RESOURCE NATIONALISM
IN SOUTHERN AFRICA PARTNERSHIP

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FISCAL LINKAGES IN THE MINING SECTOR

Tanzania, Zambia, and Zimbabwe

KEY MESSAGES

- ◊ While significant gains in tax efficiency and revenue collection have been achieved in the region, weak coordination across state agencies have undermined the effectiveness of taxation reforms
- ◊ Short-term fiscal crises and political expediency have destabilized mining fiscal regimes and revenue outcomes
- ◊ Constraints imposed by commodity markets and investors' demands continue to restrict local taxation

INTRODUCTION

In the 2000s, strategies for advancing resource nationalist policies in Southern Africa placed mining taxation issues at the centre of public debate and government reforms. In response to disappointing revenues in the midst of a global commodity 'super cycle' of booming mineral prices, pressures grew within and outside government for a better fiscal deal for African mineral exporters. Governments launched initiatives to restructure mining fiscal regimes (MFR) while moving to close tax loopholes and clamp down on tax evasion and illicit external financial flows, which had emerged in the liberalised trade and investment environment of the 1990s and resulted in the undercutting of mining's national financial contributions in subsequent years.

Fiscal Linkages: Challenges and Strategies

In efforts to integrate foreign-dominated large-scale mining more closely into their national economies – that is, to strengthen 'fiscal linkages' with mining by boosting mineral revenues for local social and productive investment – governments undertook a variety of measures to improve revenue collection and management capacities, deepen financial inclusion of local mining stakeholders, and adjust to a changing international environment for investment and commodity supply chains. One critical weakness involved states' regulatory and oversight capacities. Robust capacity was vital for the calibration and revision of MFRs, monitoring of mineral production and exports, and coordination of state agencies with taxation responsibilities. However, competencies were severely eroded during the period of structural adjustment and required strategic rebuilding, albeit with severely limited available resources, in order to engage effectively with the comparatively well-resourced large scale mining sector.

Another challenge for governments in the 2000s involved developing fiscal provisions to encourage greater local participation in the sector, particularly by Artisanal and Small-Scale Mining (ASM). While ASM had a historical presence in the region, much of its activity remained informal and its output, and income, was beyond government's monitoring and fiscal reach. Yet in the 2000s, ASM's explosive growth in production, especially in high-value minerals like gold and diamonds, implied significant revenue losses for governments, as well as the persistence of inefficient, sometimes criminalized and environmentally-destructive mining practices. Some governments proposed 'formalisation' strategies for the ASM sector, and sought to balance licensing and other fees with measures to strengthen ASM capacities, productivity, and sustainable business practices.

The rapidly evolving context of transnational investment conditions and international commodity markets provided another significant challenge for governments pursuing resource nationalist ambitions involving greater fiscal and regulatory control over their extractive industries. With growth of their capital-intensive mining sectors heavily dependent on foreign investment, governments sought to balance the demands for an investor-friendly fiscal environment with domestic pressures for revenue growth, and strike new fiscal bargains. At the same time, the changing international environment of investment and markets, including the emergence of China and other non-traditional mining actors as leading players, created space for new forms of fiscal deals with foreign firms.

The partnership's research under the Fiscal Linkages Cluster focused on two critical areas in which significant research gaps persist: institutional innovations around tax efficiencies, and the dynamics underpinning MFR reforms.

Revenue Agencies: Institutional Innovations

Since the 2000s, Southern African governments have sought to both revise mining fiscal policies and improve revenue collection capacities. This has entailed a suite of institutional innovations; for example, the establishment by the Zambia Revenue Authority (ZRA) of Mining Taxation and Transfer Pricing Units, and the restructuring of mining taxation under Tanzania's Mining Commission in 2017. These units have aimed to strengthen auditing capabilities, develop assaying capacity, and improve regulatory coordination with other government agencies and departments.

Such innovations have led to notable improvements in auditing frequency and revenue collection from large-scale mining firms, and supported the more effective prosecution of egregious cases of tax evasion. However, 'asymmetries of power and capacity' persist between state agencies and foreign miners. Shortages of professional staff and institutional funding have weakened the work of the ZRA and the Mining Commission, which have also been destabilized by factional competition among elites and Presidential interference. Tax agencies' dependence on data collection undertaken by weaker state institutions has also hampered their effectiveness.

MFR Dynamics

Inconsistency in the formulation and implementation of MFR reforms, episodic fiscal crises and a hostile, competitive investment environment in which transnational mining companies have exerted disproportionate influence, have contributed importantly to shaping the uneven and unpredictable terrain of MFR reforms in the 2000s.

Under President Magufuli's administration, Tanzania pursued aggressive MFR reforms which significantly raised revenues, thanks in part to new investment in tax capture capacities under the centralised Mining Commission. At the same time, threats of large ad hoc tax penalties and export bans on Barrick Gold, a leading foreign miner, led concessions involving restructuring of Acacia, a Barrick asset, to include state participation. Overall, the state's MFR performance was enhanced by consistency under its centralised leadership and institutional coherence.

Zambia's MFR has been weakened by inconsistencies and unpredictability. During 2000-2019 these saw nine significant revisions to the MFR, destabilizing tax rates and collection forecasting. Very high dependence on copper export revenues has fostered fiscal vulnerabilities and strengthened the hand of large-scale foreign miners.

In Zimbabwe, a combination of fragmented tax strategies within the state, fragile taxation agencies and fiscal emergencies have resulted in a MFR characterised by shifting and unpredictable tax schedules, notably with regard to royalties, including changes to the modalities of their payment. The dispersion of tax jurisdiction across multiple agencies weakened overall monitoring and collection. While MFR rates have been reduced in recent years to levels aligned to regional levels, wariness by investors about the durability of favourable rates persist.

RECOMMENDATIONS

- ◊ Improved institutional capacity requires consistent and adequate funding for tax agencies in the context of continuing state budget deficits, debt crises and spending cuts
- ◊ Institutional investments are required to strengthen tax revenues from the ASM sector
- ◊ Coherent whole-of-government strategies backed by capacitated tax agencies are critical to the success of durable mining tax regimes
- ◊ Greater consistency in MFR schedules is needed to improve tax predictability, stabilise revenues and incentive taxpayer compliance.

Resource Nationalism in Southern Africa is a research partnership of African and Canadian universities, non-governmental organisations and research units, and researchers working in Tanzania, Zambia and Zimbabwe on themes of ASM, taxation and industrial policy reforms in the extractives sector. The project is supported by funding from the Social Sciences and Humanities Research Council of Canada and contributions from partner organisations. For further information on the project please visit us at https://resourcenationalism.ca/