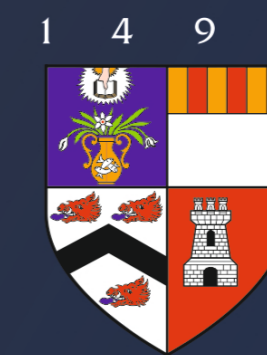


The Comparative Economic Analysis of Gold Mining Taxation in the Kyrgyz Republic in the example of Kumtor Gold Mining Project

Name: Rysbek Toktogul



UNIVERSITY OF ABERDEEN

Motivation and Objective

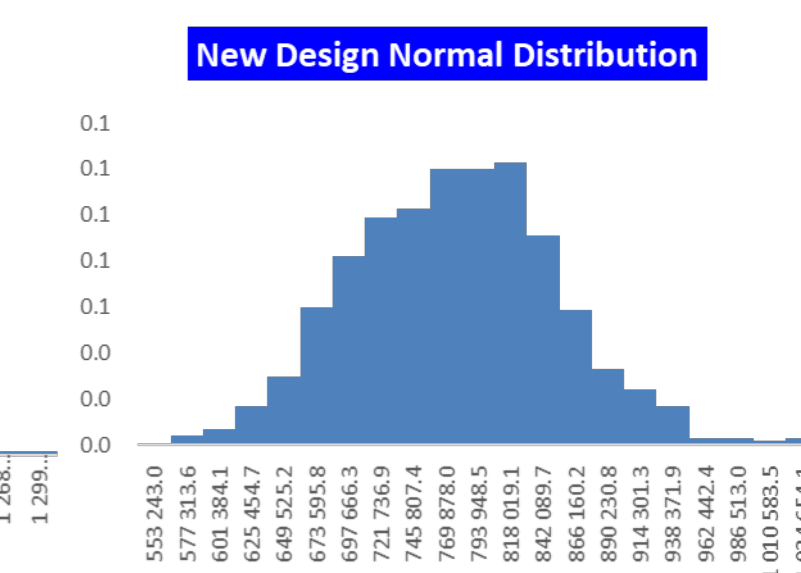
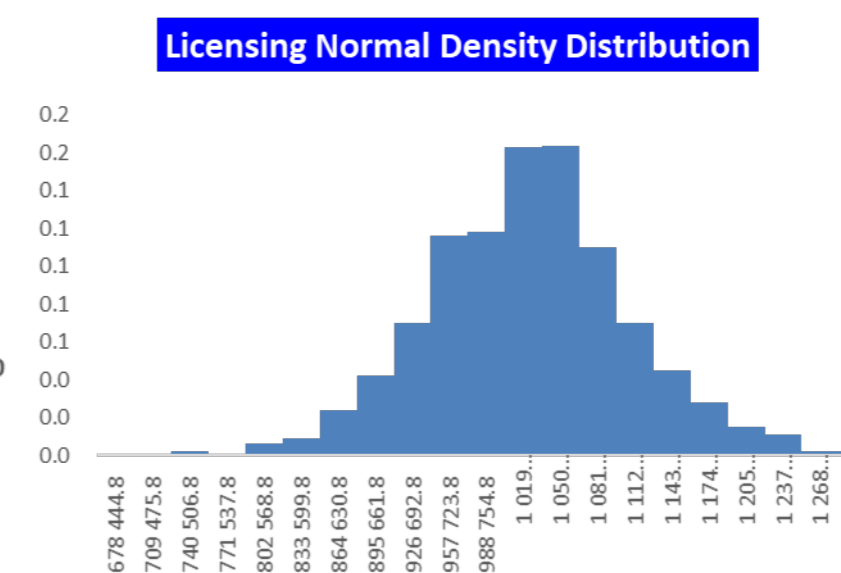
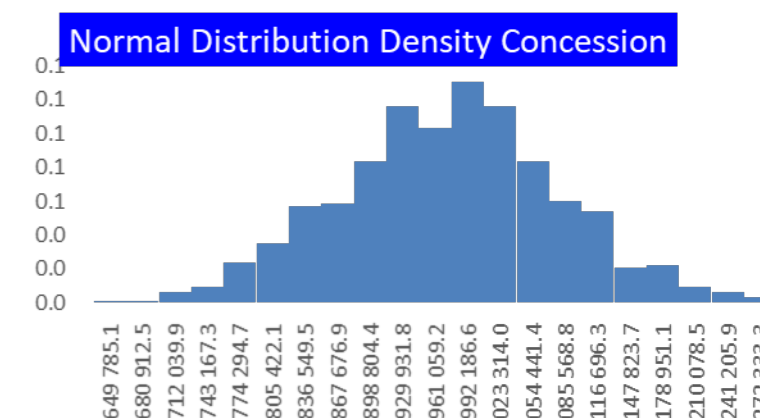
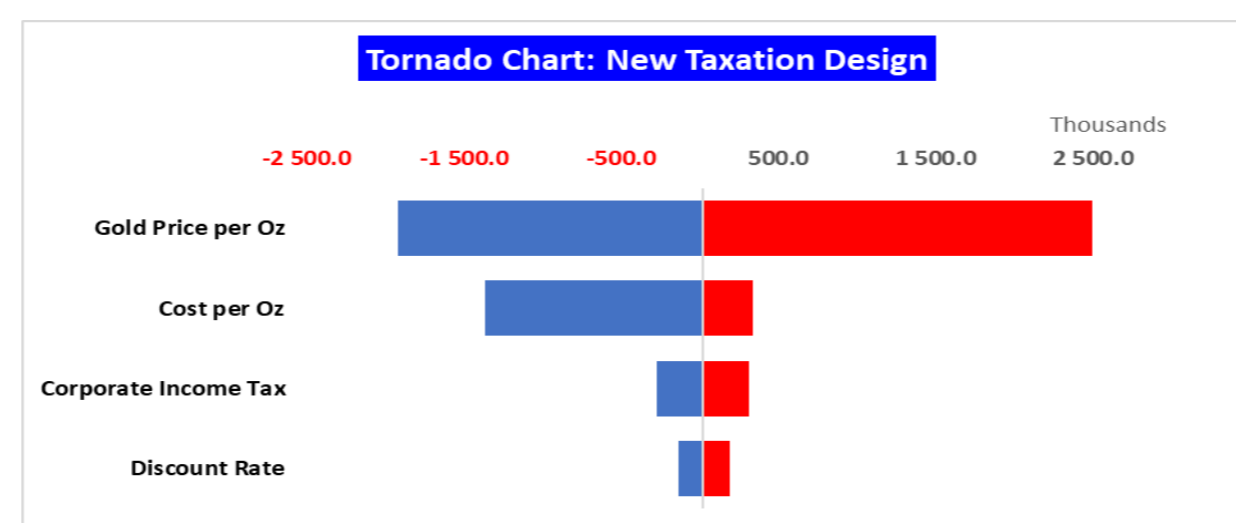
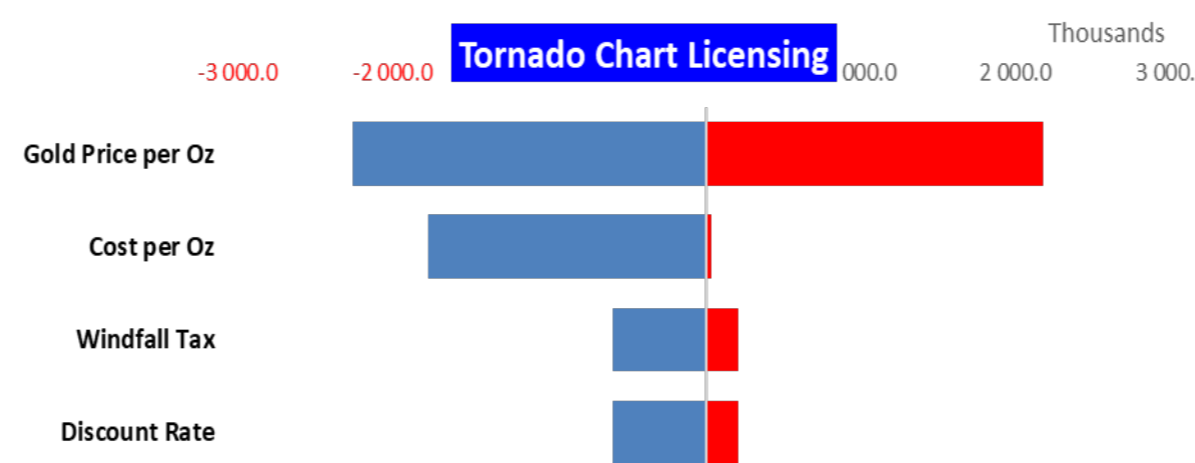
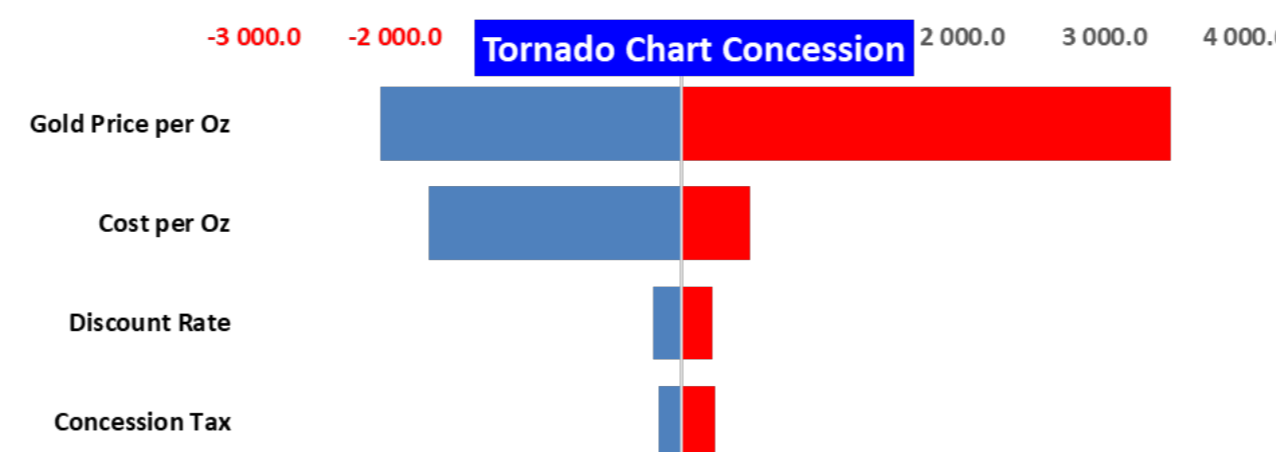
- Frequent disputes of Kyrgyz Government with foreign investors. Example: Centerra Gold Inc, the largest gold concession operator
- Absence of national mineral sector development and fiscal policies
- The research is a comparative economic analysis of gold mining fiscal framework of the Kyrgyz Republic.

Methodology

Using project figures of the Kumtor Gold Deposit, the Licensing, Concession and Newly Designed Mineral Taxation Regimes are compared based on calculations of the following:

- NPV (cost/benefit analysis), pre-tax and post-tax cash flow analysis in all three fiscal regimes, calculation of Tax Delta and Effective Tax Rate (ETR). Internationally competitive levels of ETR are in between of 40 percent and 50 percent
- Deterministic method including Sensitivity analysis with construction of Tornado Charts;
- Random Walk AR (1) modelling of Gold Price forecast
- Probabilistic method using Monte Carlo Simulation.

Undiscounted Tax Regimes		Cash Before Tax	Tax Cash	Cash After Tax	ETR
Concession	US \$	1 925 257.5	697 018.0	1 228 239.5	36%
Licensing	US \$	1 925 257.5	578 296.0	1 346 961.5	30%
New Design	US \$	1 925 257.5	952 647.9	972 609.6	49%
Discounted Tax Regimes		Pre-Tax NPV	Post Tax NPV	NPV Tax	ETR
Concession	US \$	1 587 945.6	948 860.7	639 084.8	40%
Licensing	US \$	1 587 945.6	1 040 143.6	547 801.9	34%
New Design	US \$	1 587 945.6	754 576.5	833 369.1	52%



Conclusions

The main finding: *the Concession Taxation Regime has the optimal NPV and ETR among all three gold mining taxation regimes;*

Also,

- To attract mining investments Kyrgyz Government shall demonstrate the rule of law with respect to the Kumtor Stability Clause;
- Investors shall manage and mitigate risks of changes of political groups and avoid general wordings in Stability Clause/Agreement.