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STATE OF CORRUPTION & ILLICIT FINANCIAL FLOWS IN ZIMBABWE'S MINING SECTOR

Publish What You Pay Zimbabwe

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FOREWORD

Zimbabwe's socio-economic landscape is characterized by a series of issues that present hurdles towards achieving the ambitious upper-middle income target set by the government. Key among these are the endemic corruption and illicit financial flows (IFFs) within Zimbabwe's major foreign current earner, the mining sector. Once seen as a potential driver of economic growth, this sector has instead become a complex web of governance challenges that hinder progress toward achieving the National Development Strategy 1 (NDS_1, 2020 -2025) aimed at attaining an upper-middle-income economy by 2030, as outlined in the Vision 2030.

This study on State of Corruption and Illicit Financial Flows in Zimbabwe's Mining Sector sheds light on how corruption and financial mismanagement divert resources away from local development. Through this latest instalment of our extractives sector, IFFs knowledge production process, Green Governance Trust provides vital insights into the policy inconsistencies and week implementation mechanisms confronting the government of Zimbabwe. We analyze recent case studies that illustrate the difficulties of enhancing fiscal returns from mineral wealth in Zimbabwe. From the paper its also vivid that while these challenges are significant, there is scope and opportunity to overcome.

An interesting key illustration in this research document is the concept of "own goals" scored by the government, thereby prompting crucial questions about whether these errors are truly unintentional or indicative of deeper issues within balancing Zimbabwe's political and economic realms. This analysis enriches our understanding of the mining sector and raises broader concerns about governance transparency and accountability of mineral resources.

Above all, the study also highlights the potential for reform, emphasizing recent tax policy changes as a positive step. Green Governance Trust submits that advancements in fiscal policy could help curb IFFs and promote contract transparency of mining investments especially Chinese contracts that are usually furnished with Double Taxation Agreements (DTAs). Through these insights, we can envision a future where the mining sector serves as a catalyst for local communities development rather than a 'resource curse' scenario or a source of strife.

It is critical that stakeholders within the extractives value chain (government, civil society and the public sector engage critically with this research, considering the complexities of policy implementation and the importance of data-driven driven advocacy in fighting corruption and IFFs. The findings are also essential for steering efforts by Public What You Pay consortium members towards ensuring sustainable economic development of mineral host communities across Zimbabwe. Collectively , we must remain committed to transparency, accountability, and fulfilling the Sustainable Development Goals (SDGs), African Mining Vision and ultimately Vision 2030 ensuring that Zimbabwe's natural wealth benefits its people and protects the future of the environment.

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EXECUTIVE SUMMARY

The report on the State of Corruption and Illicit Financial Flows in Zimbabwe's Mining Sector sheds light on the sector's pervasive challenges. It emphasises the impact of corruption and illicit financial flows on the country's economic development and well-being. The report focuses on mining taxation, associated leakages, and the difficulties in addressing these issues.

Policy, Institutional And Legal Conundrum

The report overviews the political, institutional, and legal challenges contributing to illicit financial flows and corruption in Zimbabwe. It discusses factors such as poor governance, opacity, patronage politics, sanctions, monetary policies, and endemic corruption in both public and private sectors. Additionally, it addresses the impact of corruption on public service delivery and the country's overall institutional weaknesses. Despite Zimbabwe's international and regional commitments to combating corruption, enforcement must be more consistent. The legal framework and institutions related to anti-corruption efforts in Zimbabwe are also outlined. Various laws, such as the Prevention of Corruption Act 1985, the Anti-Corruption Commission Act 2004, and the Money Laundering and Proceeds of Crime Act 2016, are mentioned as addressing corruption, money laundering, and corporate governance issues. The roles and limitations of the Zimbabwe Anti-Corruption Commission (ZACC) are discussed, including challenges such as insufficient funding and limitations on its authority to prosecute cases. Establishing the Special Anti-Corruption Unit (SACU) within the Office of the President and Cabinet is also highlighted, alongside concerns about its legal basis and potential overlap with other anti-corruption bodies. In 2018, Zimbabwe established specialised anti-corruption courts in Harare and Bulawayo, which have since expanded to all ten provinces at the magistrate level. These courts aim to fast-track corruption cases and handle complex financial matters. However, concerns about potential political bias in handling cases involving activists, journalists, or opposition leaders have been raised. Despite having a strong legal framework, Zimbabwe faces challenges in effectively combating illicit financial flows and corruption due to issues with law execution and operational efficiency.

Implications on national development

The National Development Strategy (NDS) outlines Zimbabwe's development goals, aiming for a prosperous and empowered society by 2030. Globally, there is a focus on sustainable development, particularly the UN Sustainable Development Goals (SDGs), and regionally, the African Union's Agenda 2063 addresses long-term development. Illicit financial flows (IFFs) pose a significant risk to these development agendas, impacting resource mobilisation. Reducing IFFs is crucial for bolstering domestic resource mobilisation, as it can yield more public revenue for national development. The NDS prioritises issues such as formalising the informal sector and upgrading tax services, indirectly contributing to tackling IFFs. Trade-related IFFs, particularly in the mining sector, are highlighted as major drivers of IFFs. The report emphasises the importance of prioritising recommendations to tackle IFFs. The NDS aims to anchor industrialisation policy on mineral beneficiation and value addition, focusing on gold, platinum, diamonds, coal, and chrome. Addressing IFFs is vital for realizing human rights and sustainable development, as the funds lost to IFFs could otherwise be used for vital elements like education, infrastructure, and healthcare.

Snapshot of Illicit Financial Flows in the mining sector

The mining sector in Zimbabwe has been plagued by illicit financial flows (IFFs), leading to significant revenue losses. Although exact figures are hard to pin down, estimates suggest that the country lost around US$32 billion from 2000 to 2020 due to IFFs. These illegal outflows are primarily attributed to tax evasion, money laundering, and corruption in mining, timber, fisheries, and wildlife industries. The lack of transparency and the involvement of foreign investors exacerbate the issue. The government's goal of generating $12 billion in annual income from the mining sector by 2030 through "Vision 2030" is at risk due to persistent revenue leakages. Corruption and IFFs in the mining sector have far-reaching consequences, impacting the country's developmental aspirations and exacerbating poverty and inequality among its citizens. Workers also suffer from wage evasion or theft, leading to poor working conditions. Additionally, corruption and IFFs in the mining sector have adverse environmental and political implications, including pollution, deforestation, water stress, and limited transparency and accountability in the extraction value chain. These challenges highlight the urgent need to address corruption and IFFs to ensure sustainable and equitable development in Zimbabwe.

The documentary "The Gold Mafia" by Al Jazeera highlighted the illicit gold trade in Zimbabwe. However, it did not delve into the challenges communities face near the gold mining sites, especially the environmental impact. The mining industry in Zimbabwe has evolved, with minerals like gold, Platinum Group of Metals (PGMs), diamonds, and lithium contributing to the country's economic development. However, corruption and illicit financial flows have hindered the harnessing of mining wealth for sustainable development. The government aims to significantly increase mining sector earnings by 2023, but transparency and governance weaknesses impede economic progress.

Zimbabwe's National Development Strategy (NDS) aims to achieve a prosperous and empowered upper-middle-income society by 2030. It aligns with the global and continental development goals, such as the UN Sustainable Development Goals (SDGs) and the African Union's Agenda 2063. Illicit Financial Flows (IFFs) pose a significant risk to Zimbabwe's development, impacting revenue mobilisation. The NDS addresses issues related to tax incentives, the informal sector, and tax services, indirectly contributing to tackling IFFs. However, trade-related IFFs remain a major concern, particularly in the mining sector. The report emphasises the need to prioritise recommendations to address IFFs as they undermine the country's development and human rights realisation.

Challenges and Missteps

Zimbabwe has made progress in addressing some recommendations by the Financial Action Task Force (FATF). However, there are still concerns regarding applying enhanced measures for high-risk customers, products, services, or situations. Additionally, recent legal provisions, such as the Patriotic Bill, have raised concerns about potential suppression of dissent and activism. Laws like AIPPA, the proposed PVO Bill, and POSA retain vague provisions that stifle freedom of expression and assembly. The lack of disclosure of beneficial owners, transparency and accountability in procurement, transparency in agreements on national resources, weak border controls against smuggling, and insufficient empowerment of law enforcement agencies contribute to the risks of illicit financial flows and corruption.

Efforts and Reforms

The study by Tanda and Genc in 2024 provided critical suggestions for improving Zimbabwe's revenue collection in the mining sector. These suggestions included joining the EITI, imposing stiffer penalties for mineral smuggling, reforming taxation laws, upgrading skills for auditing and monitoring, enhancing legislative oversight, and improving coordination among stakeholders. The Office of the Auditor General (OAG) also made efforts to improve public sector transparency and accountability, but the implementation of its recommendations has been disappointing. Additionally, the 2024 National Budget Statement and the Finance Act 2023 show signs of changing tactics by the government of Zimbabwe (GoZ) to address mining revenue leakages, including adjusting the Corporate Income Tax (CIT) rate back to pre-pandemic levels and introducing a Special Capital Gains Tax (SCGT) on entities acquiring mining titles or interests outside Zimbabwe.

Conclusions and Recommendations

The mining sector in Zimbabwe faces significant taxation challenges, including tax evasion, concealment, misrepresentation, fraud, and other unscrupulous activities. These issues lead to substantial revenue losses for the government.

Recommendations include implementing stricter regulatory and enforcement mechanisms, promoting transparency and accountability in tax reporting, and providing education and support to mining companies on compliant tax practices to combat tax evasion, concealment, misrepresentation, and fraud within the sector.

Corruption in Zimbabwe's mining sector undermines transparency and accountability, resulting in the misrepresentation of financial information and tax evasion. Recommendations for addressing this issue involve implementing stricter regulations and monitoring mechanisms, including independent auditing of financial records, technology for transparent resource tracking, creating a whistleblower protection program, and strengthening legal enforcement and penalties for engaging in corrupt activities.

Illicit financial flows exacerbate the situation by siphoning valuable resources from the country, leading to decreased investment in essential sectors such as education, healthcare, and infrastructure. This perpetuates inequality and hinders long-term sustainable development.

Recommendations to combat illicit financial flows include implementing and enforcing more robust anti-corruption measures, improving transparency and accountability in financial systems, strengthening regulatory frameworks, and promoting international cooperation to combat money laundering and tax evasion.

Ultimately, addressing corruption and illicit financial flows in the mining sector is crucial for Zimbabwe's sustainable development, economic prosperity, and the well-being of its citizens. The recommendations emphasise implementing and enforcing strong anti-corruption measures, transparent financial regulations, and fostering a culture of accountability and integrity in the mining industry.

INTRODUCTION

The state of corruption and illicit financial flows in Zimbabwe's mining sector are crucial issues that demand immediate attention. Corruption and illicit financial flows continue to pose significant challenges to the country's economic development and well-being.

This report by the Green Gov and validated by the Publish What You Pay Coalition in Zimbabwe seeks to illuminate the complex issue of corruption and illicit financial flows within Zimbabwe's mining sector. This edition, however, primarily focuses on mining taxation, associated leakages, and the challenges of addressing these issues.

The impact of corruption and illicit financial flows extends beyond financial losses; it undermines transparency and accountability and ultimately impedes the country's progress towards sustainable development and attaining national and international development goals.

Furthermore, the report will delve into the government's policy, institutional, and legal problems in addressing these challenges. It will also examine existing evidence on impediments to optimal fiscal linkages from mining and analyse recent case studies illustrating the government's efforts to combat illicit financial flows and corruption in the mining sector.

Implementing comprehensive policy measures, enhancing transparency, and establishing robust enforcement mechanisms cannot be overstated. Addressing corruption and illicit financial flows within the mining sector is imperative for Zimbabwe's sustainable development, economic prosperity, and the well-being of its citizens.

This report is crucial in highlighting the severity of the issue and advocating for effective strategies to counteract corruption and illicit financial flows in Zimbabwe's mining sector. It focuses on the period July 2021 to July 2024.

BACKGROUND

To simplify the definition of IFFs, the report will use village wealth in the form of cattle as a reference point. If one villager steals cattle from another and keeps the loot within the village, the total cattle remains the same, but the distribution of wealth becomes unjust and unequal within the village. However, if a villager steals cattle and transfers them to another village, the number of cattle in the original village decreases. This results in increased unjust and unequal distribution of wealth, not just within the village but also with other villages that benefit from the stolen cattle.

The loss caused by these actions is not limited to cattle. It also leads to a decreased ability to farm during droughts, loss of manure and organic fertilisers important for agriculture, diminished collateral, reduced future heifer and calf production, increased insecurity and instability in the village, and other challenges. The movement of capital across borders is crucial in defining IFFs, just as with stolen cattle transferred to different villages. If the losses stay within the same village, it's considered corruption, not IFFs. However, there is a thin line between corruption and IFFs because public sector corruption can facilitate IFFs. Furthermore, the collateral damage of IFFs is the further degradation of institutions, which fosters corruption.

Corruption and Illicit financial flows persist in Zimbabwe's mining sector. As Prosper Ndlovu notes[1] , "We are facing challenges in taxing the mining sector. These include tax evasion, where some players escape tax liability through concealing, misrepresentation, fraud, and other unscrupulous activities." Harold Chapaza, a ZIMRA official, spoke at a breakfast meeting organised by the Professional Business Association of Zimbabwe.

The significance and impact of corruption and illicit financial flows on the mining sector are substantial and far-reaching. They undermine transparency and accountability, allowing for misrepresenting financial information and tax evasion. This, in turn, leads to significant revenue losses for the government, negatively impacting public services and economic development.

Illicit financial flows further exacerbate the situation by siphoning off valuable resources from the country, leading to decreased investment in essential sectors such as education, healthcare, and infrastructure. As a result, these activities perpetuate inequality and hinder long-term sustainable development.

Furthermore, the mining sector, which plays a pivotal role in Zimbabwe's economy, faces severe consequences as corrupt practices and illicit financial flows deter much-needed investment and tarnish the sector's reputation. This ultimately hampers its ability to contribute positively to the country's economic growth and stability.

Addressing corruption and illicit financial flows in the mining sector is crucial for Zimbabwe's sustainable development, economic prosperity, and the well-being of its citizens. Comprehensive policy measures, enhanced transparency, and robust enforcement mechanisms are required to combat these detrimental practices effectively.

POLICY, INSTITUTIONAL AND LEGAL CONUNDRUM

According to Veritas (2022)[2], there are political and economic drivers of illicit financial flows [and corruption] in Zimbabwe. On the political front, Zimbabwe's public institutions are poorly governed and opaque despite the Freedom of Information Act. Both these features – poor governance and opacity – encourage misappropriation and illicit financial flows. Patronage politics, whereby

1. Business Editor, 09 March 2020, Chronicle https://www.chronicle.co.zw/mining-firms-fingered-in-tax-evasion/
2. Business Editor, 09 March 2020, Chronicle https://www.chronicle.co.zw/mining-firms-fingered-in-tax-evasion/

powerful politicians use State resources to reward individuals and groups for their support, is widespread in Zimbabwe, and the boundaries between government and the ruling party are blurred; again, these features encourage illicit financial flows. Frequent cabinet reshuffles and demotions have promoted factionalism within the ruling party, leading party members to seek outside resources to fund their political activities, resulting in further illicit financial flows.
Some economic reasons Veritas cites include that Zimbabwe has been under some form of sanctions for 28 of the past 57 years. The need to avoid sanctions has driven businesses and individuals to find informal means of accessing finance and to become adept at moving funds through informal networks rather than financial institutions that might enforce sanctions.

Furthermore, the Government's monetary policies, tight control over foreign exchange, and perennially high inflation rates have encouraged businesses and individuals to keep foreign currency earnings outside the country and avoid domestic lending or ownership. Shortage of foreign currency within the country has prompted a flourishing black market where foreign currencies can be bought at premium rates. Differences between the black-market rates of exchange and the official rates have encouraged arbitrage, whereby well-connected members of the élite buy foreign currency from the Reserve Bank at the official rate, sell it for local currency on the black market and use the resulting profit to buy more foreign currency from the Reserve Bank – resulting in an endless cycle of illicit financial flows.

Prusa (2023)[3] makes some key observations citing various sources on corruption in Zimbabwe, including the fact that public and private sector corruption is endemic and systemic. The data shows corruption severely undermines public service delivery and hamstrings all state functions. The IMF (2022, p.20)[4] concluded in the country's periodic assessment that "Zimbabwe's institutional weaknesses have jeopardised growth and social outcomes and contributed to fragility".

The Zimbabwean government's assessment acknowledges public service incapacitation due to corruption. The 2021-25 National Development Strategy (NDS) identifies high levels of corruption and low citizen participation in democratic and governance processes as major factors behind the poor-quality delivery of public services (Republic of Zimbabwe 2020, p.21)[5].

At an international and regional level, Zimbabwe signed the United Nations Convention against Corruption (UNCAC) on 20 February 2004 and ratified it on 8 March 2007. However, the enforcement of its provisions has been inconsistent, especially in asset recovery and anti-money laundering measures (UNODC 2020). Additionally, Zimbabwe ratified the African Union Convention on Preventing and Combating Corruption (AUCPCC) in 2003. Moreover, Zimbabwe has been a party to the Southern African Development Community (SADC) Protocol against Corruption since 2001. Lastly, Zimbabwe is also a party to the African Charter on Democracy, Elections, and Governance since 2022 (AU 2023)[6].

The main legal instrument is the Prevention of Corruption Act 1985 (Chapter 9:16), which criminalises various forms of corruption, such as bribery, abuse of power, and extortion, and prescribes penalties for individuals found guilty of these offences. The current legislation is outdated and does not effectively address the prevailing forms of corruption, especially in relation to Illicit Financial Flows (IFFs), which have become more prominent since the law was first enacted. Consequently, there is a pressing need for a comprehensive update that aligns with the present scenario and effectively tackles the various facets of corruption, including the evolving nature of IFFs.

The Anti-Corruption Commission Act 2004 (Chapter 9:22) establishes the Zimbabwe Anti-Corruption Commission (ZACC) and outlines its functions and powers. ZACC is responsible for investigating and preventing corruption cases involving public officials or private individuals.

The Money Laundering and Proceeds of Crime Act 2016 (Chapter 9:24) deals with the problem of money laundering and includes measures to detect, prevent, and counter money laundering and the financing of terrorism. On the other hand, the Public Procurement and Disposal of Public Assets Act (Chapter 22:23) does not solely concentrate on corruption; its goal is to guarantee transparency, fairness, and accountability in public procurement processes.

The Criminal Law (Codification and Reform) Act (Chapter 9:23) addresses various criminal offences, including those related to corruption. This act serves as the legal basis for prosecuting individuals involved in corrupt practices (Maguchu 2019)[7].

The proposed Whistleblower Protection Bill (Chapter 22:19) is designed to protect individuals who report corruption and other wrongful conduct by providing legal safeguards against retaliation. However, a 2022 assessment by TI Zimbabwe noted that the legal provision does not offer sufficient protection to whistleblowers and reporting individuals in Zimbabwe.

The Public Entities Corporate Governance Act of 2015 laid the groundwork for the National Code on Corporate Governance in 2018. This code applies to all business entities in both the public and private sectors to improve transparency and reduce corruption in state enterprises and parastatals (UNODC 2020)[8]. Other legislative frameworks that hold private sector entities accountable include the Companies Act and the Companies and Other Business Entities Bill. It is worth noting that Zimbabwe's tax legislation does not explicitly prohibit the deduction of bribe payments from taxable income.

3. Vaclav Prusa (2023) Corruption and anti-corruption efforts in Zimbabwe: Tracking developments and progress
4. IMF. 2022. Zimbabwe: 2022 article iv consultation-press release; staff report; and statement by the executive director for Zimbabwe (imf.org)
5. Republic of Zimbabwe. 2020. National development strategy 2021-2025. Harare..
6. AU. 2023. African charter on democracy, elections and governance.
7. Maguchu, P. 2019. The phenomenon of corruption and socio-economic rights in Zimbabwe. SpringerLink. Transitional Justice and Socio-Economic Rights in Zimbabwe | SpringerLink
8. UNODC. 2020. Conference of the states parties to the United Nations Convention against Corruption.

The Zimbabwe Anti-Corruption Commission (ZACC) is a key Institution in the management of corruption in Zimbabwe. It is responsible for conducting corruption investigations. In 2019, President Mnangagwa appointed nine new commissioners to ZACC and empowered them to make arrests. However, ZACC does not have the authority to prosecute cases, which is the responsibility of the National Prosecuting Authority (NPA). One primary concern is ZACC's insufficient funding, as there is no provision for an independent budget allocation within the ZACC Act and the constitution of Zimbabwe.

In 2018, the Special Anti-Corruption Unit (SACU) was established within the Office of the President and Cabinet. SACU lacks a legal basis, which has led to a perception that it may target political opponents in practice (ACT-SA 2020, p.19)[9]. SACU's role in ZACC and the National Prosecuting Authority is unclear, and the body has been criticised for duplicating the mandate to investigate and prosecute corruption cases (Mundopa 2021, p.1)[10].

The Zimbabwe Republic Police (ZRP) is responsible for detecting, investigating, and preventing corruption. However, its effectiveness may be compromised as citizens have ranked the ZRP among the most corrupt institutions in Zimbabwe (TI Zimbabwe 2021)[11]. Furthermore, high-ranking officials within the police force have faced allegations of corruption, including petty bribery, abuse of power, and embezzlement of the ZRP budget.

In 2018, specialised anti-corruption courts were established as a division of the High Court in Harare and Bulawayo. Since December 2020, these courts have been operational in all ten provinces at the magistrate level. These courts aim to expedite the trial process for corruption cases and provide expertise in handling complex financial matters. It is important to note that the anti-corruption courts do not have special procedures for handling anti-corruption cases or special appointment processes for their judicial officers. However, their clearance levels are higher compared to conventional courts. In 2020, the High Court had a clearance rate of 79%, while this figure was 89% for Magistrates Courts (Mundopa, 2021)[12]. Concerns have been raised about these courts displaying political bias when handling cases involving activists, journalists, or opposition leaders, even when no evidence links the cases to corruption (US State Department 2021)[13].

Despite Zimbabwe having a seemingly robust legal framework and institutional setup to combat illicit financial flows (IFFs) and corruption, the critical issue lies in the execution of these laws and the efficient operation of these structures. As a result, there are significant challenges in effectively addressing IFFs and corruption within the country.

CORRUPTION AND IFFS NEXUS

Transparency International (TI)'s Corruption Perception Index (CPI) has emerged as a globally recognised tool for measuring countries and territories by their perceived levels of public sector corruption. The scoring ranges from 0 to 100, respectively indicating high levels of corruption and untainted levels. This CPI tool is useful to track Zimbabwe's performance in terms of fighting public sector corruption. Within the public sector, there are significant incentives and opportunities to abuse their power for private gain in a corrupt and unethical manner[14]. In this case, it gives general pointers to the abuse of power in the mining sector.

Critiques of the CPI point to the fact that countries in the Global North that are known destinations of corruption proceeds from Africa are favourably ranked, for instance, Switzerland. As Strive Masiyiwa puts it "Corruption often involves very sophisticated bankers and lawyers in Western financial centers. When corruption happens in Nigeria, or any other African country, it usually also happens at the same time with at least one accomplice on the other side of the world, whether in London, Geneva, or the like."[15]

It is remarkable, though, that TI acknowledges this glaring gap from the CPI as it notes that many cross-border corruption scandals have implicated multinational companies from top-scoring countries paying bribes when doing business aboard[16]. To some extent, this gap is filled by the Tax Justice Network's (TJN) Financial Secrecy Index (FSI) which inverse the CPI's ranking. The United States of America (USA), Switzerland, Singapore, Hong Kong, and Luxembourg are ranked as the worst performers for facilitating financial secrecy[17]. According to TJN, "Financial secrecy facilitates tax abuse, enables money laundering, and undermines the human rights of all." Regardless of its weaknesses, the CPI remains an important tool to access public sector corruption at the country level and make a comparative analysis.

9. ACT-SA, UNCAC. 2020. Civil society report on the implementation of chapter II (prevention) & chapter V (asset recovery) of the chapter II (prevention) & chapter V (asset recovery) of the United Nations Convention against Corruption in Zimbabwe. Harare.
10. Mundopa, M. 2021. Zimbabwe's anti-corruption courts..
11. TI Zimbabwe. 2021. Zimbabwe Bribe Payers Index.
12. Ibid
13. US State Department. 2021a. Zimbabwe: 2021 country reports on human rights practices.
14. Weronika J. Krawczyk (2019) Aid, Governance and Public Finance Fraud: Evidence from Zimbabwe
15. Masiyiwa's blog series on Econent Nigeria saga Re: Econet Nigeria Saga - Witnessing for Africa (techpoint.africa)
16. Masiyiwa's blog series on Econent Nigeria saga Re: Econet Nigeria Saga - Witnessing for Africa (techpoint.africa)
17. https://fsi.taxjustice.net/

Table 1: Ranking and scores of SADC countries according to the 2023 Corruption Perception Index

Ranking		Countries	Score out of 100	Ranking		Countries	Score out of 100
Global	SADC			Global	SADC		
39	1	Botswana	59	115	8	Malawi	34
55	2	Mauritius	51	121	9	Angola	33
59	3	Namibia	49	130	10	Eswatini	30
83	4	South Africa	41	145	11	Madagascar	25
87	5	Tanzania	40	145	11	Mozambique	25
93	6	Lesotho	39	149	13	Zimbabwe	24
98	7	Zambia	37	162	14	DRC	20

Source: Author's compilation

The top 3 ranked countries in SADC in terms of fighting public corruption are Botswana, Mauritius, and Namibia, respectively. Democratic Republic of Congo (DRC), and Zimbabwe are the worst performers, followed by Madagascar and Mozambique which are tied at third from bottom. Zimbabwe's performance falls below SADC's average score of 36.21%. Overall, SADC's average score of 36.21% is above the average Sub-Saharan Africa score of 33% but below the global average of 44%. Endemic corruption in Zimbabwe has led to the looting of the whistleblower fund, meant to incentivize people to report tax evasion and unexplained wealth. Zimbabwe Revenue Authority (ZIMRA) officials were in cahoots with a network of informers by abusing insider information for personal benefit.[18]

Table 2: Ranking of Illicit Financial Flows from SADC Countries by volume, 1980-2018

Rank	IFFs (USD million)	Country	Rank	IFFs (USD million)	Country
1	441 481	South Africa	8	16 132	Tanzania
2	165 549	DRC	9	13 920	Mauritius
3	45 132	Angola	10	13 339	Mozambique
4	31 485	Botswana	11	13 169	Malawi
5	27 499	Zambia	12	11 003	Madagascar
6	24 048	Namibia	13	10 590	Eswatini
7	22 652	Zimbabwe	14	9 536	Lesotho

Source: Adapted from Africa Growth Initiative (2020), Illicit Financial Flows in Africa – the drivers, destinations and policy options.

South Africa, DRC, and Angola, respectively, are the top countries in SADC concerning the volume of losses incurred via IFFs, and the bottom three are occupied by Madagascar, Eswatini, and Lesotho, in the same order. Zimbabwe is ranked number 7. A comparison of the ranking of SADC countries by corruption and IFFs, Table 3 versus Table 4, shows a mixed signal on relationships between corruption and IFFs. Botswana, South Africa, and Namibia, among the least corrupt countries in SADC, are also found in the bracket of the top 5 emitters of IFFs. On the other hand, Angola, one of the most corrupt countries in the SADC region, is ranked second after South Africa in terms of losses via IFFs. Zimbabwe, the second worst performer in fighting public corruption, is ranked on average at seven in terms of the volume of IFFs by SADC countries. That said, the study conducted by the AGI concluded that there is a positive correlation between the size of GDP and IFFs. This results from increased opportunities for trade mis-invoicing – the shifting of illicit resources abroad generated by higher economic activities[19]. Therefore, Zimbabwe's quest to grow the mining sector by nearly 3.5 times to US$12 billion in export earnings by the end of 2023, up from US$2.7 billion realised in 2017, will commensurately lead to higher volumes of IFFs. In conclusion, although the comparison of SADC countries concerning corruption and IFFs shows mixed signals, corruption is both a driver and outcome of IFFs.

IMPLICATIONS OF CORRUPTION AND IFFS ON NATIONAL DEVELOPMENT

Zimbabwe's development aspirations are well expressed in the National Development Strategy (NDS), a five-year plan from January 2021 to December 2025. The theme for NDS is "Towards a Prosperous and Empowered Upper Middle-Income Society by 2030." Not least among the benchmarks for designing a national development plan is the global compact on sustainable development, the 2030 UN Sustainable Development Goals (SDGs).

At a continental level, the African Union's long-term development strategy is enunciated in the Agenda 2063, the Africa we want. The global and continental development pacts identify IFFs as a significant risk to mobilising resources needed to finance development goals. For instance, SGG number 16.4 aims to substantially reduce IFFs and arms flow, strengthen the recovery and return of stolen assets, and combat all forms of organised crime.

18. https://fsi.taxjustice.net/
19. Landry Signé, Mariama Sow, and Payce Madden (2020), Illicit financial flows in Africa Drivers, destinations, and policy options

It is the report of the High-Level Panel on Illicit Financial Flows Out of Africa, whose findings and recommendations were adopted by the African heads of state and government in 2015, that brought to the fore the importance of tackling IFFs for bolstering domestic resources mobilisation (DRM). The argument is that reducing IFFs can yield more public revenue for boosting national development interests[20]. A quick scan of the NDS shows that the threat posed by IFFs is not explicitly stated. Instead, public revenue pressure points explicitly identified in NDS are ".... the reviewing and streamlining tax incentives, formalising the informal sector, upgrading of the audit and tax services of large taxpayers, and linking ZIMRA systems with other agencies."[21]

Nonetheless, these issues prioritised by NDS contribute to tackling IFFs. That said, trade-related IFFs, that is, the overvaluation of imports and undervaluation of exports, are the significant drivers of IFFs, according to the HLP Report. Considering that the AU adopted the HLP Report. Ideally, the government of Zimbabwe (GoZ) should have prioritised the recommendations of the HLP Report to tackle the scourge of IFFs.

It is encouraging to note that since NDS is anchored on mining, the Africa Mining Vision (AMV) adopted by the African heads of state and government in 2009 is referenced in the NDS. Guided by AMV and SADC protocol on mining, NDS seeks to anchor the industrialisation policy on mineral beneficiation and value addition by creating value chains.

Gold, Platinum Group of Metals (PGMs), Diamonds, Coal, and Chrome are topping the list for the development of mineral value chains. This is a policy master stroke as gold, diamonds, and Platinum Group of Metals (PGMs) were pinpointed as the major emitters of IFFs in Africa, respectively, accounting for 77%, 12%, and 6% of the total annual loss of US$40 billion from mining[22]. If Zimbabwe moves away from economic reliance on low-valued mineral commodities, it will have undertaken a significant step in tackling the scourge of IFFs. At face value, GoZ should be commended for adopting a fiscal policy mix of the stick-and-carrot approach to encourage local value addition and beneficiation of minerals. It is concerning to note that platinum companies that had set clear targets to improve value addition have rolled back because of unfavourable commodity prices on the market.[23]

The national development threat posed by IFFs undermines the Constitution of Zimbabwe and, by default, the progressive realisation of human rights. These funds could otherwise be used to finance education, infrastructure, health care, and other vital elements of sustainable development[24]. Specifically for host mining communities, Section 13 (4) on National Development compels the State to out systems for communities to benefit from natural resources in their localities. Viewed together in Section 301 (3) on revenue-sharing arrangements between the central and local governments, the impact of IFFs is transmitted from national to local governments[25]. It is remarkable that the government has introduced additional measures to ring-fence 1% of gross revenue generated from lithium, black granite, and other dimensional stones for community development[26]. This development is fundamental, considering that GoZ scrapped implementing Community Share Ownership Trusts (CSOTs) in 2018.[27]

SNAPSHOT OF ILLICIT FINANCIAL FLOWS IN THE MINING SECTOR

As a result of limited information and data, it remains challenging to provide an exact amount of money flowing illicitly from Zimbabwe, but the involved sums are undoubtedly enormous. It is estimated that from 2000 to 2020, Zimbabwe lost approximately US$32 billion through IFFs (Kurebwa, 2021)[28]. Illegal external outflows are linked to tax evasion, money laundering and other financial crimes, including corruption. The assets originate in mining, timber, fisheries and wildlife industries. The Reserve Bank of Zimbabwe (RBZ) estimates that US$684 million was transferred outside Zimbabwe under dubious and unwarranted circumstances in 2015 (Kurebwa, 2021)[29]. Global Financial Integrity (GFI) data show that Zimbabwe lost an estimated US$70 million through trade mis-invoicing alone in 2015 (GFI, 2017)[30]. In 2019 alone, Zimbabwe is said to have lost approximately US$3 billion, according to the chairperson of the Zimbabwe Anti-Corruption Commission. Further arguments highlight the mining sector's central role in the economy, its opacity, the involvement of numerous foreign investors, and its continued role as a key contributor to illicit financial flows.

The Government of Zimbabwe (GoZ) has established "Vision 2030," with one of its goals being to develop the mining sector to generate $12 billion in annual income by 2030 (Republic of Zimbabwe, 2020)[31]. However, achieving this goal is at risk due to the continual threat of revenue leakages in the mining sector. The centrality of the mining sector to the country's developmental aspirations highlights how corruption and illicit financial flows (IFFs) in the industry have far-reaching consequences in the mining sector, leading to reduced opportunities for citizens to escape the cycle of poverty and inequality.

20. Jeffrey Kurebwa (2021), Implications of Illicit Financial Flows on Zimbabwe's Development
21. Sibanda Mukasiri, 'Increasing Domestic Revenue Mobilisation through the Mining Industry in Zimbabwe, ADHR Research Paper 02/2023 (Committee on Fiscal Studies)
22. UNCTAD (2020), Economic Development in Africa Report
23. The three platinum producers, ZIMPLATS, Unki, and Mimosa mines have announced that they are suspending expansion projects including value addition and beneficiation of platinum.
24. Jeffrey Kurebwa (2021), Implications of Illicit Financial Flows on Zimbabwe's Development
25. At least 5% of national generated revenue in a given year must be distributed to provincial and local governments according to the Constitution of Zimbabwe
26. ZIMRA, Public Notice, Finance Act 13 of 2023, Major Highlights
27. CSOTs were introduced in 2011 under the Indigenisation and Economic Empowerment regulations as vehicles for promoting local economic and social development in resource-rich localities. Mining companies were required to cede 10% of their share to the community. Obrian F Nyamucherera and Mukasiri Sibanda (2020), Tracking Progress Towards Revenue Transparency and Revenue Sharing in the Zimbabwe Extractive Sector 2013-2019 https://pwyp.org/benefit-sharing-zimbabwe-case-study/
28. Kurebwa, J. 2021. Implications of illicit financial flows on Zimbabwe's development. Department of Peace and Governance, Bindura University of Science Education, P. Bag 1020, Bindura, Zimbabwe. https://www.arpgweb.com/pdf-files/ijwpds7(2)27-34.pdf
29. Ibid
30. GFI. 2017. Illicit financial flows to and from developing countries: 2005-2014. Washington D.C.
31. Republic of Zimbabwe, 2020. National Development Strategy 1, Veritas. Harare: Ministry of Finance and Economic Development

Notably, these issues also directly impact workers, as IFFs and corruption often result in wage evasion or theft, consequently leading to poor working conditions in the mining sector. Despite public outcry and demands for justice, the pervasive influence of corrupt political elites and profit-driven corporations allows them to continue capitalising on natural resources, further exacerbating the plight of those already suffering from deprivation and need. Worse still, Oil, gas, and mining projects can profoundly disrupt lives and livelihoods and damage air, water, soil, and vegetation.[32]

Furthermore, corruption and illicit financial flows (IFFs) are linked to adverse environmental consequences such as pollution, deforestation, water stress, and land use. In addition to environmental challenges, there are political risks, including the strengthening and persistence of authoritarianism and limited transparency and accountability throughout the extraction value chain. These indicators concern Zimbabwe due to the growing influence of mining on the economy.

The documentary series "The Gold Mafia" by Al Jazeera[33] provided a comprehensive exposé of the illicit gold trade in Zimbabwe, shedding light on a widespread issue with far-reaching global implications. However, as with most such exposés, the documentary did not detail the problems communities face near these gold mining operations, especially regarding how they bear a substantial burden. The extraction process leaves behind conspicuous and detrimental environmental scars.

Table 1 presented below offers a nuanced perspective, enabling civil society to meticulously assess the multifaceted impacts of mining. It is crucial to recognise that these criteria should not be evaluated in isolation, as the various effects of mining are interconnected and mutually reinforcing.

Table 3: Classification of Mining Industry Impacts

Criteria	Impact
Functionality	Environment, socio-economic, political
Time duration	Short-term, medium-term, long term
Usefulness to society	Beneficial, adverse, neutral
Place of occurrence	Extraction site, processing plant, service area, or downstream
Nature	Positive or negative
Length of impact	Temporary or permanent

Source: Widana, Anura (2019). The Impacts of Mining Industry: Socio-Economics and Political Impacts. [S.l.]: SSRN. https://ssrn.com/abstract=3423562.

Although its full potential has not been realised, Zimbabwe's diverse mineral wealth portfolio has helped to ensure that the mining sector remains an engine for the country's socio-economic development aspirations. For example, before the turn of the new millennium, gold was the central jewel of the mining portfolio. After that, the Platinum Group of Metals (PGMs) and diamonds joined gold as the leading economic contributors. Demand for critical minerals such as lithium and platinum is escalating because the technologies underpinning the energy transition, such as wind turbines, solar panels, and electric vehicles, depend on reliable and sustainable supplies of these minerals.[34]

Lithium has brought new opportunities to Zimbabwe's mining industry. The country has relied on mining for its economic development in the past and present. The Government of Zimbabwe (GoZ) has set an ambitious goal to increase the mining sector's earnings from US$2.7 billion in 2017 to US$12 billion by 2023. However, achieving sustainable socio-economic development through mining, as outlined in the Africa Mining Vision (AMV), is challenging. Corruption and illicit financial flows (IFFs) are significant obstacles to utilising mining wealth for development. Corruption in Zimbabwe has devastating effects on the ability of poor people to access essential services[35]. Consistently, Zimbabwe has performed dismally in the country's efforts to fight public corruption as per the Corruption Perception Index (CPI) produced annually by Transparency International (TI). Compared with its Southern African Development Community (SADC) region peers, Zimbabwe is ranked 9 out of 10, only marginally performing better than the Democratic Republic of Congo (DRC)[36]. It is hardly surprising that the likes of the International Monitoring Fund (IMF) argue that Zimbabwe's mining sector governance and transparency weaknesses constrain the sector's fiscal take and contributions to economic development.[37]

A snapshot of IFFs in ASGM

32. Leila Kazemi, Perrine Toledano, and Tehtena Mebratu-Tsegaye (2022) Tackling the EIA Impact Gap: Addressing Political Economy Realities to Bring Actual Practice Closer to Best Practice
33. https://www.youtube.com/watch?v=evWEuVR1XIs
34. K Sturman, J Loginova, S Worden, J Matanzima and A Arratia-Solar (2022) Mission critical: Strengthening governance of mineral value chains for the energy transition
35. Manase Kudzai Chiweshe (2015), Foucault, power and abuse of authority: Towards a sociology of corruption in Zimbabwe
36. The SADC ranking is as follows: 1. Botswana (34/198) 2. Namibia (56/198) 3. South Africa (70/198) 4. Tanzania (96/198) 5. Zambia (113/198) 6. Angola, Malawi & Mozambique all ranked at (146/198) 9. Zimbabwe (158/196) 10. DRC (168/198) according to the AFROAD (2022), The State of Mineral Resource Governance in the Southern African Development Community.
37. IMF

The increased Artisanal and Small-Scale Gold Mining (ASGM) output, which surpassed large-scale gold producers, has been attributed partly to arbitrage opportunities from differentiated foreign currency retention and tax treatment for the two actors[38]. ASGM gets 100% cash in US dollars for disposing of their gold to Fidelity Gold Refiners (FGR), formerly known as Fidelity Printers and Refiners (FPR). At the same time, large-scale miners are compelled to dispose of a prescribed portion of their export earnings at the prevailing official exchange rate, which is a considerable discount compared to the parallel market rates. Regarding taxes, ASGM attracts a fixed 1% royalty rate, favourably compared to flexible royalty rates of 3% and 5%, which large-scale gold producers face. A 3% gold royalty rate applies if gold is below US$1,200 per ounce, and any price above that attracts a 5% royalty rate[39]. Allegedly, large-scale gold producers have been accused of disposing of their gold under ASGM to illicitly benefit from arbitrage opportunities from differentiated tax and foreign currency access.

The Treasury tried to reduce the gold royalty arbitrage opportunity by increasing the ASGM royalty rate to 2% from 1% in October 2018[40]. Unfortunately, the unintended consequences manifested through dwindling ASGM deliveries in the following two years[41]. As a result, the Treasury was forced to cut back the ASGM royalty rate from 2% to 1%. This indicates the complex challenge of taxing ASGM whereby tax losses are suffered whether preferential taxes are applied. However, there is no doubt that the differentiated tax treatment of gold royalty obligations and foreign currency access are key factors for stifling illicit gold trade and boosting foreign exchange earnings. The government has weighed the policy trade-offs and opted for greater benefits from foreign exchange earnings, unlike tax revenue, which is not assured.

Effective mining royalty rates less than what is prescribed by the Finance Act
The collection of mining royalties is primarily governed by Section 244 of the Mines and Minerals Act (Chapter 23:04), and it serves as an essential source of government revenue. The mining royalty rates are periodically adjusted under the Finance Act, Section 37. Proposed changes to mining royalties are part of the national budget proposal or the midterm budget review and are legally enforced through the Finance Act. This highlights the significance of public consultations during the national budget process in influencing changes to mining royalties in collaboration with the Members of Parliament responsible for discussing and approving amendments to the Finance Act. Generally, Zimbabwe's mining royalty system applies a standard rate based on the total invoice value of mineral sales, except for gold, which has a sliding scale. For gold, a 5% rate is applied when the price exceeds US$1,200 per ounce, and a 3% rate applies when it falls below that level. This flexible approach, linked to changes in mineral prices, helps ensure that government revenue remains responsive during commodity price increases. Similarly, when mineral prices decrease, the royalty rate automatically adjusts, providing a degree of predictability and stability amid the volatility of mineral prices. The frequent changes to gold and platinum royalty rates between 2010 and 2019 offer valuable insights for the future.

Table 4: 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 State by the Executive Director for Zimbabwe

Unlike Corporate Income Tax (CIT), mining royalties are more accessible to administer, predictable, and less susceptible to aggressive tax planning or illicit financial flows (IFFs). However, the International Monetary Fund (IMF) has raised concerns that government revenue from mining may not be as high as expected. The IMF has revealed that government royalty revenue falls short of the rates prescribed by the Finance Act. Therefore, it is hardly surprising that the average mining revenue to GDP ratio in Zimbabwe of 1.2% from 2014 to 2020 was 40% less compared with that for countries in sub-Saharan Africa which averaged 2 percent during 2009-19[42]. Part of the challenge lies with secretive mining agreements that include royalty stabilisation clauses that override the rates established by the Finance Act. Indeed, multinational and domestic entities attempt to secure concessions to limit their tax liability when negotiating mining exploitation contracts[43]. That is why the likes of the IMF have recommended simplifying the fiscal regime to make it more transparent and easier to evaluate by ensuring that all mining fiscal terms are based on the law and no new or renewed special mining leases should be granted.[44]

In 2015, a court dispute over mining royalties resulted in a financial loss of US$101.55 million. The Zimbabwe Revenue Authority (ZIMRA) wanted to collect mining royalties based on the rates set in the Finance Act. In contrast, the mining company argued that the royalty rate of 2.5% specified in their mining agreement should apply. The court ruled in favour of the mining company. Following

38 Mukasiri Sibanda (2021), Decrypting Illicit Gold Trade in Zimbabwe
39 https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwid_PLh0aaFAxVvRPEDHUm-AloQFnoECB0QAQ&url=https%3A%2F%2Fwww.zimra.co.zw%2Fdownloads%2Fcategory%2F9-domestic-taxes%3Fdownload%3D674%3Aform-rev-5c-mining-royalties&usg=AOvVaw2yCtKzXpdlsb9UzlO2RdBj&opi=89978449
40 KPMG (2019) The Zimbabwe 2019 Mid-Term Fiscal Policy Review
41 For the first time in more than 5 years in Zimbabwe, annual gold deliveries to FPR from ASGM plunged in 2019 by 20%, ZELA (May 2020) Analysis of New Gold Buying Framework in Zimbabwe With a Special Emphasis on Artisanal and Small-Scale Gold Mining
42 IMF (2021). Tax Avoidance in Sub Saharan Africa's Mining Sector
43 Vaclav Prusa (2023), Zimbabwe: Corruption and anti-corruption. Tracking developments and progress
44 IMF, Zimbabwe: 2022 Article IV Consultation – Press Release, Staff Report and State by the Executive Director for Zimbabwe

this loss, the platinum royalty rate specified in the Finance Act was adjusted from 10% to 2.5% to provide the same treatment to holders of ordinary mining leases as holders of special mining leases. Despite the Treasury's promise to review the platinum royalty rate in August 2019, the change did not occur until 2023, when the rate was adjusted to 5%.

Figure 1: The historical price of palladium

Unfortunately, the royalty rate came at a sunset stage of platinum prices and missed the sunrise. Platinum mines enjoyed peak revenue in 2021 because of high market prices, and now they are feeling the pinch of the sharp decline in platinum prices[45]. It would not be surprising if the government decreased the platinum royalty rates due to unfavourable market prices. However, the government should learn from the gold royalty system, which adjusts itself to maintain stability and predictability despite fluctuating mineral prices.

Using the lens of corruption risks, while the logic of fairness and equity used to lower the platinum royalty rate in 2018 is understandable, the revolving door risk between public policymakers and private sector leaders is too glaring to ignore. Back then, the newly appointed Minister of Mines was a senior executive in a platinum mining company that immediately benefited from the royalty rate changes.[46]

Costly and corruptly awarded tax incentives.

Tax incentives are preferential tax treatment targeting a specific group of society, companies, industries, or geographical areas. Their net effect is to forego tax revenue to support government policy measures such as the attraction of Foreign Direct Investment (FDI), generating export earnings, facilitating technological and skills transfer, creating employment, promoting economic development in marginalised areas, and fighting poverty and inequality targeting vulnerable groups in society[47]. Tax waivers or exemptions, tax holidays, lower tax rates, reduced taxable income, postponed tax payments, and reduced taxable amounts through tax credits are the main manifestations of tax incentives[48]. Through the National Development Strategy (NDS), the government is aware of the fiscal risks associated with poor governance of tax incentives. There is a commitment in the NDS to improve transparency and accountability of tax incentives that are numerous and highly costly to the fiscus by regularly undertaking a cost-benefit analysis[49]. This resonates with the High-Level Panel (HLP) findings on Illicit Financial Flows Report (2015), which highlighted tax incentives among the main contributors to IFFs. However, despite the positive policy intentions on dealing with ineffective tax incentives, the government has fared poorly.

45. Martin Kadzere, 27 March 2024, The Herald, Miners seek power tariff cut, tax relief https://www.herald.co.zw/miners-seek-power-tariff-cut-tax-relief/#:~:text=The%20Chamber%20of%2 Mines,which%20threaten%20the%20industry's%20survival
46. Victor Kgomoeswana, 15 February 2018, The Herald, Chitando: Mnangagwa's finest appointment must just be his minister of mines https://www.herald.co.zw/chitando-mnangagwas-finest appointment-might-just-be-his-minister-of-mines/
47. https://www.zimra.co.zw/16-tax/company/1756-fiscal-incentives
48. https://taxsummaries.pwc.com/zimbabwe/corporate/tax-credits-and-incentives
49. Sibanda, Mukasiri, 'Increasing Domestic Revenue Mobilisation through the Mining Industry in Zimbabwe, ADHR Research Paper 02/2023 (Committee on Fiscal Studies)

“Well-designed tax reforms can boost economic growth and resilience to climate shocks and help contribute to a fairer society and to a just transition. They play a direct role by sending the right price signals and providing the right incentives for sustainable behaviour by producers, users and consumers. At national level, the European Green Deal will create the context for broad-based tax reforms, removing subsidies for fossil fuels, shifting the tax burden from labour to pollution, and taking into account social considerations.”

From: European Commission (December 11, 2019), The European Green Deal. https://ec.europa.eu/info/sites/info/files/europe-an-green-deal-communication_en.pdf

According to the IMF, the authorities introduced additional tax incentives in the last two budgets to encourage domestic production and exports[50]. We have seen Great Dyke Investment (GDI), a platinum mine, given a five-year tax holiday for CIT, Additional Profit Tax, and withholding taxes for resident shareholders in January 2020[51]. It is strongly suspected that among the owners of GDI are powerful and politically well-connected business people and the military who could influence securing preferential treatment on tax waivers. Despite depressed public revenue caused by the COVID-19 pandemic, the government could have swum against the tide by foregoing tax revenue. The government reintroduced the gold incentive scheme targeting gold deliveries from Artisanal and Small-Scale Mining (ASM) in May 2021 to compound matters[52]. For every delivery of 20kgs of gold from ASM, a 5% incentive is applicable. In effect, an equivalent of 1kg of gold. Over and above, a 2% incentive scheme applies for a delivery of a tonne of gold, translating to 20kgs of gold.

The reintroduction of the gold incentive scheme contradicted the advice from the IMF in 2019 to scrap tax incentives and include off-budget subsidies in the national budget to improve transparency[53]. A position resonating with calls from civil society organisations (CSOs), the Zimbabwe Environmental Law Association (ZELA) being a case in point[54]. Better Brands Jewellery (BBJ), a company owned by Scot Sakupwanya, is Fidelity Gold Refinery (FGR)'s supper gold buying agent and a primary beneficiary of the gold incentive scheme. BBJ delivered 18 tonnes of gold in 2022, valued roughly at US$1.2 billion, accounting for 74.72% of total gold deliveries from ASM, amounting to 24.1 tonnes. Computations show that BBJ could have received roughly an equivalent of 900kgs of gold from the 5% incentive scheme and an additional 360kgs of gold from the 2% incentive scheme, yielding a total of 1,260kgs of gold.

Considering that the average price of gold per ounce in 2022 was US$1,801 and 1kg is equivalent to 35.274 ounces, 1,260 kgs equals 44,445.24 ounces valued at US$88,045,877.24 million. The US$88 million likely yield from the gold incentive scheme is higher. Using the gold export earnings for 2022 as per the Reserve Bank of Zimbabwe (RBZ), the 18 tonnes BBJ delivered accounted for 51.02% of the total gold deliveries and probably could have received US$1,256 billion out of US$2,462 billion. If we apply the 5% incentives scheme alone, BBJ could receive US$62.8 million on the lower side. To understand the enormity of the gold incentive scheme that BBJ could have enjoyed for 2022 alone, it is fundamental to use gold royalty revenue as a comparator. ASM gold royalty rate is pegged at 1%, meaning BBJ could have paid royalties amounting to US$12.56 million, a fraction of what BBJ received as an incentive. The ratio of gold incentives to royalties is 5:1. Scot was selected for the Zimbabwe National Union – Patriot Front (ZANU-PF) fundraising committee for the 2023 national harmonised elections. While the government was facing severe pressure to stifle the illicit gold trade, there is possibly a justification for raising a red flag about corruption from policy measures seemingly designed to benefit a few politically well-connected and influential businesspeople.

Double Taxation Agreements

To encourage investments and trade, bilateral agreements are signed between countries to avoid taxing the same income twice and promote reciprocal tax administration and collection of taxes[55]. Such bilateral tax agreements are known as Double Tax Agreements (DTAs). Without discounting the value of DTAs, they can be used as instruments that facilitate the stripping of taxing rights of developing countries because of the inequitable power relationships with developed countries[56]. Normally, DTAs have the effect of overriding the domestic tax laws of developing countries in a regressive manner because the withholding tax rates for dividends, royalties, and other fees are usually lower than what is prescribed by the tax code. Since the significant investments in lithium mining in Zimbabwe are emanating from China, it is essential to quickly scan the DTA between Zimbabwe and China to flag the attendant fiscal risks[57].

On the surface, mining is classified as a permanent establishment, which means that Zimbabwe enjoys the taxing rights emanating from mining operations. CIT is of particular significance. Further analysis shows that modern-day mining companies significantly use the services of contractors to build, mine, and process their minerals. Herein lies the risk because the period used to determine a permanent establishment for tax purposes in the DTA between Zimbabwe and China is 12 months instead of the six months prescribed by the UN model on the Double Taxation Convention[58]. Furthermore, there are prescribed withholding tax rates far lower than what Zimbabwe's tax code applies. For example, the withholding tax rate on dividends for at least direct and indirect shareholding is restricted to 2.5% and, in any other case, 7.5%. Interest from debt claims is limited to 7.5%, and employee taxes will only be applied if the number of days exceeds 183 days, roughly half a year[59].

While a quick look at the DTA between Zimbabwe and China has been used, the risks highlighted here are typical. For example, Caledonia, the owners of the Blanket gold mine in Gwanda, established a management company in the UK to enjoy a favourable tax shield emanating from a DTA between Zimbabwe and the UK[60]. This aggressive tax planning strategy is known as treaty shopping, whereby a company can set up a management company in a jurisdiction tax enhances its tax shield regardless of where its headquarters are located[61].

50. MF Country Report No. 22/112 https://www.imf.org/-/media/Files/Publications/CR/2022/English/1ZWEEA2022003.ashx
51. Business Reporter, 29 January 2021, The Herald, GDI gets 5-year tax exemption https://www.herald.co.zw/gdi-gets-five-year-tax-exemption/
52. https://www.rbz.co.zw/documents/press/2022/January/FGR-Appreciation-for-Gold-Deliveries.pdf
53. IMF Country Report No. 20/82 https://www.imf.org/-/media/Files/Publications/CR/2020/English/1ZWEEA2020001.ashx
54.
55. Publish What You Pay Zimbabwe 2017 Policy Brief on Double Taxation: The Case of Zimbabwe
56. Publish What You Pay Zimbabwe 2017 Policy Brief on Double Taxation: The Case of Zimbabwe
57. Statutory Instrument 114 of 2016, Agreement between Zimbabwe and China for the avoidance of double taxation (Proclamation 8-2016)
58. https://www.un.org/esa/ffd/wp-content/uploads/2018/05/MDT_2017.pdf
59. Statutory Instrument 114 of 2016, Agreement between Zimbabwe and China for the avoidance of double taxation (Proclamation 8-2016)
60. Don Hubert (2016) Government Revenues from Mining: A Case Study of Caledonia's Blanket Mine
61. Don Hubert (2016) Government Revenues from Mining: A Case Study of Caledonia's Blanket Mine

Looking at the revenue mobilisation risks posed by DTAs in Zimbabwe, it is crucial to learn from regional experiences. Zambia, for example, suspended its DTA with Mauritius to protect the country's sovereign taxing rights[62]. In Kenya, for instance, Tax Justice Network Africa (TJNA) challenged the governments in court for not undertaking public consultation on the signing and ratifying of DTAs[63]. For Zimbabwe, DTAs are enacted through Statutory Instruments, bypassing public scrutiny, parliamentary debates, and approval. There is a case for civil society to resort to the courts to compel the government to be transparent and accountable in negotiating and signing DTAs.

CHALLENGES AND MISSTEPS

Outstanding recommendations from the Financial Action Task Force:
Zimbabwe has undergone reviews by the Financial Action Task Force (FATF), overseen by the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), of which it is a regional member. According to the latest progress report available in 2021, 14 recommendations have been upgraded to "largely compliant" or "partly compliant." It is important to note that several recommendations have not been fully met, including the requirement for financial institutions and designated non-financial businesses and professions (DNFBPs) to apply enhanced measures for high-risk customers, products, services, or situations. This presents risks for money laundering, including the laundering of proceeds of corruption (ESAAMLG 2021)[64].

Lack of Disclosure of Beneficial Owners:
The current requirement under Section 72 of the Companies and Other Business Entities Act that only companies disclose their beneficial owners leaves other entities, such as private business corporations and trusts, with the ability to maintain secrecy about their beneficial owners. This creates a loophole that can be exploited for illicit financial flows, and the law should be changed to require all entities to make the same disclosure.

Lack of Transparency and Accountability in Procurement:
Government entities buy goods and services at inflated prices or pay for undelivered goods and services, indicating a lack of transparency and accountability in procurement. Flouting of procurement regulations and little effort to recover overspent or misspent money further exacerbate the corruption in the procurement process.

Lack of Transparency in Agreements on National Resources:
The terms of agreements granting rights to foreign governments and entities to exploit minerals and natural resources are not made public, as they should be under the constitution. This lack of transparency may conceal illegal deals and undue benefits, leading to illicit financial flows.

Weak Border Controls Against Smuggling:
The lax supervision of the country's borders and ports of entry has facilitated the smuggling of goods, particularly minerals, leading to illicit financial flows. Tightening border controls is crucial to prevent such activities.

Insufficient Empowerment of Law Enforcement Agencies:
Specialised law enforcement agencies, such as the Zimbabwe Anti-Corruption Commission, the Reserve Bank's Financial Intelligence Unit, and the Zimbabwe Revenue Authority, lack adequate resources to effectively curb illicit financial flows that stem from illegal or corrupt conduct. Empowering these agencies with more resources is essential to addressing the issue.

Laws that restrict culture of transparency and accountability:
Some recently adopted legal provisions have raised concerns about how they undermine the state of democracy and governance in Zimbabwe. The president signed the Patriotic Bill in 2023, stipulating jail terms for anyone "willfully damaging Zimbabwe's sovereignty and national interests". According to the opposition, civil society organisations, international organisations, and other stakeholders, this bill grants sweeping powers to suppress dissent or activism (The Economist, 2023).

Laws such as the Access to Information and Protection of Privacy Act (AIPPA), the proposed Private Voluntary Organizations Amendment Bill (PVO Bill), and the Public Order and Security Act (POSA) retain vague provisions that are used to stifle freedom of expression and assembly. Concerning the PVO Bill, in early 2023, UN officials advised Zimbabwe's president to reject the bill as it would severely restrict civic space and the right to freedom of association in the country (OHCHR 2023) .

The challenges outlined significantly affect the government's revenue and economic development. The lack of disclosure of beneficial owners and transparency in procurement processes can lead to substantial revenue losses through illicit financial flows, inflated procurement costs, and misallocation of resources. This, in turn, hampers the government's ability to collect taxes and invest in crucial public services and infrastructure, thereby hindering overall economic development and sustainable growth.

The lack of transparency in agreements on national resources can result in the exploitation of minerals and natural resources without providing adequate benefits to the country, leading to further revenue loss and stunted economic growth. This lack of transparency may also contribute to a loss of public trust and confidence in the government's management of natural resources, which can negatively impact investment and economic development.

Weak border controls against smuggling contribute to revenue losses from unregulated trade activities and threaten local industries. The influx of smuggled goods, particularly minerals, not only results in revenue losses but also undermines the competitiveness of domestic industries, affecting economic development and job creation.

62. Ernst & Young, 25 June 2020, Global Tax Alert, Zambia announces termination of the double taxation agreement with Mauritius https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/tax/tax-alerts-pdf/ey-zambia-termination-of-double-taxation-agreement-with-mauritius.pdf?download
63. A DTA between Kenya and Mauritius was voided and declared unconstitutional by a Kenyan Court on March 14, 2019.https://panafrica.oxfam.org/latest/stories/kenya-mauritius-tax agreement-tjna-wins-case
64. ESAAMLG. 2021. 7 enhanced follow-up report & technical compliance re-rating. Follow-Up Report to Zimbabwe's assessment of anti-money laundering and counter-terrorist financing measures (fatf-gafi.org)

Insufficient empowerment of law enforcement agencies to combat illicit financial flows and corruption undermines the government's capacity to uphold the rule of law and protect public funds. This lack of enforcement leads to a culture of impunity, eroding public trust and confidence in the government, which can deter foreign investment and impede sustainable economic development.

The laws that restrict transparency and accountability in Zimbabwe have significant implications for the state of corruption and illicit financial flows. By suppressing dissent and activism, these laws can create an environment where corruption can thrive unchecked and where those who attempt to expose it may face severe repercussions.

The lack of freedom of expression and assembly also hinders the ability of civil society organisations and the public to hold the government and other powerful actors accountable for their actions. Additionally, the vague provisions in these laws may be exploited to cover up corrupt practices and illicit financial flows. This lack of transparency and accountability can lead to a culture of impunity, making it easier for corrupt practices to go undetected and unchecked. Overall, these transparency and accountability restrictions can exacerbate corruption and illicit financial flows in Zimbabwe.

Addressing these challenges is crucial for safeguarding government revenue, promoting economic growth, and fostering a more transparent and accountable financial system, ultimately contributing to the country's long-term economic development and prosperity.

EFFORTS AND REFORMS

A study by Tanda and Genc (2024)[65], some key suggestions were made on how the government of Zimbabwe's revenue collection may be improved in the mining sector.

All respondents indicated that becoming part of the EITI would be one of the effective ways to alleviate revenue leakages. They further suggested that stiffer penalties for mineral smuggling would be another way to curb revenue leakages effectively. A significant number (98%) indicated that reforming taxation laws to close loopholes could be one of the effective ways to enhance revenue collection. Additionally, (98%) of the questionnaire respondents indicated that skills upgrades to enhance auditing, monitoring and verification of disclosure information, particularly within government departments, would be one of the ways with which to alleviate revenue leakages. Another majority (95%) of the questionnaire respondents indicated that enhancing the follow-through on legislative oversight would be another effective way to reduce revenue leakages. Another suggestion was improving coordination and information sharing amongst stakeholders to help mitigate revenue leakages by ensuring that accurate, comprehensive and transparent data is collected and reported, supported by 85% of the respondents. Other issues that emerged from the study include the establishment of more weighbridges as one of the ways to curtail revenue leakage effectively and enhanced regulatory enforcement for higher compliance levels amongst mining companies, supported by 60% of the respondents.

Zimbabwe has a poor record in fighting public corruption, which may lead people to assume that all public institutions are equally corrupt. However, the Office of the Auditor General (OAG) has identified some positive developments in its audit findings and recommendations to enhance public sector transparency, accountability, good governance, and service delivery[66]. Sounding like a broken record, the OAG reports frequently reveal poorly managed accounting records, misappropriation of funds, suppliers getting payments without delivering goods and services, and disregarding procurement rules[67]. Despite the OAG's sterling efforts, on the flip side, the implementation of the OAG's recommendations by the executive has been disappointing. Reporting on findings from the prior years, the OAG noted that "I raised two hundred and six (206) audit findings in my 2019-2021 annual reports that I followed up for the reported entities herein and noted that ninety-two (92) were addressed sixty (60) were partially addressed and fifty-four (54) were not addressed."[68]

Table 5: 1The Auditor General's distinguished efforts

	2022	2021	2020	2019	2018
Governance Issues	170	81	121	53	99
Revenue Collection and Debt Recovery	37	12	15	7	20
Management of assets	25	4			
Procurement of goods and services	20	13	5	4	2
Employment issues	5	3	6	3	8
Service delivery	4	1			

Source: OAG Report on State-Owned Enterprises and Parastatals for Financial Year Ended 31 December 2022

65. Pemberai Abide Tanda, Bekir Genc, Zimbabwe's mining policy impact on revenue leakages, Resources Policy, Volume 91, 2024, 104884, ISSN 0301-4207, https://doi.org/10.1016/j resourpol.2024.104884. (https://www.sciencedirect.com/science/article/pii/S0301420724002514)
66. OAG Report on State Owned Enterprises and Parastatals for Financial Year Ended 31 December 2022
67. Vaclav Prusa (2023), Zimbabwe: Corruption and anti-corruption. Tracking developments and progress
68. OAG Report on State-Owned Enterprises and Parastatals for Financial Year Ended 31 December 2022

The latest tax policy changes proposed in the 2024 National Budget Statement (NBS) and given teeth by the Finance Act 2023 13 of 2023 gazetted on 30 December 2023 perhaps show signs of changing tact by GoZ on tackling mining revenue leakages. For instance, through the Finance Act of 2022, the mining industry's Corporate Income Tax (CIT) was slashed from 25% to 24% as a COVID-19 relief measure[69]. This was backdated by a year to allow mining companies to benefit from the similar CIT rate reduction given to other sectors in 2021. When COVID-19 pressure eased, the CIT rate cut remained unchanged, whereas the VAT rate was adjusted back to pre-pandemic levels, from 14.5% to 15%[70]. Commendably, the CIT has been adjusted back to pre-pandemic levels thereby curbing significant loss of CIT revenue from mining and other sectors of the economy. In 2022 year alone, ZWL12.41 billion was forgone because of the CIT rate slash by 1%[71].

Further to the upward readjustment of the CIT tax rate, a Special Capital Gains Tax (SCGT) was also introduced for entities acquiring mining titles or any interest, and this was backdated to a period of 10 years before the 1st of January 2014[72]. The SCT is now applicable on the transactional value of any mining transfer of title or interest outside Zimbabwe. To understand the weight of this policy directive, in the past three years, there have been significant changes in mining ownership, particularly in the lithium sector, driven by mega Chinese investments. For instance, Chinese investors acquired Arcadia lithium mine from Prospect Resources for US$422 million and Bikita Minerals for US$180 million[73]. At no time did ZIMRA's revenue performance report disclose bumper revenue from Capital Gains Tax due to changes in the ownership of mineral rights?[74]

CONCLUSION AND RECOMMENDATIONS

Through the UN's Sustainable Development Goals and the African Union's Agenda 2063, the international community recognises the danger posed by Illicit Financial Flows (IFFs). However, Zimbabwe's National Development Strategy (NDS) does not explicitly address this risk. Despite varying estimates, it is clear that Zimbabwe suffers significant losses due to IFFs, which hinder efforts to alleviate poverty and reduce inequality.

On a positive note, the NDS includes several revenue policy goals to strengthen the country's domestic resource mobilisation. It aims to streamline costly tax incentives to promote transparency and cost-benefit analysis.

Recent tax policy changes, effective from January 1, 2024, suggest that the Government of Zimbabwe (GoZ) is increasing efforts to curb revenue losses from the mining sector. Key policy reforms include introducing a special capital gains tax to cover indirect transfers of mineral rights abroad, retroactively applied for the past ten years. Additionally, the Corporate Income Tax (CIT) rate has been adjusted to pre-pandemic levels, aligning with the treatment given to consumers on Value Added Tax (VAT).

Although not applicable across the mining sector, introducing a 1% levy on gross lithium and black granite proceeds designated for community development is a positive step. Hopefully, this move will encourage the government to extend similar measures to all other mineral sectors. Doing so would compensate for eliminating Community Share Ownership Trusts (CSOTs) and help fulfil the constitutional obligation to enable local communities to benefit from natural resources in their areas.

Some of the specific conclusions and their accompanying recommendations are listed below:

Conclusion: The mining sector in Zimbabwe faces significant challenges with taxation, including tax evasion, concealment, misrepresentation, fraud, and other unscrupulous activities. These issues lead to substantial revenue losses for the government.

Recommendation: The government should take strong measures to combat tax evasion, concealment, misrepresentation, and fraud within the sector. This can involve implementing stricter regulatory and enforcement mechanisms and promoting transparency and accountability in tax reporting. Additionally, providing education and support to mining companies on compliant tax practices could help address these challenges and minimise revenue losses for the government.

Conclusion: Corruption in Zimbabwe's mining sector undermines transparency and accountability, resulting in the misrepresentation of financial information and tax evasion.

Recommendation: The government should implement stricter regulations and monitoring mechanisms in the mining sector to increase transparency and reduce corruption. This could involve independent auditing of financial records, implementing technology for transparent resource tracking, and creating a whistleblower protection program to encourage reporting of corrupt practices. Additionally, strengthening legal enforcement and penalties for engaging in corrupt activities can serve as a deterrent.

Conclusion: Illicit financial flows further exacerbate the situation by siphoning valuable resources from the country. This leads to decreased investment in essential sectors such as education, healthcare, and infrastructure, perpetuating inequality and hindering long-term sustainable development.

Recommendation: Zimbabwe should implement and enforce stronger anti-corruption measures to curb illicit financial flows. Additionally, improving transparency and accountability in financial systems, strengthening regulatory frameworks, and promoting international cooperation to combat money laundering and tax evasion can help mitigate the negative impact of illicit financial flows. By taking these steps, the country can work towards ensuring that valuable resources remain within the country to support essential sectors and contribute to sustainable development.

69. Finance Act of 2022
70. Finance Act Number 2 of 2022, the finance minister directed that Value Added Tax rate be adjusted from 14.5% to 15%, with effect from 1 January 2023.
71. Sibanda, Mukasiri, 'Increasing Domestic Revenue Mobilisation through the Mining Industry in Zimbabwe, ADHR Research Paper 02/2023 (Committee on Fiscal Studies)
72. Finance Act 2023 13 of 2023
73. 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
74. Sibanda, Mukasiri, 'Increasing Domestic Revenue Mobilisation through the Mining Industry in Zimbabwe, ADHR Research Paper 02/2023 (Committee on Fiscal Studies)

Conclusion: Addressing corruption and illicit financial flows in the mining sector is crucial for Zimbabwe's sustainable development, economic prosperity, and the well-being of its citizens.

Recommendation: The analysis recommends that Zimbabwe implements and enforces strong anti-corruption measures and transparent financial regulations in the mining sector. This may involve establishing independent oversight bodies, implementing strict auditing processes, and promoting transparency in financial transactions within the sector. Additionally, creating a robust legal framework to prosecute corruption and illicit financial activities is essential. Fostering accountability and integrity in the mining industry will ultimately contribute to Zimbabwe's sustainable development and economic well-being.

Overall, the analysis noted a need for comprehensive policy measures, enhanced transparency, and robust enforcement mechanisms to combat these detrimental practices effectively and ensure the mining sector's positive contribution to the country's economic growth and stability.

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