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Increasing Domestic Revenue Mobilization through the Mining Industry in Zimbabwe

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Abstract

The development financing conundrum facing Zimbabwe compels the government to explore any meaningful opportunities for increasing the country's domestic revenue mobilisation capabilities. Zimbabwe's highly diversified and valuable mineral wealth portfolio presents great opportunities to vastly improve fiscal and economic benefits from mining. Specifically, this paper assesses Zimbabwe's mining taxation landscape, exploring the gaps and opportunities to inform mining tax policy reform options that can deliver the potentiated government revenue from mining. Prospects for increasing government revenue from mining have been made brighter by buoyant lithium market prices and a projected firm global demand. Within Africa, Zimbabwe has the largest known lithium deposits and occupies sixth place globally. At face value, Zimbabwe's mineral resource endowment is a blessing. However, experience has shown that it is not easy to unlock optimal and equitable fiscal and economic benefits from mining. Given the finite nature of mineral resources, the global surge in demand for lithium is an opportunity that the government of Zimbabwe must not squander. As the diversified mineral portfolio of Zimbabwe is, lithium is not the only jewel, the platinum group of metals, nickel, gold, and diamonds, for example, still have the potential to propel revenue mobilisation from mining. Past missteps coupled with regional experience can inform evidence-based mining tax policy reforms. The paper establishes that Zimbabwe can make windfall taxes applicable to all major mining projects instead of being restricted to a few holders of Special Mining Leases. There is scope to introduce a flexible royalty regime that self-adjusts to deliver commensurate government revenue with the volatility of mineral prices. Dealing with numerous and highly costly tax incentives is a low-hanging fruit or increasing the government's fiscal take from mining. Improving transparency and accountability creates an enabling environment for stifling corruption and rent-seeking behaviour that erodes public revenue streams.

Keywords: mineral wealth, taxation, illicit financial flows, public debt, and transparency

1. Introduction

Tax reform as part of the mining sector can contribute to state-building in four ways: revenue raising; progressive realignment of tax instruments; fine-tuning tax administration; and enabling the social contract – described as an engagement between those that govern and the governed.[1] These taxation building blocks to a large extent reflect the four roles of taxation, which are Revenue, Redistribution, Repricing, and Representation advanced by Tax Justice Network (TJNA) as the pulse of taxation.[2] Since this paper takes a deep dive into leveraging the mining industry for maximum public value, mainly strengthening public financing, it embeds the four building blocks of state building from a taxation perspective.

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[1] Fjeldstad and Moore, 2007 Taxation and State-Building: Poor Countries in a Globalised World https://www.cmi.no/publications/2816-taxation-and-state-building

[2] **Revenue**, to fund public services, infrastructure, and administration; **Redistribution**, to curb inequalities between individuals and between groups; **Repricing**, to limit public "bads" such as tobacco consumption and carbon emissions; and **Representation**, to build healthier democratic processes, recognising that higher reliance of government spending on tax revenues is strongly linked to a higher quality of governance and political representation

Considering that Zimbabwe's economy is increasingly driven by mining, a finite natural resource, it elevates, therefore public interest in optimizing economic and fiscal benefits. If the government fails to harness fully the economic and fiscal potential of the mining sector, it has serious consequences for the erosion of the natural capital base without any commensurate compensation through reinvestment in human and infrastructure development sectors. Further, income inequality between mining companies and the government can contribute to a regressive tax system.

Because of the failure to harness commensurate public revenue from mining, the government is compelled to squeeze its citizens harder to gain more tax revenue. In fact, the tax contribution in Zimbabwe is dominated by indirect taxes, mainly Value Added Tax (VAT) which disproportionately affects the poor mostly.[3] Women, for instance, spend the largest share of their income on goods and services that may be subjected to VAT.[4] It is argued that reliance on regressive tax for public financing weakens democratic advancement. However, the increase in state financial statement enables the state to improve human development.[5]

It must also be noted that mining inherently carries high risks concerning the violation of the environment, economic, social, and cultural rights of communities. Therefore, the focus on the economic and fiscal benefits of mining must not be blind to counting the costs that are normally externalized by miners. If the tax system is not well designed, it may tantamount to the creation of indirect subsidies instead of putting punitive measures for economic activities that have adverse impact on the environment and society.[6] Further, the disclosure of mining contracts and social and environmental impacts is crucial to stimulate public debate, manage public expectations, and enhance double wins – economic benefits at minimal cost to the environment.[7]

In a way, the debt crisis that is crippling Zimbabwe's socioeconomic development aspirations reflected in the National Development Strategy (NDS) and Vision 2030, reflects badly on the government's capability to adequately tax the mining sector. There is a Chinese saying that "where danger lurks an opportunity awaits". Thus, the public debt crisis must generate an impetus for boosting government revenue by optimising the potential of the mining sector. Indeed it is encouraging that there seems to be no discord between the government and civil society pertaining to inequitable public revenue from mining. These fears are not misplaced as evinced by the Natural Resource Governance (NRGI)'s Resource Governance Index (RGI) 2017's assessment on value realization that gave Zimbabwe a score of 37/100[8]. This score

[3] ZIMRA 2022 Annual Report
[4]Chiara Capravo, 2014 Taxing Men and Women: why gender is crucial https://www.shareweb.ch/site/DDLGN/Documents/Gender_%20taxing-men-and-women-gender-analysis-report-Christian%20Aid%20july-2014.pdf
[5] Kato J, and Tanaka, S orcid.org/0000-0001-6246-3332 (2018) Human development without democratic accountability: how regressive taxation contributes to human development through state capacity. Japanese Journal of Political Science, 19 (3). pp. 429-443. ISSN 1468-1099
[6] Cust, James, and Albert Zeufack, eds. 2023. Africa's Resource Future: Harnessing Natural Resources for Economic Transformation during the Low-Carbon Transition. Africa Development Forum. Washington, DC: World Bank. doi:10.1596/978-1-4648-1743-4.
[7] NRGI 2017 Resource Governance Index https://resourcegovernance.org/sites/default/files/documents/2017-resource-governance-index.pdf
[8] NRGI 2017 Resource Governance Index https://resourcegovernance.org/sites/default/files/documents/2017-resource-governance-index.pdf

falls within the range of 30 to 44 mark that is classified as poor by the RGI. It shows that the country has adopted minimal systems and practices to govern resources, but most required ingredients to ensure societal benefits are missing. This poor score implies that there is scope for Zimbabwe to significantly improve the fiscal benefits from mining. In light of the increasing formalisation of Zimbabwe's economy, mining sector taxation deserves priority due to the limited capacity to widen public revenue from other tax sources.[9] A task that requires urgency considering that mining export revenue doubled to US$5.627 billion in 2022, from US$2.7 billion realised in 2017[10], while extreme poverty jumped from 30% in 2017 to an estimate during the pandemic.[11]

This research paper explores the potential of the mining industry in Zimbabwe. It presents a background that shares the current state of domestic resource mobilisation from mining. Further, the paper assesses the mining tax instruments for their potential to contribute to public revenue. The paper, lastly, concludes by summarising mining tax reform options that can be considered by policymakers to boost government revenue from mining. Largely, the paper makes use of a literature review to have a grasp of deficiencies and opportunities for improving the government's fiscal take from mining. It also digs deeper into the performance of the mining sector, giving specific examples from mining companies' reports and other country contexts to give a flavour for informed tax policy reforms.

2. Domestic Revenue Mobilization in Zimbabwe

The first part of this section explores the critical interconnection between the public debt crisis and Illicit Financial Flows (IFFs), emphasizing that resolving both issues is imperative for sustainable fiscal management. Furthermore, it sheds light on the National Development Strategy (NDS1), outlining measures to enhance Domestic Resource Mobilization (DRM). These measures include tax reforms and the review of government fees and charges to bolster service provision and achieve economic stability. By addressing the root causes of fiscal constraints and adopting strategic approaches to mobilizing domestic resources, Zimbabwe aims to navigate its fiscal challenges and foster a more resilient economic environment.

This second part of this section discusses the rich and diverse mineral wealth portfolio of Zimbabwe, focusing on the significance of mining in the country's economy and fiscal landscape. It highlights the vast potential of Zimbabwe's mineral resources, including platinum group metals (PGMs) and lithium, and their impact on export earnings. However, despite the economic contributions of mining, the section raises concerns about the sustainable development of the sector and the need for greater transparency and accountability. It also examines the risks associated with over-reliance on non-renewable

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[9] ActionAid 2020, Extractive Industry Taxation, Progressive Taxation Briefings
[10] Vanessa Gonye and Beauty Munyudzani, 24 March 2022, The News Day 'Zim on course to achieve US$12bn mining target by 2023 https://www.newsday.co.zw/2022/03/zim-on-course-to-achieve-us12bn-mining-target-by-2023. The 2023 Monetary Statement showed that mining earnings reached US$5.627 billion in 2022.
[11] Chronic Poverty Advisory Network 2022 Zimbabwe Covid-19 Poverty Monitor https://dl.orangedox.com/ounmAgzucsqQRyKKGT

resources and the importance of seizing opportunities presented by clean energy transitions. Additionally, the section delves into the changing trends in mineral export earnings, particularly the growing importance of lithium and PGMs. Finally, it underscores the significance of proactive strategies for harnessing the economic and fiscal benefits of these minerals amidst demand uncertainties and technological disruptions.

2.1 Background to Zimbabwe's DRM Constraints

Fiscal space in Zimbabwe has been constrained largely by debt distress and IFFs.[12] The dearth of public finance has curtailed much-needed essential public service provision and infrastructure. As a result, women have been used unfairly as the shock absorbers of the fiscal strain by doing more unpaid care work, thereby entrenching gender inequalities.[13] To make matters worse, a series of crises have exacerbated Zimbabwe's fiscal instability - the COVID-19 pandemic, climate disasters, and increased costs of fuel, food, and finance costs triggered by the Russia-Ukraine war. Sanctions imposed by the EU, UK, and US have not helped matters as they have limited the country's access to international sources of finance and increased the country's investment risk profile.[14]

Zimbabwe's public debt crisis is being fueled by three factors – penalty fees from defaulting debt repayment, budget deficit, and the depreciation of the local currency[15]. Without resolving the public debt crisis, Zimbabwe will continue to miss opportunities from harnessing development resources for International Financial Institutions (IFIs). Importantly, the public debt crisis cannot be resolved successfully without tackling IFFs as cautioned by the 2015 AU's High-Level Panel (HLP) Report on IFFs from Africa.[16] According to Africa Growth Initiative at Boston Institute, Zimbabwe suffered huge losses from IFFs estimated at around US$22.652 billion equivalent to 13.9% of total trade from 1980 to 2018.[17] If these losses were reversed, there are enough to cover Zimbabwe's public debt pegged at US$18 billion[18]. Part of the public debt challenge has its roots in the colonial legacy. Zimbabwe

[12] IFFs are defined as money that is illegally earned, transferred, or utilised across borders by the Global Financial Integrity (GFI). However, the AU's HLP Report on IFFs from Africa extends the scope to cover unethical practices that may not be necessarily illegal – tax avoidance. The OECD unpacks the financial assets, tangible or intangible that are vulnerable to IFFs. These capital flight vulnerable assets include loans, equity, financial instruments, goods, services, and non-financial assets.
[13] ZIMCODD, 11 September 2020, The Weekend Reader, Zimbabwe's Debt Crisis: Impact on Women and Youth https://zimcodd.org/wp-content/uploads/2020/12/Zimbabwes-Debt-Crisis-Impact-on-Women-and-Youth-11.09.2020.pdf
[14] Lyla Latif (2022) Is Africa's Fiscal Space Undermined by Debt-Related Illicit Financial Flows: A Case Study of Southern African Development Community (SADC) member states
[15] Phillimon Mhlanga, (23-29 January 2020) Business Times - Zim sitting on debt time bomb https://www.imf.org/-/media/Files/Countries/ResRep/ZWE/20200123-zwe-zim-sitting-on-debt-time-bomb-businesstimes.ashx
[16] The HLP Report on IFFs noted that an equivalent of a third of the loss via IFFs would have been sufficient to cover Africa's external debt which reached US$279 billion in 2008
[17] Landry Signé, Mariama Sow, and Payce Madden, 2022, Illicit financial flows in Africa Drivers, destinations, and policy options https://www.brookings.edu/wp-content/uploads/2020/02/Illicit-financial-flows-in-Africa.pdf
[18] ZIMCODD, 11 September 2020, The Weekend Reader, Zimbabwe's Debt Crisis: Impact on Women and Youth https://zimcodd.org/wp-content/uploads/2020/12/Zimbabwes-Debt-Crisis-Impact-on-Women-and-Youth-11.09.2020.pdf

owes US$3.5 billion for land redistribution that is linked to farm improvements. The increased dependence of the economy on mining has contributed to high vulnerabilities to IFFs. High-valued minerals – gold, diamonds, and platinum, the anchors of mining exports, were identified as the largest emitters of IFFs from mining in 2020 by UNCTAD.[19] Further estimates from AFRODAD show that US$2.7 billion was lost via IFFs between 2009 and 2013.[20]

Cognizant of the fiscal strain, the National Development Strategy (NDS), covering 2021 to 2025 has several measures to prop up Domestic Resource Mobilisation (DRM). Concerning robust mobilisation of tax revenue, the NDS proposes to streamline taxes through regular cost-benefit analysis, the widening of the tax base by targeting small-scale businesses and the informal sector, and review of Government fees, levies, and charges to ensure cost recovery.[21] Government services that are provided at below production cost represent an implicit subsidy, which may not be sustainable. In this regard, fees, levies, and charges on government services will be timeously and continually reviewed to guarantee service provision at or above cost recovery levels.

Amidst Zimbabwe's fiscal constraints caused by debt distress and IFFs, the country's rich mineral wealth, including Platinum Group of Metals (PGMs) and lithium, emerges as a potential source of revenue and a significant contributor to domestic earnings. Accordingly, the following sub section (2.2), explores the importance of the mining industry as a potential revenue source and examines its current contribution to domestic revenue in Zimbabwe. The section will shed light on the significance of PGMs and lithium in the country's export earnings and their role in the context of clean energy transitions. Additionally, it will delve into the challenges and opportunities surrounding mining revenue transparency, tax frameworks, and the need for accountability to optimize economic and fiscal benefits.

2.2. The importance of the mining industry as a potential source of revenue and its current contribution to domestic revenue in Zimbabwe

Zimbabwe is endowed with a rich and diverse mineral wealth portfolio.[22] The country’s world-class mineral deposits include Platinum Group of Metals (PGMs), the world's second largest after South Africa[23], and lithium, the largest deposits in Africa, and 5th in the world.[24] If optimally exploited, Zimbabwe can supply a fifth of the global lithium demand.[25] Nearly 76 cents per every dollar generated from export earnings in 2022 originated

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[19] https://unctad.org/publication/economic-development-africa-report-2020
[20] AFRODAD (2015). Illicit Financial Flows: Towards a More Integrated Approach For Curbing Illicit Flows From Zimbabwe.
[21] According to NDS1, public services are an indirect subsidy because they are priced below cost.
[22] National Development Strategy, 2021-2025
[23] IMPLATS, Mining opportunities following the new political dispensation in Zimbabwe https://www.implats.co.za/pdf/media-releases/2018/miningopportunityinzimbabwe.pdf
[24] African Natural Resources Centre (ANRC). 2021. Lithium-Cobalt Value Chain Analysis for Mineral Based Industrialization in Africa. African Development Bank. Abidjan, Côte d’Ivoire.
[25] Paul Nex, Kathryn Goodenough, Richard Shaw, and Judith Kinnaird, A Review of Lithium occurrences in Africa,

from the mining sector.[26] Considering that in the past decade, mining contributed roughly an average of 50% to the total export earnings, the latest figures project the increased dominance of mining in terms of export earnings.

Figure 1: 2023 Mining Export Revenue

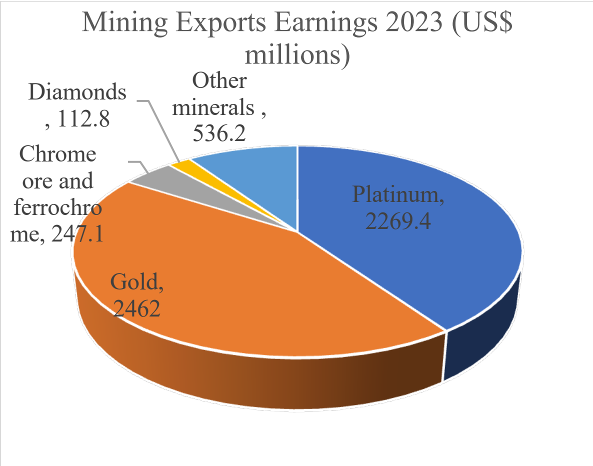

Figure 2: 2022 Mining Export Revenue

Source: RBZ 2023 Monetary Policy Statement

Mining significantly contributes to the economy and the fiscus, although its potential impact on sustainable development remains well below the government and citizen expectations. This is hardly surprising as countries that heavily depend on natural resources for their export earnings are identified with high vulnerabilities to IFFs.[27] Buttressing this point, World Bank estimates show that government earnings from mining is eclipsed 2.6 times more by the rental value of mineral resources.[28] The signal we can pick here is that the potential of government revenue from mining remains significantly untapped. Relatedly, the World Bank estimates paints a gloomy picture that poverty in Africa will not slow down despite the mineral wealth endowment. Unfortunately, minerals are a non-renewable resource, therefore, a development opportunity squandered is not recoverable. Other risks apart from depletion emanating from impairment or obsolescence because of technological changes or policy shifts like the move towards clean energy. Fossil fuels, coal, oil, and gas may turn out to be stranded assets if climate change goals are implemented.

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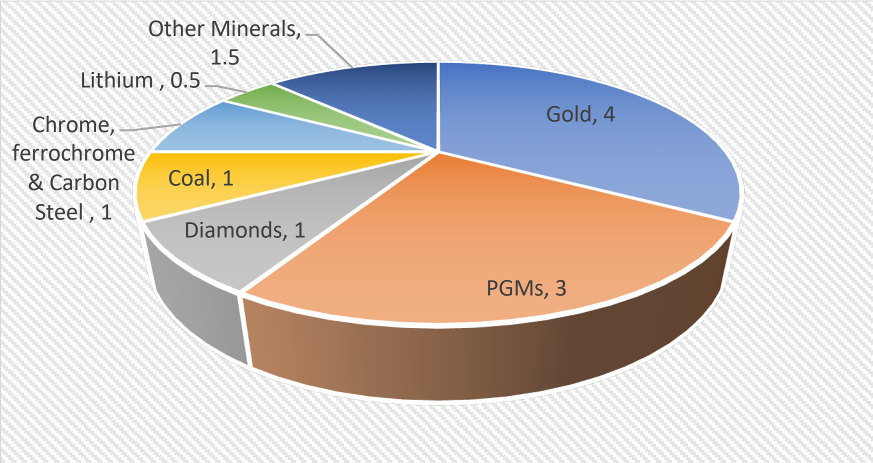
https://www.geolsoc.org.uk/~/media/shared/documents/events/Past%20Meeting%20Resources/Lithium/Paul%20Nex.pdf
[26] RBZ 2022 Monetary Policy Statement
[27] AU/ENECA (2015) Report of the High-Level Panel on Illicit Financial Flows from Africa https://au.int/en/documents/20210708/report-high-level-panel-illicit-financial-flows-africa
[28] Cust, James, and Albert Zeufack, eds. 2023. Africa's Resource Future: Harnessing Natural Resources for Economic Transformation during the Low-Carbon Transition. Africa Development Forum. Washington, DC: World Bank. doi:10.1596/978-1-4648-1743-4.

Increasingly, Zimbabwe has entrenched economic dependence on mining heralded by its 5-year ambitious mining sector growth plan to earn US$12 billion by 2023.[29] This ambitious projected growth represents A massive 344% increase from US$2.7 billion realised in 2017.

Figure 3: Expected US$12 Billion Mining Earnings By 2023



Source: Transparency International – Zimbabwe, July 2020, USD 12 Billion Mining Economy by 2023: What are the Key Enablers?

However, export earnings are a macroeconomic indicator that has no big direct bearing on fighting poverty and inequality. Significant transparency cleavages are emanating from the failure of the government to forecast expected government revenue as well as annual disclosures on how much the government receives from mining.[30] Arguably, openness and transparency supports public scrutiny and enhance informed decisions by policy makers.[31]

Table 1: Mining Revenue as a Percentage of GDP from 2014 to 2021

	2014	2015	2016	2017	2018	2019	2020	2021
	Actual							Estimates
Revenues by metal								
Gold	0.2	0.3	0.1	0.2	0.2	0.3	0.3	0.3
Platinum	0.6	0.1	0.1	0.5	0.5	0.9	1.8	2.4
Diamonds	0.7	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Other minerals	0.1	0.0	0.0	0.2	0.2	0.2	0.1	0.2
Mining Revenue	1.7	0.5	0.4	1.0	1.1	1.4	2.3	3.0

Source: IMF, Zimbabwe: 2022 Article IV Consultation – Press Release, Staff Report and Statement

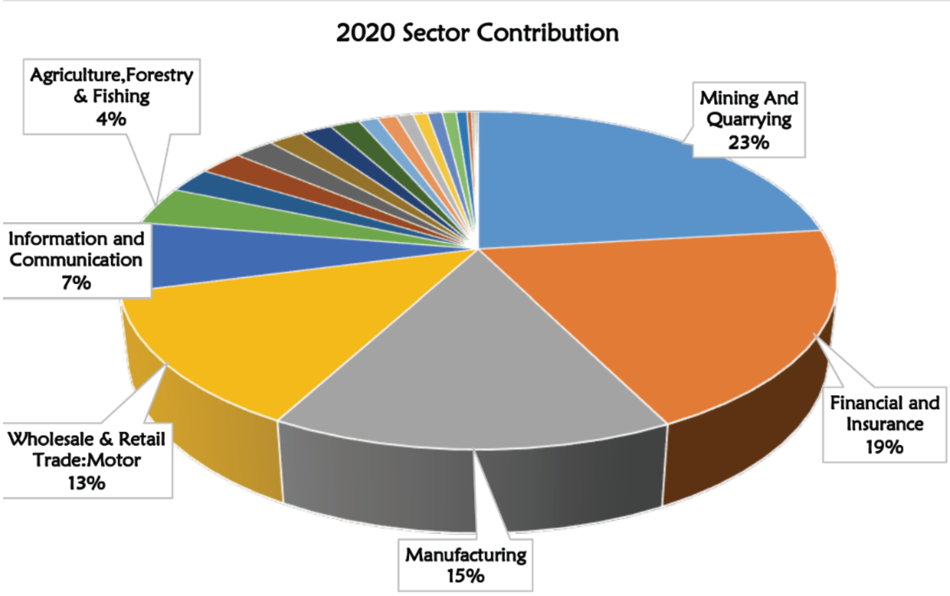
[29] Transparency International Zimbabwe, 31 July 2020, Weekly Digest "US$12 Billion Mining Economy by 2023: What Are the Key Enablers?" http://www.tizim.org/wp-content/uploads/2020/08/Weekend-Digest-12-billion-economy.pdf

[30] Mukasiri Sibanda, October 2020, NewzWire, Zimbabwe plans to grow mining to US$12 billion, but what's in for communities? https://newzwire.live/zimbabwe-plans-to-grow-mining-to-us12-billion-but-whats-in-for-communities/

[31] Edward Bickham (2015) Mining and the Extractive Industries Transparency Initiative – a review of international and in-country experiences of the EITI from the perspective of supporting mining companies https://eiti.org/sites/default/files/attachments/eiti_review_report_v10_-_final.pdf

An exception is the disclosure of the mining contribution to total tax revenue in 2020 by ZIMRA.

Figure 4: 2020 Tax Revenue Contribution Per Sector



Source: ZIMRA 2020 Annual Report

Like most mining tax regimes, the Zimbabwe tax framework is a hybrid model comprising mining royalties and corporate income tax plus normal rentals and fees. Revenue from mining royalties is distinctly disclosed publicly.[32] However the picture is blurred for mining contribution toother revenue heads such as Corporate Income Tax (CIT), Pay As You Earn (PAYE), Withholding Taxes (WHT), and customs duty among others[33]. In addition to tax revenue, other public revenue streams from mining are dividends from mining SOEs, equity participation or joint ventures, disposal of state assets, and resource-backed loans (RBLs). Given the limited mining revenue transparency, including the public disclosure of mining contracts, it is hard for civil society to hold the government accountable for optimizing the economic and fiscal benefits of mining. Opaqueness and high levels of corruption create fertile grounds for the seed of transparency to grow emphatically. Worse still, tax administrators depend on self-assessment by corporates to determine tax liabilities, and this creates information asymmetries that put tax administrators at a disadvantage[34].

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[32] Revenue performance reports published by ZIMRA quarterly, semi-annually and annually discloses expected and actual revenue from mining royalties.
[33] Gilbert Makore and Mukasiri Sibanda (2016), Gap Analysis of Mineral Revenue Disclosure And The Information Needs Of Various Stakeholders, USAID Strategic Economic Research And Analysis Zimbabwe (SERA) Program
[34] Luisito Bertinelli, Arnaud Bourgain, Skerdilajda Zanaj (2019), Profit taxation and royalties: evidence from gold mines in Sub-Saharan Africa

Reverting to the economic significance of mining in Zimbabwe, before the turn of the millennium, gold was the sole top mineral export earner from the mining sector. In the first and second decades of the new millennium, PGMs) have joined gold in the premier league of mineral export earners. Diamond emerged as a prominent export contributor between 2010 to 2013 and experienced a sharp decline thereafter. Indications show that diamond production is rebounding. The current decade has been marked by huge potential, lithium driven economic and fiscal benefits. While Zimbabwe has a long history of lithium mining, its prominent role in the economy and as part of the fiscus has experienced a massive revaluation boost from the clean energy transition agenda. Lithium demand and spike in price has been jolted its utility as a vital component in the production of batteries required to power electronic vehicles. EU alone would require 18 times more lithium in 2030 and EU's lithium demand is forecasted to buoy to 60 times more by 2050.[35]

While the forecasted lithium demand looks tantalizing, demand uncertainty is a major risk emanating from technological disruptions in light of the limited use of lithium, Zimbabwe must make hay while the sun still shines.[36] Much as Lithium has gained economic prominence from the drive to reduce emissions to net zero by 2050 to mitigate the climate change catastrophe, it is not the first mineral to experience a surge in demand from the climate change agenda. The extraction of PGMs in Zimbabwe gained traction from the manufacturer of auto catalytic converters necessary to reduce the carbon emissions from diesel and petrol engines.[37] It is interesting to note that the demand for PGMs remains resilient in the context of clean energy transition.[38] Firstly, by volume, nickel is the main mineral produced by platinum miners. Nickel is a vital component in the manufacturing of power storage batteries along with lithium, manganese, and graphite. Nickel is important for improving the durability and weldability of steel deployed in dams and wind turbines and as a component of lithium-ion batteries.[39] Secondly, PGMs are useful in the production of cells required for hydrogen fuel production.

In conclusion, this section highlights Zimbabwe's rich and diverse mineral wealth, with significant deposits of PGMs and lithium. These minerals contribute substantially to export earnings, but the mining sector's potential impact on sustainable development falls short of expectations. Transparency and accountability in revenue collection from mining activities are crucial to optimizing government revenue. The increasing importance of lithium and PGMs in the global shift towards clean energy presents economic opportunities and risks. It is essential to balance economic gains with environmental considerations, as minerals are non-renewable resources vulnerable to climate change goals. Transparent practices and public accountability in the mining industry are necessary to mitigate corruption and information asymmetries. Whether Zimbabwe can manage its mineral resources responsibly

[35] EU Critical Minerals Strategy
[36] Kirsten Hund, Daniele La Porta, Thao P. Fabregas, Tim Laing, John Drexhage (2020) Minerals for Climate Action: The Mineral Intensity of the Clean Energy Transition, World Bank
[37] A catalytic converter is an exhaust emission control device that converts toxic gasses and pollutants from internal combustion engines into less toxic pollutants by interaction with the surface of platinum https://www.visualcapitalist.com/how-platinum-improves-our-world/
[38] ZIMPLATS 2022 Integrated Annual Demand
[39] Cullen S. Hendrix December 2022, Building Downstream Capacity for Critical Minerals in Africa: Challenges and Opportunities, policy brief

to achieve sustainable development and economic growth is to be determined by an assessment of its mining tax framework.

3. Assessing The Robustness of Mining Tax Instruments

3.2. Mining related taxes

Zimbabwe' Mining Fiscal Regime

1. Royalties: These are calculated as a percentage of the gross market value of minerals produced and sold. Royalty range from 1 percent for coal, 2 percent for base and industrial minerals, 4 percent for precious metals, 5 percent for platinum, 3 and 5 percent depending on the market price for gold if it is below or above US$1,200 per ounce respectively, 5 percent for lithium, and 10 percent for diamonds.
2. Surface rentals – also not deductible for income tax – are imposed at varying rates during the prospecting, exploration, and development stages of a mining project
3. Income tax is levied at a flat rate of 24 percent of profits plus a surcharge of 3 percent for Aids Levy. This applied to holders of ordinary mining leases.
4. Income tax is levied at a flat rate of 15% for special mining leaseholders
5. Additional Profit Tax (APT) applies to special mining lease holders.
6. All capital expenditure incurred wholly and exclusively for mining operations is allowed as a deduction at the rate of 100 percent.
7. Assessed tax losses of mining companies may be carried forward indefinitely. For other sectors like agriculture, tourism, and manufacturing, the assessed loss carryover is restricted to 6 years.
8. A withholding tax of 5 percent is levied on dividends declared for both residents and no residents for companies listed on the Zimbabwe Stock Exchange (ZSE). For all other companies, the rate of withholding tax is 10 percent.
9. An additional 5 percent withholding tax is levied on interest paid to both residents and non-residents.
10. General and administrative costs incurred by the head office or by a parent company are limited to a maximum deduction of 0.75 percent of allowable deductions during the pre-production phase of a project and a maximum of 1 percent of gross income for that year during the production life of the mine.
11. Interest paid on borrowings is allowable as a tax deduction for borrowings by a company with a debt-to-equity ratio up to the maximum of 3 to 1. Any payments in excess of this figure are treated as dividends and taxed accordingly.
12. All capital goods are exempt from custom duty, import tax, and surtax during the exploration phase and for a maximum period of 5 years from the grant of mining title during the development phase of a project.
13. Mining companies may market their products directly subject to the regulations of the Minerals and Marketing Corporation of Zimbabwe
14. Offshore Currency Accounts (FCAs) are allowed for mining projects on application to the Reserve Bank of Zimbabwe and specific foreign currency retention thresholds are prescribed from time to time for all mining companies by the Reserve Bank of Zimbabwe.

Source: Tony Hawkins 2009, The Mining Sector in Zimbabwe and its Potential Contribution to Recovery and the author's compilation

3.2.1. Mining Royalties

There are three ways of determining mining royalty obligations depending on the choice of the tax base – mineral volume or weight; mineral value; and profits. The latter is not common in Africa, South Africa being the exception, because it is complex to administer and is associated with the revenue predictability risk.[40] Profit-based royalties sound ideal to investors because they target economic rent and do not lead to the sterilization of low ore grades.[41] Weight or volume-based royalties are preferred for low-valued commodities like construction materials while value-based royalties are usually applied to high-valued commodities.[42]

There is always a temptation when discussing revenue mobilisation from the mining sector to homogenize the sector. Different minerals offer different economic and fiscal opportunities, and it is common for governments to statutorily separate minerals into groups that are subjected to varying mining royalty rates.[43] Normally high-value minerals like precious stones or metals have greater taxable capacity compared to lowly valued minerals because of the difference in profitability prospects.

Alive to this opportunity, Zimbabwe's mining royalty regime is primed in a way that applies high royalty rates for highly valued minerals, and the reverse approach is adopted for lowly valued minerals. Mineral royalties are largely regarded as a form of compensation to the state for the depletion of finite or nonrenewable resources. As an outlier, a 2.5% depletion fee was charged for the exploitation of Marange alluvial diamonds. Perhaps this was an acknowledgment of the easy extraction and recovery of alluvial diamonds. On the other, royalties are often blamed to be distortionary because they only apply to the sales and do not take into account the cost of exploration, development, and extraction.[44]

Table 2: Mining Royalty Rates

Royalties	Rate (%)
Diamonds	10%
Other Precious Stones	10%
Gold Small Scale Miners	1%
Gold – other miners (**if the price is below US$1,200 per ounce**)	3%
Gold – other miners (**if the price is above US$1,200 per ounce**)	5%
Platinum	2%
Other precious metals	4%
Base metals	2%
Industrial metals	2%
Coalbed Methane	2%
Coal	1%
Black granite and other uncut dimensional stone	2%
Other cut and uncut dimensional stones	2%

Source: ZIMRA with

[40] Africa Mining Vision 2009
[41] Gibson Chigumira; Lyman Mlambo; Erinah Chipumho; Gamuchirai Chiwunze, (2016), 'The Probable Impact on Zimbabwe Mining Fiscal Revenue and Industry Competitiveness of Various Price, Production and Fiscal Scenarios: Incorporating a Quantitative Case Study of the Gold'.
[42] Tony Hawkins 2009, The Mining Sector in Zimbabwe and its Potential Contribution to Recovery

[44] Gibson Chigumira; Lyman Mlambo; Erinah Chipumho; Gamuchirai Chiwunze, (2016), 'The Probable Impact on Zimbabwe Mining Fiscal Revenue and Industry Competitiveness of Various Price, Production and Fiscal Scenarios: Incorporating a Quantitative Case Study of the Gold'.

Put differently, our setting suggests that countries suffering from a lack of expertise in mining industries or facing a high level of corruption will have higher royalty rates. While it is progressive that mining royalties are calibrated to increase or decrease depending on the commodity price changes, the use of a flat royalty rate for all minerals except gold raises a red flag on lack of progressivity. The royalty rate for large-scale mining (LSM) varies accordingly with the changes in the international market price for gold. A progressive royalty regime does not only contribute to increased fiscal take from mining by the government during commodity booms, but the flexibility also brings the benefit of a predictable tax framework.[45] Regarding sovereign risks associated with taxation, investors are unsettled by the lack of stability and predictability of the mining tax framework. Given that in the past, Zimbabwe frequently tinkered with gold and platinum royalties, a flexible gold royalty rate seems a plausible reform.[46] There is always political pressure to increase royalty rates when mineral prices spike. Likewise, the industry requires an adjustment of royalties when mineral prices plummet.[47] Drawing lessons from the flexible gold royalty rate for large-scale mining, this should inspire similar reforms for all high-valued minerals like PGMs, lithium and diamonds.

Viewed in isolation, it appears that the mining royalty rate is quite high. However, when the whole mining regime is considered, the numerous tax incentives significantly reduce the effective corporate income tax rate. Regimes that are highly corrupt and bogged down by administrative capacity deficiencies are more likely to prefer high royalty rates. This is so because they are very easy to administer, promote predictability of government revenue, and are less prone to tax evasion and avoidance compared to corporate income tax.

Before 2014, the same gold royalty rate for LSM and Artisanal and Small-Scale Mining (ASM) used to be applied. Changes were made in line with the equity principle, cognizant of the different capabilities to pay between LSM and ASM. Another important factor that motivated the lower gold royalty rate for ASM was administrative efficiency since it is not easy to tax the highly informal ASM sector. Stifling the thriving illicit gold mining and trade in the ASM sector. More broadly, as outlined in the Africa Mining Vision, there are other options to be explored that allow governments to rely less on taxes and royalties benefits through more closely integrating the mining sector with local economies.[48]

Much as the differentiation of royalty gold royalty obligations has played a critical role in mobilizing gold from ASM, typically this tax incentive created arbitrage opportunities. As the Treasury noted, some unethical large-scale gold producers are disposing of their gold under

[45] Anna Fleming, David Manley, and Thomas Lassourd, 2022, Variable Royalties**:** An answer to volatile mineral prices

[46] Gibson Chigumira; Lyman Mlambo; Erinah Chipumho; Gamuchirai Chiwunze, (2016), 'The Probable Impact on Zimbabwe Mining Fiscal Revenue and Industry Competitiveness of Various Price, Production and Fiscal Scenarios: Incorporating a Quantitative Case Study of the Gold'.

[47] Gibson Chigumira; Lyman Mlambo; Erinah Chipumho; Gamuchirai Chiwunze, (2016), 'The Probable Impact on Zimbabwe Mining Fiscal Revenue and Industry Competitiveness of Various Price, Production and Fiscal Scenarios: Incorporating a Quantitative Case Study of the Gold'.

[48] The African Minerals Governance Framework 2016

ASM to reduce their royalty obligations.[49] There is no easy fix, the Treasury took measures to narrow the gap for royalty obligations between LSM and ASM to minimise arbitrage opportunities. However, gold deliveries from ASM plummeted as a result and the Treasury was forced to revert to the initial arrangement.[50] Given the massive environmental, health, and safety issues plaguing ASM, perhaps the government could have ringfenced the revenue from the increased gold royalty rate to promote formalisation of the ASM sector.

Stabilisation clauses that may freeze royalty rates among other tax rates have the effect of restricting governments from recalibrating royalty rates to capture commensurate public revenue in line with the increase in the market price of minerals. Because of secrecy around mining deals, it is not easy to tell the extent of exposure to this fiscal risk. A court dispute in the past revealed the costly nature of a 25-year royalty stabilisation clause. The government was compelled by the courts to refund a whopping US$101.55 million to one of the largest mining companies operating in Zimbabwe.[51] The court ruled that the stabilisation agreement entered between the Ministry of Mines and Mining Development (MMMD) and the concerned mining company took precedence over the Finance Act, the Public Finance Management Act, and the Income Tax Act. Mining royalties are principally administered under the Mines and Minerals Act although the rate change is regulated from time to time through the Finance Act.[52]

The discrimination of royalty rates paid by SML and ordinary mining lease holders, 2.5% versus 10% ended up creating a race to the bottom. Using the tax equity principle, the Treasury lowered the platinum royalty rate from 10% based on the prescription of the Finance Act. This rate change was on the condition that when a 25-year royalty stabilisation agreement with one of the largest platinum mines lapses, in August 2019, the new rates would be charged. However, when the time came, the promised review of the platinum royalty rate was not affected. Given the bumper revenue harvested by platinum mines in 2021 because of favourable mineral prices, the opportunity cost stemming from the failure to review platinum royalty rates was massive. As they say better late than never, dissatisfied with public revenue from platinum, increased royalty rate from 2.5% to 5% with effect from 01 January 2023[53]

The payment of mineral royalties in Zimbabwe, mainly strategic minerals – gold, platinum, diamonds, and lithium, is now payable half in cash and the remaining half in kind for the

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[49] Mukasiri Sibanda 2021, Decrypting Illicit Gold Trade in Zimbabwe https://www.veritaszim.net/sites/veritas_d/files/Decrypting%20Illicit%20Gold%20Trade%20in%20Zimbabwe.pdf

[50] Mukasiri Sibanda 2021, Decrypting Illicit Gold Trade in Zimbabwe https://www.veritaszim.net/sites/veritas_d/files/Decrypting%20Illicit%20Gold%20Trade%20in%20Zimbabwe.pdf

[51] ZIMPLATS (Pvt) Ltd v ZIMRA & Another (HC 12292/11, HH 169-15) [2015] ZWHHC 169 (28 January 2015) https://old.zimlii.org/zw/judgment/harare-high-court/2015/169

[52] ZIMPLATS (Pvt) Ltd v ZIMRA & Another (HC 12292/11, HH 169-15) [2015] ZWHHC 169 (28 January 2015) https://old.zimlii.org/zw/judgment/harare-high-court/2015/169

[53] Finance Act, 2022 https://gazettes.africa/archive/zw/2022/zw-government-gazette-dated-2022-10-24-no-127.pdf

concerned refined mineral[54]. This change was necessitated by several objectives that are mostly aligned with the operationalization of the Sovereign Wealth Fund (SWF). These objectives include smoothening public revenue available to support annual public expenditure, preservation of intergeneration equity, backing up the value of the domestic currency, and being collateral for borrowings. Some critics have argued that the move will likely fuel fiscal deficits as this will reduce government revenue from mining against raising public expenditure pressure. The government argues that mining revenue has doubled since 2017 and it makes sense to adopt a prudent approach in the management of royalty revenue.

Further, the Mines and Minerals Act has progressive provisions that give rebates in proportion to the level of value addition and beneficiation as an incentive for investing in downstream processing capacity. For minerals that are consumed locally, a full royalty rebate is applied.

In trying to bridge the perceived inequality gap of sharing mining profits between investors and the nation, the government of Zimbabwe disallowed mining royalties as a deductible expense for the purpose of computing taxable income[55]. A policy U-turn was made three years down the line after the government succumbed to the pressure from the mining industry.

Table 3: Categorised list of different mineral types found in Zimbabwe

Precious Metals	Precious Stones	Base Metals	Industrial Minerals	Hydrocarbons	Dimensional Stones
Gold	Diamonds	Copper	Asbestos	Coal	Black Granite
Silver	Emeralds	Nickel	Graphite		
Platinum		Tantalite	Phosphate		
Palladium		Lithium	Limestone		
Rhodium		Iron ore	Feldspar		
		Chromium	Magnesite		

Source: ZEPARU (2016)[56]

It is interesting to note that while lithium is classified under base metals that ordinarily should attract a 2% royalty rate, considering the revalued interests of the minerals for energy transition purposes, correspondingly, the government adjusted the lithium royalty rate to 5%. In effect, lithium is now being classified along PGMs and even in the new royalty payment requirements, lithium together with gold, platinum, and diamonds were classified as strategic minerals.

[54] KPMG 2022, Zimbabwe Tax Guide 2022/2023 https://assets.kpmg.com/content/dam/kpmg/us/pdf/2022/11/tnf-zimbabwe-nov30-2022.pdf

[55] Gibson Chigumira; Lyman Mlambo; Erinah Chipumho; Gamuchirai Chiwunze, (2016), 'The Probable Impact on Zimbabwe Mining Fiscal Revenue and Industry Competitiveness of Various Price, Production and Fiscal Scenarios: Incorporating a Quantitative Case Study of the Gold'.

[56] Gibson Chigumira; Lyman Mlambo; Erinah Chipumho; Gamuchirai Chiwunze, (2016), 'The Probable Impact on Zimbabwe Mining Fiscal Revenue and Industry Competitiveness of Various Price, Production and Fiscal Scenarios: Incorporating a Quantitative Case Study of the Gold'.

3.2.1. Corporate Income Tax

Generally, CIT in Zimbabwe is not unique to the mining industry as the rate of 24% is applied. Further, a 3% levy is applied to CIT payable, effectively pushing the nominal CIT rate to 24.72%. A special CIT rate of 15% only applies to Special Mining Lease (SML) holders. Further SML holders attract an Additional Profit Tax (APT), a form of resource rent tax that targets massive cash inflows from high mineral market prices. This resonates with the advice given by Sunley and Baunsgaard (2001) that resource rent should be levied on the positive accumulation of cash flow in a company. Compared to other jurisdictions in the SADC region, the 24.72 appears to be on the lower side, more so considering the numerous tax incentives that erode the ultimate taxable income. These include full capital allowances and unlimited carryover of mining losses.

Table 4: Corporate Income Tax Rates of 15 resource-intensive countries according to IMF

Country	CIT Rate	Country	CIT Rate
Botswana	22	Namibia	35-50
Burkina Faso	27.5	Niger	30
Central Africa Republic	30	Sierra Leone	25
Democratic Republic of Congo	30	South Africa	28-32
Ghana	35	Tanzania	25-30
Guinea	30	Zambia	15-35
Liberia	30	Zimbabwe	24.72%
Mali	30		

Source: IMF (2021)[57]

When COVID-19 struck, the government reduced the CIT for all sectors except mining by 1% from 25% to 24%[58]. A year after this change, the mining sector was given the same benefit and it was similarly backdated[59]. Reduced tax obligations for COVID-19 relief did not only target corporates, but consumers also benefited from a reduced Value Added Tax (VAT) rate, from 15% to 14.5%. Starting January 2023, the government has reverted to the pre-pandemic VAT rate of 15%[60]. However, this time around there is some level of tax discrimination as the CIT has not been switched back to pre-pandemic levels. Arguably, the loss of public revenue because of the incentives given as part of the COVID-19 relief and the failure to have a sunset clause is a huge dent in CIT receipts from also sectors, including the mining sector. Because the revenue performance reports generated by the ZIMRA do not segregate contribution per revenue head per economic sector, it is not feasible to calculate the revenue foregone through the reduced CIT for the mining sector but for the overall economy.

[57] Giorgia Albertin, Boriana Yontcheva, Dan Devlin, Hilary Devine, Marc Gerard, Irena Jankulov Suljagic, Vimal Thakoor, and Sebastian Beer (2021), Tax avoidance in Sub-Saharan Africa's mining sector, international Monetary Fund. Fiscal Affairs Department (Series)
[58] Finance Act 2021
[59] Finance Act 2022
[60] KPMG 2022, Zimbabwe Tax Guide 2022/2023 https://assets.kpmg.com/content/dam/kpmg/us/pdf/2022/11/tnf-zimbabwe-nov30-2022.pdf

Table 5: Performance Assessment of Various Tax Heads for 2022

Table 6: Annual Net Revenue Collected by Revenue Head

Revenue Head	2022 Annual Target (ZWL Billion)	2022 Annual Actual (ZWL Billion)	Variance %	Contribution %	Real Growth from 2021
VAT	393.90	505.63	28.37%	25.38%	55.47%
Individuals	269.84	384.38	42.45%	18.85%	62.77%
Companies	313.78	297.82	(5.09%)	15.40%	13.27%
Excise Duty	194.76	271.39	39.34%	13.62%	67.46%
IMTT	147.77	185.65	25.64%	9.32%	44.29%
Customs Duty	111.35	161.37	44.92%	8.10%	92.21%
Other Taxes	112.34	124.13	10.49%	6.23%	22.50%
Mining Royalties	61.11	61.82	1.15%	3.11%	61.54%
Total Net Revenue	**1,604.86**	**1,992.19**	**24.14%**	**100.00%**	**49.46%**

Source: ZIMRA 2022 Annual Report

From the table above, ZIMRA collected CIT amounting to ZWL 297.82 billion in 2022. The revenue foregone via the 1% CIT slashed rate for 2022 can be deduced as follows.

(25% - 24%/24%) x ZWL297.82 billion = ZWL12.41 billion.

Compared to mining royalties, the 2022 CIT revenue foregone via the rate change amounts to a 20% discount on mining revenue receipts for the same period, and a 0.62% discount on total revenue received by ZIMRA.

Changes made for the global tax by the Organisation of Economic Cooperation and Development (OECD) especially the Pillar 2 solution requiring a global 15% effective minimum corporate tax rate compels Zimbabwe to rethink its tax incentive regime. While the nominal CIT in Zimbabwe stands at 24.72%, effectively, it could be way less and if it falls below the OECD's 15% threshold, revenue foregone would most likely be recouped by countries where mining companies operating in Zimbabwe are headquartered. However, the 15% effective corporate tax rate set by OECD is way below the 24.72% CIT rate applied in Zimbabwe. Therefore, like most African countries, Zimbabwe is facing the risk of a compelled CIT rate cut to fit with the global tax framework based on the OECD s influence. Fearful that the OECD global tax reform measures are not far-reaching enough for revenue mobilization by the Global South, the African countries are pushing for an UN-led global tax reform leadership.

3.2.2. Capital Gains Tax

Another special type of income tax that applies to all economic sectors, mining included, is Capital Gains Tax applied from the proceeds of disposing immovable assets, and marketable securities. The rates are 1% of proceeds of listed securities, 20% of capital gain on property, and 20% of capital gain on unlisted securities.[61] Other countries in the SADC region like Zambia do not have a provision for CGT. Because of the hive of investment activities in the lithium sector, acquisitions driven by the Chinese have boosted the growth in that sector. Over the past two years, the Chinese investors have acquired Arcadia lithium mine from Prospect Resources for US$422 million and Bikita Minerals for US$180 million.[62] This has presented opportunities for increasing the government's fiscal take from mining via CGT. It is vital to note that CGT payment can be deferred if the proceeds are reinvested subject to certain conditions. The 2021 and 2022 revenue performance reports generated by ZIMRA did not comment on these significant events and let alone disclose the impact of CGT on revenue receipts or associated challenges. To deter speculation linked to disposal of exploration licenses before the commencement of mining activities, (ZEPARU 2016) recommended an imposition of 50% CGT.[63]

3.2.3. Export taxes and export bans

"From the pit to the port"

One of the main challenges for optimizing public revenue from mining is the failure to value add and beneficiate mineral ores, most exports from African countries are raw or partially processed. The minimum value adds on mineral exports undermines tax revenue generation, and other economic benefits – foreign earnings, job creation, and industrial growth. Zimbabwe's development strategies have always grappled with the issue of value addition and beneficiation. While the optimization of government revenue from mining is crucial, it must not be pursued in isolation with growing economic linkages, investments, and diversification of the economy as encouraged by the AMV.

Using both the carrot and stick approaches, with mixed success, the government has tried to stimulate local value addition and beneficiation of minerals. Mineral royalties, for example, have a sweetener through a rebate portion that depends on the level of value addition. There is a full rebate for minerals consumed locally. On the flip side, the government has employed export taxes and bans to encourage local value addition. Minerals that have been targeted include platinum, lithium, and black granite. In the platinum sector, Unki Mine invested in a smelting plant, moving a step up from exporting concentrates to matte. Zimplats has advanced plans to move a step up by investing in base metal recovery the second last stage before the recovery of precious metals.[64]

[61] Gibson Chigumira; Lyman Mlambo; Erinah Chipumho; Gamuchirai Chiwunze, (2016), 'The Probable Impact on Zimbabwe Mining Fiscal Revenue and Industry Competitiveness of Various Price, Production and Fiscal Scenarios: Incorporating a Quantitative Case Study of the Gold'
[62] Clinton Pavlovic, Senior Associate at Hogan Lovells, 18 April 2023, Zimbabwe: A new focus for lithium mining https://www.miningweekly.com/article/zimbabwe-a-new-focus-for-lithium-mining-2023-04-18
[63] Gibson Chigumira; Lyman Mlambo; Erinah Chipumho; Gamuchirai Chiwunze, (2016), 'The Probable Impact on Zimbabwe Mining Fiscal Revenue and Industry Competitiveness of Various Price, Production and Fiscal Scenarios: Incorporating a Quantitative Case Study of the Gold'
[64] $62 million platinum group metals smelter was commissioned in May 2019 https://www.herald.co.zw/ed-commissions-62m-smelter-tomorrow/

The path for value addition and beneficiation on some mineral value chains is not for Zimbabwe to walk alone as envisioned by the AMV. A regional approach is critical to achieving the economies of scale necessary to de-risk investment. Indonesia successfully used the export ban on nickel concentrates to compel value addition locally. Its success lies in market domination as Indonesia controls half of the world's nickel supplies. Its proximity to the market was a crucial factor too. That said, the EU successfully challenged Indonesia's export ban on nickel concentrates using the World Trade Organisation (WTO) court. Namibia and Zimbabwe are some of the African countries that are trying to use the export ban measure to sour the value addition of lithium. Already the risk of being taken to WTO court has been flagged. The EU's critical raw materials strategy is clear that it will not hesitate to use its trade policy protocols and work with international organisations to ensure undistorted trade to guarantee the EU's commercial interests.[65]

3.2.4. State equity participation

Apart from taxation, other options for governments to raise revenue via dividends from mining are through State Owned Enterprises or partial ownership of equity in mining companies. Statutory companies have been created to enhance the government's economic and fiscal interests in mining – the Zimbabwe Mining Development Corporation (ZMDC), and the Minerals Marketing Corporation of Zimbabwe (MMCZ). Other prominent mining SOEs comprise the Zimbabwe Consolidated Diamond Company (ZCDC), and Kuvimba. Mining SOEs, like their peer in other sectors, have proved to be a fiscal burden because they require constant bailouts from the State.[66] One of the major disasters of state equity participation in the mining sector involved Marange diamond fields, touted as the largest diamond find of the 21st century. The State had 50% in all the 7 diamond mining companies operating in Marange diamond fields except one where the shareholding was 100%.[67]Frequently, the Office of the Auditor General (OAG) raised red flags on corporate governance and diamond revenue leakages linked to government's join ventures in Marange diamonds without any attention from the Executive.[68] Lessons from Marange diamonds saga should inspire the government to harness better the economic and fiscal benefits potentiated by the global demand for lithium.[69] Kuvimba house is involved in lithium mining through Sandawana Mines located in Mberengwa, one of the poorest but minerals rich districts in Zimbabwe.

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65 https://policy.trade.ec.europa.eu/consultations/information-gathering-indonesian-export-ban-and-domestic-processing-requirement-nickel-ore_en#:~:text=specific%20EU%20action.-,Context,any%20of%20the%20available%20exceptions.

66 National Development Strategy,

67 Gilbert Makore and Mukasiri Sibanda (2016), Gap Analysis of Mineral Revenue Disclosure And The Information Needs Of Various Stakeholders, USAID Strategic Economic Research And Analysis Zimbabwe (SERA) Program

68 Gilbert Makore and Mukasiri Sibanda (2016), Gap Analysis of Mineral Revenue Disclosure And The Information Needs Of Various Stakeholders, USAID Strategic Economic Research And Analysis Zimbabwe (SERA) Program

69 Darlington Chidarara and Mukasiri Sibanda

3.2.5. Disposal of mineral rights competitive bidding

The AMV recommends that if certain regions in a country have high geological potential, because of the lower risk exposure to unfruitful exploration, the disposal of mineral rights should be done through competitive bidding.[70] Unfortunately, the MMA does not have a provision on competitive bidding as an option for disposing of mineral rights. Instead, it only relies on the First in First Assessed method of awarding mineral rights.[71] On the positive side, the Constitution, Section 315 (2) (c) requires transparency, honesty, cost-effectiveness, and competitiveness for negotiation and performance monitoring of mining rights. It is encouraging to note that the latest Mining and Minerals Amendment Bill (MMAB) provides for competitive bidding in areas that have high geological potential.[72] To understand the opportunity cost stemming from the failure to leverage competitive bidding to boost mining revenue, it is important to look at the valuation of some of the mineral rights ceded back to the government by some mining companies to get empowerment credits under indigenisation, and economic empowerment drive. AngloAmerican, for example, claimed that the government of Zimbabwe agreed to pay US$142 million in respect of the cession of Kironde and Bougai mineral rights claims in March 2008.[73] The concerned mineral rights were never disposed of through competitive bidding. Central African Mining & Exploration Company plc (CAMEC) acquired the mineral rights by advancing a US$100 million loan to the government of Zimbabwe for a majority stake in a joint venture.[74] Anglo-American-owned Unki Mine is not the only company that has ceded back a portion of their mining rights to the government, ZIMPLATS has done it also.[75] Again, the mineral rights that the government passed on to Karo Resources among others were not done through competitive bidding.

3.3. Mining related tax incentives

Zimbabwe is not an exception; countries offer significant tax incentives to attract investments in the mining sector. On the flip side, this presents major risks to public revenue mobilisation from mining. Overly generous tax incentives are one of the factors behind the erosion of government revenue from mining (HLP Report 2015).[76] This continues to be the trend even though a study conducted by the ICMM (2009) concluded that tax incentives are not an important factor in mining investment decisions as tax disincentives, high rates for

[70] Africa Mining Vision (2009)
[71] Norman Mukwakwami, Corruption Risk Assessment Of Mining Awards In Zimbabwe https://transparency.org.au/wp-content/uploads/2019/10/Zimbabwe_report.pdf
[72]
[73] Anglo American Platinum Limited, Annual Report 2012, https://www.angloamerican.com/~/media/Files/A/Anglo-American-Group/PLC/investors/annual-reporting/2013/anglo-american-platinum-integrated-annual-report-2012.pdf
[74] RAID (July 2013), Sanctions, violence, pensions, and Zimbabwe https://www.raid-uk.org/sites/default/files/briefing-ochziff.pdf
[75] ZIMPLATS (06 June 2018) ASX Announcement – Resolution of Mining Lease Area and Mining Tenure Issues https://www.zimplats.com/data/2018/06/Confirmation-of-Release-ZIM-Resolution-of-Mining-Lease-Area-and-Mining-Tenure-Issues.pdf
[76] AU/ENECA (2015) Report of the High-Level Panel on Illicit Financial Flows from Africa

instance. Typical tax incentives offered to miners in Zimbabwe comprise tax holidays, unrestricted carry-over of assessed mining losses, full capital redemption or recoupment, deduction of finance costs, stabilisation of tax rates, and corporate social investments.[77] Some of the tax incentives are prescribed by the law and some are subjected to negotiation through mining agreements.

Zimbabwe's investment law under Special Economic Zones provides for tax holidays. Aggrieved by the perceived inequalities for sharing income from mining, the government moved to restrict mining companies from enjoying the benefits under SEZ[78]. However, tax holidays can be provided under negotiated mining agreements as is the case with the Special Mining Lease (SML) which has a minimum investment threshold of US$100 million[79]. While the general murkiness of mining agreements in Zimbabwe makes it difficult for the public to gauge the fiscal risk exposure, a ray of light comes from the recent gazetting of a Statutory Instrument (SI) on tax holidays. Regardless of being hard squeezed of revenue because of the COVID-19 pandemic, Great Dyke Investments was awarded a 5-year tax holiday[80]. This covered CIT, APT, and withholding taxes on domestic shareholders.

The unlimited assessed loss carryover is one of the most ridiculous tax incentives that is part of the Income Tax Act which makes government revenue from CIT highly vulnerable[81]. All industries apart from mining are allowed to carry over losses for 6 years. Countries like Tanzania have capped the loss carryover to 10 years after they suffered alleged abuse by mining companies that were continuously declaring no CIT because of the unlimited carryover of losses[82]. What this means is that even when the company becomes profitable, it can continue for a long time to offset its CIT obligations by carrying over previously assessed losses incurred.

3.4. Thin Capitalisation Risk Management

Debt shifting is normally practiced by MNCs to manage exposure to CIT risk exposure by making use of intra-company borrowing without tempering the overall debt

[77] Gibson Chigumira; Lyman Mlambo; Erinah Chipumho; Gamuchirai Chiwunze, (2016), 'The Probable Impact on Zimbabwe Mining Fiscal Revenue and Industry Competitiveness of Various Price, Production and Fiscal Scenarios: Incorporating a Quantitative Case Study of the Gold'

[78] KPMG 2022, Zimbabwe Tax Guide 2022/2023 https://assets.kpmg.com/content/dam/kpmg/us/pdf/2022/11/tnf-zimbabwe-nov30-2022.pdf

[79] Gibson Chigumira; Lyman Mlambo; Erinah Chipumho; Gamuchirai Chiwunze, (2016), 'The Probable Impact on Zimbabwe Mining Fiscal Revenue and Industry Competitiveness of Various Price, Production and Fiscal Scenarios: Incorporating a Quantitative Case Study of the Gold'

[80] Statutory Instrument 26 of 2021, Income Tax (Exemption from Income Tax) (Great Dyke Investments (Private) Limited) Notice, 2021 https://www.veritaszim.net/sites/veritas_d/files/SI%202021-026%20Income%20Tax%20%28Exemption%20from%20Income%20Tax%29%20%28Great%20Dyke%20Investments%20%28Private%29%20Limited%29%20Notice%2C%202021.pdf

[81] Gibson Chigumira; Lyman Mlambo; Erinah Chipumho; Gamuchirai Chiwunze, (2016), 'The Probable Impact on Zimbabwe Mining Fiscal Revenue and Industry Competitiveness of Various Price, Production and Fiscal Scenarios: Incorporating a Quantitative Case Study of the Gold'

[82] The United Republic of Tanzania, The Finance Act 2020, No 8
https://www.tra.go.tz/Images/headers/FINANCE_ACT_2020.pdf

exposure[83]. Finance costs or interest on loans enjoy a tax shield because they are an allowable expense that leads to the reduction of taxable income, by extension CIT. Equity and debt are the main sources of capital for mining companies. However, the tax regime generally incentivises debt than equity. Dividend income, a return on equity does not enjoy a tax shield compared to a return on debt, finance cost. Dividends are declared after CIT has been deducted and are further subjected to withholding tax, in a way this is deemed a double taxation. Corporations have room to manipulate this grey area to minimise their tax obligation by structuring their capital in a manner that makes debt the domineering source of capital.

This aggressive tax planning behaviour is generally known as thin capitalisation. Indeed, empirical evidence evinces that the internal capital structure of MNEs responds to CIT differences for both developed and developing countries[84]. Rather than investing directly through equity, a related company can be set up in a tax haven that will borrow funds from a mining company in another jurisdiction at an exorbitant interest rate. To curb this type of abuse, some tax regimes have Thin Capitalisation Rules (TCRs) either impose controls on the debt-to-equity ratio (safe haven ratio) or a percentage of Earning Before Interest Tax Depreciation and Amortisation (EBITDA)[85]. On paper, fortunately, Zimbabwe has TCRs, a debt-equity ratio of 3:1 prescribed by the Income Tax Act to remove the tax shield for exceeding the capital structure restrictions. Ghana, Tanzania, and Sierra Leone are some of the resource-intensive economies that use debt-to-equity ratios for their TCRs[86]. Countries that used a percentage cap on EBITDA to control thin capitalization risks are Botswana, Burkina Faso, Guinea, and Zambia[87].

In practice, corruption, administrative deficiencies, and double taxation agreements can render such controls ineffective. Zimbabwe is perceived as a high-risk jurisdiction because of unfavorable macroeconomic conditions – debt distress, currency instability, and sanctions mainly. Investors can use the unfavorable investment environment to negotiate terms and conditions that override think capitalization risk control measures provided under the Income Tax Act. For instance, Zimbabwe is under sanctions which also plays a part in increasing the cost of capital which also can be inflated unintentionally by TCRs. In terms of transparency, the International Financial Reporting Standards (IFRS) have made important strides as the finance cost are now separately disclose on the face of financial statements by publicly listed

[83] Ruud de Mooij and Li Liu (2021), At A Cost: The Real Effects of Thin Capitalization Rules, IMF Fiscal Department Working Paper https://www.elibrary.imf.org/view/journals/001/2021/023/001.2021.issue-023-en.xml
[84] Ruud de Mooij and Li Liu (2021), At A Cost: The Real Effects of Thin Capitalization Rules, IMF Fiscal Department Working Paper https://www.elibrary.imf.org/view/journals/001/2021/023/001.2021.issue-023-en.xml
[85] Giorgia Albertin, Boriana Yontcheva, Dan Devlin, Hilary Devine, Marc Gerard, Irena Jankulov Suljagic, Vimal Thakoor, and Sebastian Beer (2021), Tax avoidance in Sub-Saharan Africa's mining sector, international Monetary Fund. Fiscal Affairs Department (Series)
[86] Giorgia Albertin, Boriana Yontcheva, Dan Devlin, Hilary Devine, Marc Gerard, Irena Jankulov Suljagic, Vimal Thakoor, and Sebastian Beer (2021), Tax avoidance in Sub-Saharan Africa's mining sector, international Monetary Fund. Fiscal Affairs Department (Series)
[87] Giorgia Albertin, Boriana Yontcheva, Dan Devlin, Hilary Devine, Marc Gerard, Irena Jankulov Suljagic, Vimal Thakoor, and Sebastian Beer (2021), Tax avoidance in Sub-Saharan Africa's mining sector, international Monetary Fund. Fiscal Affairs Department (Series)

companies. Therefore, the impact of the cost of finance on taxation can be deciphered[88]. Notwithstanding the thin capitalization risk, the author has seen a trend where a couple of successful miners are using their internally generated cash reserves to finance their capital expenditures[89]. The author has also witnessed a trend where mining companies use internally generated cash reserves to finance their expansion projects – capital expenditures.

3.5. Capital redemption or recoupment allowances

To encourage investment, the Income Tax Act provides for full recoupment of capital expenditure through special initial allowances or wear and tear allowances[90]. These are spread over a period of 4 years, and they give rise to deferred income tax liability in most cases. The challenge with this arrangement is the timing difference of settling tax obligation if we are to apply the time value of money, a fundamental concept in financial management – whether at personal, corporate, or government level. A dollar received today is worth more than a dollar received tomorrow because of the opportunity cost incurred in the form of interest or profit generated from investment, and inflation among other factors.

The loss incurred because of deferred tax liability is not only financial but there is also a human cost too. For instance, during COVID-19, when governments when the fiscal instability was triggered by sudden and huge public expenditures to save lives, they were owed substantial money through deferred tax liabilities for companies that they could not call early to respond to emergence. A case in point is Anglo-American Platinum in which deferred tax liabilities for 2021 and 2021 were ZAR 15,648 million and ZAR 13,141 million respectively against deferred tax assets amounting to ZAR 53 million and ZAR million for 2021 and 2020 respectively[91]. Anglo-American Platinum is headquartered in South Africa and owns the Unki platinum mine among its rich platinum assets that are anchored by South Africa. Under such circumstances, there should be clear guidelines for which governments can be able to make an early claim for the settlement of deferred tax obligations by corporates. Of course, companies should get an incentive for early settlement of deferred tax liability in the form of a discount.

Complementary measures can be adopted by governments which result in indirect taxes being applied to mining companies thereby contributing to the cost burden[92]. Such policy mechanisms include free equity or carry interest state participation, local content development requirements – development of upstream, downstream, and side stream

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[88] An equation can be used to calculate the tax shield enjoyed as a result of finance cost
[89] Zimplats (06 December 2021), ASX Announcement – Major Capital Expenditure Project Update https://www.zimplats.com/data/2021/12/Major-Capital-Expendeture-Projects-Update.pdf
[90] Gibson Chigumira; Lyman Mlambo; Erinah Chipumho; Gamuchirai Chiwunze, (2016), 'The Probable Impact on Zimbabwe Mining Fiscal Revenue and Industry Competitiveness of Various Price, Production and Fiscal Scenarios: Incorporating a Quantitative Case Study of the Gold'
[91] Anglo American Platinum (2021) Integrated Annual Report https://www.angloamericanplatinum.com/~/media/Files/A/Anglo-American-Group/Platinum/report-archive/2021/iar-2021.pdf
[92] By Pietro Guj, Boubacar Bocoum, James Limerick, Murray Meaton, and Bryan Maybee (2013), How to Improve Mining Tax Administration and Collection Frameworks

economic linkages, local community development, and foreign currency retention thresholds. One of the most prominent risks of indirect taxation in Zimbabwe emanates the foreign currency exchange controls implemented by the Reserve Bank of Zimbabwe (RBZ) have been a pain point for the mining industry.

Exchange Control Act (Chapter 22:05) – confers RBZ powers to impose duties and restrictions concerning gold, currency, securities, exchange transactions, payments and debts, and the import, export, transfer, and settlement of property, and for connected purposes. As part of the foreign exchange controls, the Reserve Bank of Zimbabwe (RBZ) requires miners to surrender a portion of their foreign currency earnings at a prevailing official market rate[93]. Since the official market rate is way below the parallel market rate, and mining is claiming incapacitation from foreign exchange shortages, the forced surrender of the portion of foreign currency is deemed an indirect charge or tax.[94] The foreign exchange risks facing a sizeable number of mining companies operating in Zimbabwe are mainly twofold. Most companies rely on importing goods and services and this creates a foreign exchange translation gain or loss affecting the trade payables mostly. For example, the gain and loss of the exchange rate between the ZAR and the USD. Further, the exchange risk also arises from the appreciation or depreciation of the exchange rate at a domestic level between the USD and the Zimbabwe dollar (ZWL). In this translation, gains or losses impact monetary assets and liabilities.

Figure 5: Extract of ZIMPLATS'S Profit or Loss and Other Comprehensive Income for the Year Ended 30 June 2020

	Group		Company	
	2020 US$ 000	2019 US$ 000	2020 US$ 000	2019 US$ 000
CURRENT TAX PAYABLE				
At the beginning of the year	4 216	72 241	-	-
Charged to profit or loss (note 28)	100 222	14 959	12 150	8 944
Foreign currency exchange gains*	(5 456)	(47 598)	-	-
Payments made during the year	(88 599)	(35 386)	(12 150)	(8 944)
At the end of the year	10 383	4 216	-	-

*The exchange gains arose from the settlement and retranslation of Zimbabwe dollar-denominated income tax liabilities to United States dollars.

4. Conclusion

Even though a dark public finance cloud hangs over Zimbabwe, there are silver linings. The country's public debt crises can be substantially extinguished through improved governance of mineral resources. Indeed, Zimbabwe is endowed with a diversified and lucrative mineral asset base that offers opportunities for optimizing the nation's economic and fiscal benefits, depending on the concerned mineral value chain. Notably, the global demand

[93] By Pietro Guj, Boubacar Bocoum, James Limerick, Murray Meaton, and Bryan Maybee (2013), How to Improve Mining Tax Administration and Collection Frameworks
[94]

for green energy minerals coupled with the high geological potential of lithium mining in Zimbabwe gives the government an appropriate bandwidth to recalibrate the lithium tax regime to optimize government revenue.

Already we have seen the government reclassifying lithium from the base metal group to precious metals in response to high market prices for lithium–spodumene. While a high royalty is commendable, the government must come up with a flexible royalty regime for lithium and other precious metals, taking a leaf from the gold sector. This is particularly important because of the huge price swings or volatility of mineral prices. By so doing, the flexibility of the royalty regime will achieve predictability and stability elements that address both government and investors' concerns. Given the likely bumper revenue from lithium and other precious metals in Zimbabwe, the government should consider extending the APT, a resource rent to cover such a group of metals.

Another avenue that the government can pursue to increase public revenue from mining is the regular review of incentives offered to mining investors. It is remarkable to note that the fiscal risks posed by numerous high-cost tax incentives are identified and prioritized by the NDS1. The main drawback is on the implementation side. For instance, the government reduced the CIT by 1% as a COVID-19 relief measure. Now that the government has restored VAT to the pre-pandemic level, the same logic must be applied to CIT[95]. This is critical considering that Zimbabwe's CIT rate is on the lower side considering its peers in Africa[96]. Notably, judging from the investor confidence in the prospects of lithium, platinum, and gold mining, Zimbabwe’s high geological potential is the big card for attracting investments, making tax incentives an unnecessary cost to the fiscus. Overall, the global tax reform agenda call for a review of the effectiveness of the current tax incentive framework as revenue foregone by Zimbabwe can be recouped by countries that are headquarters of MNEs operating in Zimbabwe.

Given the huge interest in Zimbabwe’s lithium and platinum deposits, adopting competitive bidding for the disposal of lucrative deposits can be a huge boost to government revenue. SOEs, while they have the potential to contribute taxes and dividend income to the government, have exacerbated the country’s fiscal risks because they are loss-making and require constant bailouts. Good corporate governance screws must be tightened to ensure that mining SOEs deliver on one of their mandates of contributing robustly to government revenue.

5. Policy Recommendations

- The mining royalty regime for all valued minerals such as PGMs, lithium, and diamonds must be calibrated at a sliding scale or use variable rates to make the tax instrument sensitive to commodity price swings. This will achieve double wins - a

[95] KPMG 2022, Zimbabwe Tax Guide 2022/2023 https://assets.kpmg.com/content/dam/kpmg/us/pdf/2022/11/tnf-zimbabwe-nov30-2022.pdf
[96]

more stable and predictable royalty regime and commensurate government revenue in response to commodity price booms.

- The Additional Profit Tax must not be exclusively applied to special mining lease holders but to all mining companies that exceeds a given minimum annual revenue threshold like US$10 million to ensure that nation does not miss out when mining companies reap windfall profits associated with commodity price booms.
- The corporate Income Tax rate should be switched back to the pre-pandemic level, from 24% to 25% similar to what the government applied to Value Added Tax that was increased from 14.5% to 15%.
- Implement the policy measure adopted in the National Development Strategy to streamline numerous and highly costly tax incentives through regular cost-benefit analysis.
- Regional harmonization of tax incentives is fundamental to mitigate the risk of the race to the bottom which weaken fiscal linkages from mining for SADC countries.
- The regional approach to value addition and beneficiation of minerals is important to ensure that the taxable capacity from mining can be expanded rather than taxing lowly valued commodities.
- State equity participation in mining should be adopted in all strategic minerals to boost government revenue by adding potential dividend revenue to tax revenue.
- Improve transparency through the disclosure of mining contracts and mining revenue received by the government to enable public and Parliamentary scrutiny for improved accountability to mitigate corruption risks.