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Supporting complex contract negotiations: Case study & g7+ broader agenda

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Issues for negotiation and support provided

Key issues for negotiation

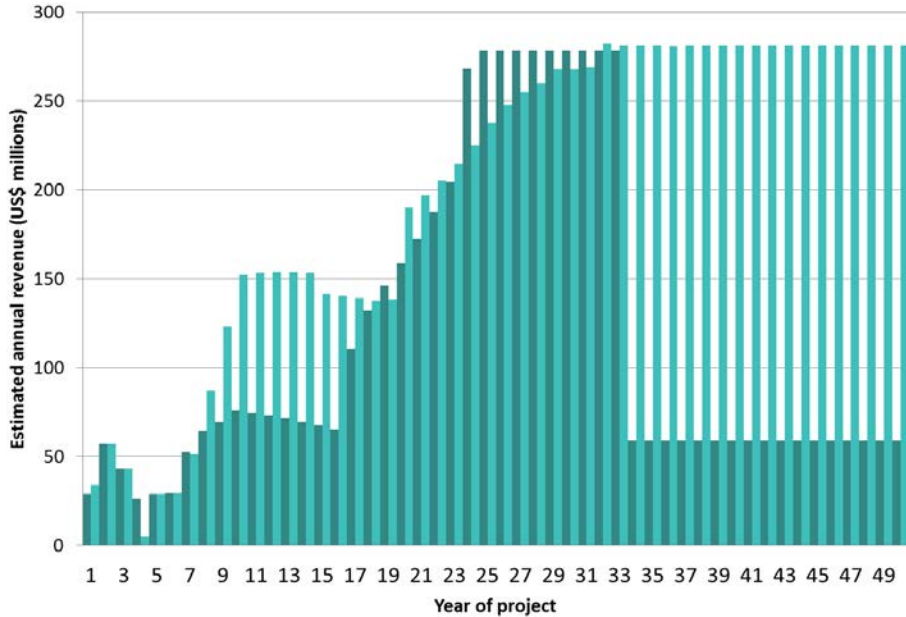
- Fiscal terms
 - Special rules for income tax (accelerated depreciation, extended loss carry forward, unlimited interest deductions)
 - Withholding on interest and dividends
 - Debt-equity restrictions for income tax calculation
- Transfer pricing
 - Terms of shareholder loan
 - Infrastructure use fees charged to affiliate

Support provided

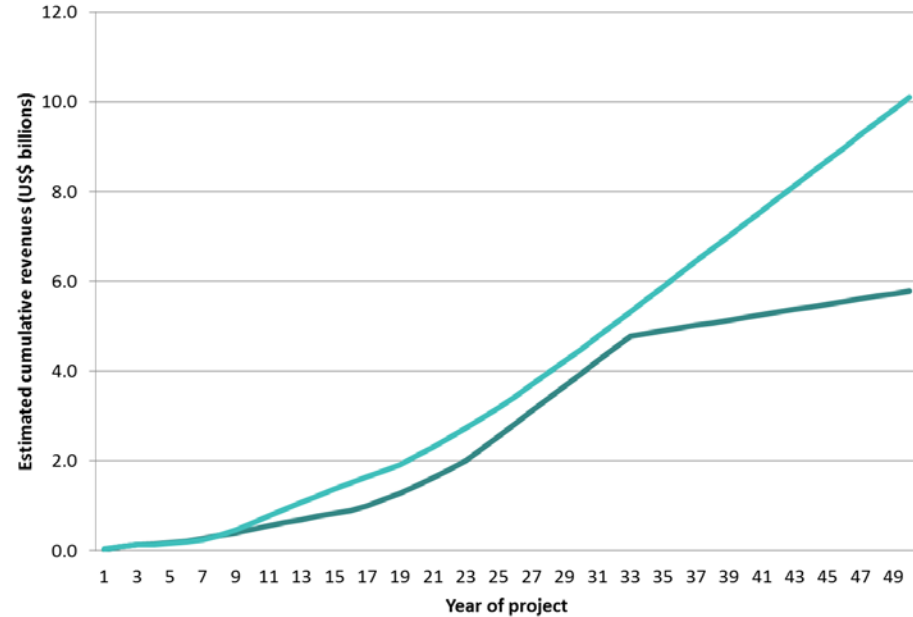
- Use of investor model to estimate returns to Govt
- Sensitivity analysis to determine key variables for negotiation (fiscal terms and transfer pricing)
- Scenario modelling
- Advice to Ministry of Finance on position to put forward to government negotiating team
- Presentations and advice to negotiating team
- Economic analysis and evidence to support transfer pricing negotiations
- Direct support in negotiations with investor

Financial results

Annual government revenues (\$ million)



Cumulative government revenues (\$ billion)



■ Estimated revenue before support ■ Estimated revenue after support

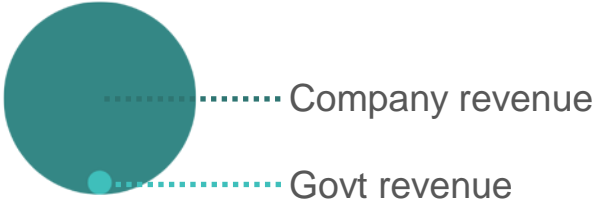
— Cumulative revenue before support — Cumulative revenue after support

	Cumulative (\$m)	NPV at 15% (\$m)
Before support	5,788	411
After support	10,621	556



Challenges

- Resources to support negotiations



- Fiscal regime design



- Clarity of objective

π
Company



Govt



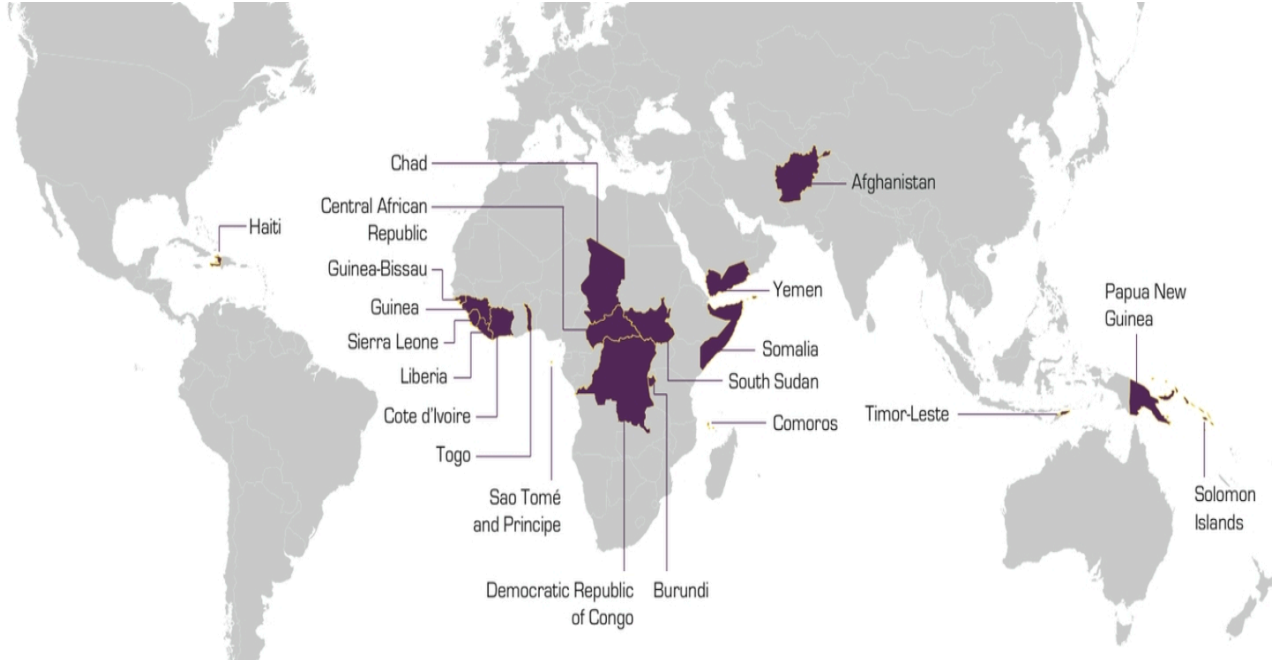
- Information asymmetries



Conclusions from case study

- Contract negotiation support more than pays for itself
 - Cost-benefit ratio for this work in the region of 500:1
 - Worth buying in support for long-term contracts rather than building capacity in-house
 - Maximising revenues from natural resources more than just setting tax rates
 - Tax base and special rules / incentives can materially impact on revenues
 - Transfer pricing issues can make huge difference, sometimes more than tax parameters
 - Scope for information sharing & cooperation among developing countries to improve negotiating position
 - Sharing of contracts / information on fiscal regimes / best practice
 - Unified fiscal regimes within regional blocks to prevent intra-regional tax competition?
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The wider picture



The broader g7+ agenda

- 1) Provision of additional finance for supporting initiatives that help developing countries to better identify and manage their natural resources
- 2) Better support for g7+ countries in contract negotiations
- 3) Developed countries playing a stronger role in advocating, supporting, monitoring and enforcing best practice
- 4) Greater investment in simplifying laws and regulations
- 5) Identifying risks of development at the community level.

In all of this much more scope for fragile-to-fragile (F2F) cooperation

“Natural resource management in g7+ countries”, g7+ secretariat Dili, 2014



“It is often said that of g7+ countries that we are poor. This is not true. Our countries are endowed with great wealth and potential. The challenge is realising and managing this wealth to the benefit of all our people”

Dr Kaifal Marah, chair of g7+ & Minister of Finance and Economic Development, Sierra Leone



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