition of a mineral/mining right.

Extractive industry transparency initiative (EITI) - EITI sets a global standard for transparency in oil, gas and mining. With good governance the exploitation of these resources can generate large revenues to foster growth and reduce poverty. However, when governance is weak, it may result in poverty, corruption, and conflict. The EITI aims to strengthen governance by improving transparency and accountability in the extractives sector. The EITI supports improved governance in resource-rich countries through the verification and full publication of company payments and government revenues from oil, gas and mining. The EITI is a coalition of governments, companies, civil society groups, investors and international organisations.

Fiscal stability agreement - An agreement in terms of which the Government of a State agrees not to increase the tax rate applicable to the party with whom the agreement is entered into, (subject to various terms and conditions).

GDP growth (annual %) - Annual percentage growth rate of GDP at market prices based on constant local currency. Aggregates are based on constant 2000 U.S. dollars. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.

Kimberly process (KP) - The Kimberley Process is a joint governments, industry and civil society initiative to stem the flow of conflict diamonds - rough diamonds used by rebel movements to finance wars against legitimate governments. The trade in these illicit stones has fuelled decades of devastating conflicts in countries such as Angola, Cote d'Ivoire, the Democratic Republic of the Congo and Sierra Leone. The Kimberley Process Certification Scheme (KPCS) imposes extensive requirements on its members to enable them to certify shipments of rough diamonds as 'conflict-free'. As of December 2009, the KP has 49 members, representing 75 countries, with the European Community and its Member States counting as an individual participant.

Local participation - Participation in the revenue from or ownership in the mineral resource, of residents of the jurisdiction in which the mineral resource is being extracted.

Mining/mineral right - The right of a person to extract a mineral from the earth for its own account/benefit.

Nationalization - Refers to the process of a government taking control of a company or industry, which can occur for a variety of reasons. When nationalization occurs, the former owners of the companies may or may not be compensated for their loss in net worth and potential income. Nationalization is most common in developing

countries subject to frequent leadership and regime changes. In these instances, nationalization is often a way for a government to expand its economic resources and power².

Resource nationalism - This perspective is that the natural resources under the ground or under the sea area, 'national patrimony' and consequently should be used for the benefit of the nation rather than for private gain. In addition, the commodity itself has an intrinsic value, not one determined by the market, and this value belongs to the nation³.

Rules - Law or legislation (i.e., not practice).

Surface rights - The right of ownership of the land under which the mineral resource exists (excluding the right to mine).

World Bank Doing Business series

Paying Taxes

Doing Business records the taxes and mandatory contributions that a medium size company must pay in a given year as well as measures of the administrative burden of paying taxes and contributions. Taxes and contributions measured include the profit or corporate income tax, social contributions and labour taxes paid by the employer, property taxes, property transfer taxes, dividend tax, capital gains tax, financial transactions tax, waste collection taxes, vehicle and road taxes and any other small taxes or fees. Doing Business measures all taxes and contributions that are government mandated (at any level—federal, state or local) and that applies to the standardized business and have an impact in its financial statements. The tax payments indicator reflects the total number of taxes and contributions paid, the method of payment, the frequency of payment, the frequency of filing and the number of agencies involved for this standardized case study company during the second year of operation.

Payments (number per year)

The number of times the company pays taxes and contributions in a year is the number of different taxes or contributions multiplied by the frequency of payment (or withholding) for each tax. The frequency of payment includes advance payments (or withholding) as well as regular payments (or withholding). The number of payments takes into account electronic filing. Where full electronic filing and payment is allowed and it is used by the majority of medium-size businesses, the tax is counted as paid once a year even if filings and payments are more frequent. For payments made through third parties, such as tax on interest paid by a financial institution or

fuel tax paid by a fuel distributor, only one payment is included even if payments are more frequent. Where 2 or more taxes or contributions are filed for and paid jointly using the same form, each of these joint payments is counted once.

Time (hours per year)

Time is recorded in hours per year. The indicator measures the time taken to prepare, file and pay 3 major types of taxes and contributions: the corporate income tax, value added or sales tax and labour taxes, including payroll taxes and social contributions.

Total tax rate

The total tax rate measures the amount of taxes and mandatory contributions borne by the business in the second year of operation, expressed as a share of commercial profit. Doing Business 2011 reports the total tax rate for calendar year 2009. The taxes included can be divided into five categories:

- ▶ Profit or corporate income tax
- ▶ Social contributions and labour taxes paid by the employer (in respect of which all mandatory contributions are included, even if paid to a private entity such as a required pension fund)
- ▶ Property taxes
- ▶ Turnover taxes
- ▶ Other taxes (such as municipal fees and vehicle and fuel taxes)

The total tax rate is designed to provide a comprehensive measure of the cost of all the taxes a business bears. It differs from the statutory tax rate, which merely provides the factor to be applied to the tax base.

² "Nationalization", *Investopedia website*, <http://www.investopedia.com/terms/n/nationalization.asp>, accessed 20 September 2011

³ *Resource Nationalism and energy security in Latin America: implications for global oil supplies*, David, R. Mares, James A Baker III Institute for Public Policy, Rice University, January 2010



The Ernst & Young Africa Business Center™

The Ernst & Young Africa Business Centre™ is supported by a network of professionals across Africa and in key investor markets such as China, India, the Middle East, the United Kingdom, Europe and the United States. This network includes experienced sector professionals who intimately familiar with opportunities and trends in their sector across the continent, as well as knowledge professionals whose research insights are invaluable in considering new markets.

Our network extends to subject matter professionals in the areas of taxation, transactions, compliance, technology, risk, assurance and other areas of providing an integrated and sustainable business.

Our Africa Business Centre™ also produces thought leadership about Africa, in collaboration with our sector and service line teams; hosts cross-Africa events such as the Africa Tax Conference; and produces regular bulletins on investment views on Africa.

To further support our activity on the continent and in strategy co-development with businesses, we have developed a dedicated, interactive Africa Business Centre™ software, for doing business in Africa.

This map based interactive software, provides a view of Africa from region, country and even municipality and the key information business needs to make an informed decision. Our interactive map-based software is a key tool that help enables clients to map their issues and footprint across Africa, intersecting with key variables relevant to their businesses.

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Ernst & Young's Global Mining & Metals Center

With a strong outlook in the sector, the global mining and metals industry is focused on future growth through expanded production, without losing sight of operational efficiency and cost optimization. The sector is also faced with the increased challenge of changing expectations in the maintenance of its social license to operate and meeting government revenue expectations.

Ernst & Young's Global Mining & Metals Center brings together a worldwide team of professionals to help you achieve your potential – a team with deep technical experience in providing assurance, tax, transactions and advisory services to the mining and metals sector.

The Center is where people and ideas come together to help mining and metals companies meet the issues of today and anticipate those of tomorrow. Ultimately it enables us to help you meet your goals and compete more effectively. It's how Ernst & Young makes a difference.

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