

THE WEEKEND READER

“Your Weekly Read on Debt, Development & Social & Economic Justice”

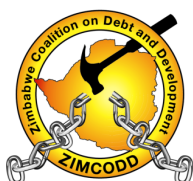
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ARE TAX INCENTIVES TO THE MINING COMPANIES JUSTIFIED?

In this week’s reader we continue to focus on the issue of tax justice. We ask whether Tax Incentives to mining companies are justified especially at the backdrop of a ravaging COVID-19 pandemic where every cent should count for economic recovery. Specifically, we will focus on the outcomes of a virtual Public Finance Management Reform Indaba that was hosted on the 3rd of February by ZIMCODD to discuss the promulgation of Statutory Instrument (SI) 26 of 2021. In this SI, Great Dyke Investments Private Limited, a platinum mine was granted a five-year tax holiday or exemption on corporate income tax (CIT), additional profit tax (APT) and withholding tax on dividends. Thus, the Indaba broadly reflected on the question: ‘Are Tax Incentives to the Mining companies Justified?’

The following are some of the key issues that emerged from the Indaba:

1. It is in the national and public interest for policy conversations and decisions around the mobilisation, allocation, and utilisation of mineral revenue to be brought under democratic scrutiny to reach public consensus. Zimbabwe’s mining sector is central to the achievement of the country’s socio-economic growth agenda and a vital channel for domestic resource mobilisation. The mining sector alone is expected to contribute US\$12 billion annual export earnings by 2023 and a possible US\$20 billion plus by 2030, thus spinal to achieving middle-income status by 2030.
2. In a bid to attract investments critical to unlock the country’s mining potential to propel development programmes, the Government is using tax incentives to bait investors. The Chairperson of the Parliamentary Portfolio Committee on Mines and Mining Development stated that: ‘the tax holiday is a gesture to attract future and potential investors. A ‘give and take’ balancing scenario between immediate revenue losses and the long-term economic gains.’
3. The Government has the moral obligation to safeguard sovereign wealth for current and future generations, mindful of the realities of the COVID-19 pandemic, climate change and demographic changes. Currently, Zimbabwe has limited fiscal capacity to respond to the COVID-19 pandemic, provide basic health and education services that the poor rely on and to mitigate climate change disasters like Cyclone Idai. A future in which the nation will be subjected to recurrent climate-induced shocks while having to take care of a majority youth population underscores the need for transparent, accountable and sustainable management of national resources. Technocrats in government are enjoined to present evidence of the expected benefits in return for the millions given away as tax exemptions to mining companies. Revenue allocated as tax exemptions should be reflected in the national budget.
4. According to ZIMCODD Chairperson, Mukasiri Sibanda, who is also the Tax and Natural Resource Governance Advisor with Tax Justice Network Africa, empirical evidence and the lived realities of host communities debunk the investment attraction rationale used to justify tax holidays. The mineral wealth potential carries more weight when it comes to influencing investment decisions in the mining sector. Tax incentives are not the only tool in the box to attract investment and in some instances neither may they be necessary at all.
5. Critical issues that investors consider include political stability and peace, policy predictability, infrastructure – transport, water, power and communication among others. The UNECA report 2016 of the High-Level Panel on Illicit Financial Flows (IFFs) out of Africa revealed that the mining sector is most vulnerable to IFFs due to poorly negotiated deals, transfer mispricing and under invoicing, and **overly generous tax incentives**. A recent 2020 report by the United Nations Conference on Trade



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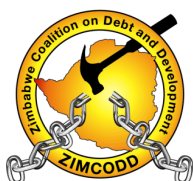
and Development (UNCTAD), shows that US\$40 billion annually is lost via IFFs from mining, gold contributing the highest losses at 77%, diamonds at 12%, platinum at 6% and the remaining minerals at 5%.

6. The Government must not freely give away its taxing right to a sector that bleeds the resources it needs to finance development. This has and can easily trigger a race to the bottom, in which countries compete to lower their tax rates in a bid to attract investments thereby hurting opportunities to leverage finite mineral resources to catalyse development as envisioned by Africa Mining Vision. Tax incentives are mostly ineffective and weaken public financing for essential government services. A study comparing Kenya, Brazil, Philippines and Indonesia attested to widespread governance challenges and corruption linked to tax holidays.
7. Fiscal consolidation and domestic resource mobilisation efforts employed by government, including austerity measures, presumptive taxes on informal sector businesses, 2% tax for small scale miners etc indicate the accepted need to grow the public purse. This burden must be shared across all sectors including and in particular, foreign- owned mining interests and their shareholders. The process of granting exemptions to select interests must be democratised through increased parliamentary oversight and public engagement as required by the Constitution under Section 299 on parliamentary oversight of State Revenue and Expenditure. Tax incentives are a cost to the national purse and must be administered and accounted for to public in line with a commitment made by government through the 2019 national budget statement. In this regard, cost-benefit analysis is critical to weed out overly generous tax incentives that do not deliver on intended benefits like employment, local content development, technology transfer and infrastructure development.
8. The backdrop of the ongoing COVID-19 pandemic reinforced the sense that the nation has no choice but to optimise domestic resource mobilisation in a sustainable and equitable manner. This entails measures such as: i) increased parliamentary oversight on mining deals and tax incentives; ii) open and transparent policy guidelines on tax exemptions; iii) closure of tax loopholes and increased efforts to stem rampant tax avoidance and illicit financial flows; iv) formulation of an Economic Empowerment Act to facilitate the equitable distribution of opportunities and benefits in the US\$12 billion Mining Industry Vision to Zimbabweans; v) consideration of alternative investment models to leverage the country's mineral wealth including e.g. open competitive bids; public listing of nationalised mining assets; Zimbabwe diaspora friendly Investment models etc.

Public Finance Management Reform Indaba programme held on 3 February 2021, follow: https://www.facebook.com/watch/live/?v=3666174900168153&ref=watch_permalink to watch.

With a continued unjust tax system, the marginalised and poor communities continue to suffer as government is failing to provide necessary cushioning. Our Advocacy message for this week therefore focuses on the need to have the Public Finance Management System serve the interests of the poor.

The COVID-19 pandemic has exposed the weaknesses inherent in the Zimbabwean public finance management system. The government since the first national lockdown in March 2020 had promised to cushion and support vulnerable households amidst the hardships induced by COVID-19. The government must therefore expeditiously fulfil and honour its promises as economic vulnerability among informal sector traders, the poor, women and youth have increased due to the COVID-19 lockdown. We therefore call upon the government, in particular the Ministry of Finance and Economic Development working together with the Ministry Public Service, Labour and Social Welfare, to effectively and prudently manage public finances and pay the poor, informal sector traders and small businesses sufficient amounts of money for them to sustain their livelihoods which have been affected by the COVID-19 national lockdown. The surplus that the ministry of Finance and Economic development has declared to the public must now be used to support vulnerable groups and more specifically informal sector traders who despite constituting a 70% share of Zimbabwe's GDP are closed and without any government support. Taxes must be used to propel equitable human development anchored on the principles of progressive taxation. Progressive taxation improves the poor's purchasing power and stimulates the economy.



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