

Rethinking Mineral Taxation in Zimbabwe

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Abstract: *Zimbabwe has a rich mineral resource base and yet it is undermined by lack of fiscal sustainability. Recent work has attempted to bridge the knowledge gap on mineral taxation in Zimbabwe and thus making calls for a new framework. The present system requires highly limits sustainable development and hence, this paper sets out a proposal of the framework for mineral taxation in Zimbabwe. The methodology entails an extensive literature review and the use of content analysis for critical evaluation of theory, policy and practice of mineral taxation. This was used in propagating the framework for which this paper proposes that government and concerned stakeholders should engage in strategic alliance to balance the trade off of risks and rewards to both parties. Furthermore, this paper proposes a mixed fiscal regime in which taxes are biased towards profit-based systems than production-based taxation. There is need for a solid regulatory and legislative framework in the mining sector to be complemented by the establishment of an independent commission that will ensure sustainability of mining operations and revenue mobilization in Zimbabwe. Although the proposed framework is not conclusive, it may be viewed as a positive step towards probing thought on pragmatic taxation in mining.*

Keywords: Mineral taxation, Zimbabwe

1. Introduction

There is a proposition that government should first take away before it gives and this concept dates back as far as the times of Adam Smith in 1776. It is highly acknowledged that numerous attempts have evolved overtime in an attempt to uncover and resolve challenges in taxation. While it may be generally conceived that great results are congenial to the abundance of experience, this is largely challenged by the reality of imminent and eminent problems in taxation. This paper propositions that barely enough is understood about taxation in Zimbabwe and like many other developing nations and despite their dormant or active states, taxation and public expenditure continue to perpetuate underdevelopment in Africa. In the midst of being heavily indebted and under fiscal stress, the GoZ has limited options to raise tax revenue for public expenditure which is also key for the sustenance of the economy at large. Often criticism is levied against poor economic policies which abate growth; however, this paper alludes to the notion that some of the economic changes in Zimbabwe have impinged the ability of some policies to work well as they did during the heydays. This is not to suggest that the GoZ is entirely exonerated from reproach. The dollarization experiment has left the country vulnerable because there is no meaningful and applicable precedence of this experience in the history of Zimbabwe. This compounds an already difficult situation by inevitably exacerbating the challenges posed by global and domestic factors like declining global prices and limitations on monetary policy respectively.

It is highly acknowledged that there are many forces at play that have been undermining tax revenue in developing countries like Zimbabwe. Notably, governments are faced with tax avoidance and some impediments that lie in poorly designed tax systems. A paradox is presented by the case in Zimbabwe in which the Government of Zimbabwe (GoZ)'s blueprint ZimAsset (2013-2018) affirms that the country is endowed with a rich mineral resource base and yet mineral taxation is far from being a chief contributor of total revenue in Zimbabwe. Despite that mining is a major foreign currency earner and a potential driver of growth in the country, this paper asserts that the GoZ is still unable to fully

embrace mineral wealth into tax revenue for development. This notion is reinforced by sentiments that the GoZ seeks to turnaround fortunes and improve revenue collection from mining. In this regard, emphasis has been placed on the importance of implementing supportive policies to enable the achievement of stated objectives. Mlambo et al (2014) provide an insight into the conceptual framework of mining taxation and characterize Zimbabwe's mining system. Notably, the paper calls for a simplified tax system and addressing challenges of collection of tax from small scale miners and destructive exploitation. Against this background, this paper is motivated by the need to establish ways to abate the effects of factors contributing to the paradox mentioned earlier. This paper posits that there is a huge gap between theory and practice of tax design in mining and as such asserts that indeed there is need for a systematic model to address government objectives in mining and enhancing tax revenue. To this end, the contribution of this paper is to address a critical policy question on how "best" to tax the mining sector and "best" refers to insight into optimal tax design which embraces the pros and cons in the country's economic environment as well as enabling the GoZ to raise required tax revenue without prejudicing welfare. As suggested by Bird and Zolt (2003), the best system should consider a country's economic structure, its capacity to administer taxes, its public service needs and other factors.

This work is set apart from previous work as it provides a systematic approach to mineral taxation as a component of the economy rather than making it an isolated case analysis. Furthermore, there is scanty work which addresses drawing and bridging the gap between theory and practice of mineral tax in Zimbabwe. The methodology of this paper entails the use of extensive literature review and content analysis to derive lessons from theory and experiences of selected countries and the findings enable the development of a model that may be used to probe thought into mineral taxation in Zimbabwe. Notably, earmarking mineral taxes and establishing an independent government agency are viewed as being fundamental. On the policy arena, the findings of this paper reinforce the appropriateness of ZimAsset by highlighting key foundations to

implementation of key supporting policies like taxation as means to sustainable development. Although there is dire need to tax for revenue given the country's fiscal underperformance, prioritizing sustainable development may mean that such a tax system may be primarily used as a stimulator of growth over the need to provide funds for public expenditure.

Section Two dwells on the overview of performance and taxation in Zimbabwe's mining sector and theory and experiences of selected countries. Section Three focuses on the methodology and Section Four focuses on the development of a mineral tax system for Zimbabwe. Section Five wraps up the study with the conclusion and policy implications.

2. Literature Review

This section provides a brief overview of the performance of Zimbabwe's mining sector, theory in taxing non-renewable resources and the practice of mineral taxation in selected countries.

2.1 Overview of performance and taxation in Zimbabwe's mining sector

The Mines and Minerals Act chapter 21:05 of 1996 governs the mining sector. Table 1 below shows the estimated resource base of Zimbabwe and without prioritizing any exploration and development. Furthermore, environmental issues in mineral exploitation are considered at project inception and development stages.

Table 1: Mineral Resources in Zimbabwe

| Mineral | Estimated Resource |
|----------|--|
| Gold | 13 million tonnes |
| Platinum | 2.8 billion tonnes |
| Chromite | 930 million tonnes |
| Nickel | 4.5 million tonnes |
| Coal | 26 billion tonnes |
| Diamonds | 16.5 million tonnes |
| Iron ore | 30 billion tonnes |
| Copper | 5.2 million tonnes |
| Methane | Largest known reserves in Sub-Saharan Africa |

Source: Zimbabwe Investment Authority (ZIA)

According to ZIA (2015), the fiscal incentives for mining in Zimbabwe include: special flat rate of 15% against the standard of 25%, indefinite period to carry over tax losses, taxable income at 15% to a holder of a mining tax lease and all capital expenditure incurred wholly and exclusively for mining operations will be allowed as a deduction at a rate of 100%. Regarding withholding taxes, small scale miners should pay presumptive tax of 5% and trust or mining companies operatives should pay 25%. Zimbabwe's mining sector has been identified to be one of the key drivers of economic sustainability. Specialized frameworks have been adopted to enhance economic growth through this sector. The economic crisis experienced in the country reflected a decline in sectorial performance of the mining industry estimated at 53.9% in 2008.

MoFED (2011) postulated a recapitalisation of around USD\$3-5 billion in the next five years for the significant recognition of the countries mining industry. Platinum, Gold, Ferrochrome, Nickel, Coal and Diamonds representing US\$1.2billion, US\$1 billion, US\$0.250 billion, US\$0.110 billion, US\$0.280 billion and US\$0.300 respectively of the requirements of recapitalisation. In the 1990's decade, Zimbabwe's mineral contribution to GDP was averaged at 10.2 % and thus rose significantly in the period of 2009-2011 to 16.9%. In 2009 mineral exports accounted for US\$227 216 000 million dollars to Gross national product which translates to a 4.9% total contribution to GDP. Various mining and implementation strategies need to be drafted in order to maintain an encouraging fiscal and economic environment. The mining industry, MoFED(2009) recorded the fastest growth rate among other sectors with a growth rate of 33.3%. Disbursements from operational facilities in support of the sector were availed at the amount of US\$20.3 million.

Mining performance has been facing numerous challenges. Power supply has been observed over the past years as a major burden to mining production thus hindering progress and resulting in closure of some mining corporations. Thus capital utilisation has been recorded on the low from averages of 10% to 30-50% in the most productive sectors including mining. The growth momentum in the year 2012 was maintained at 9.4% with a positive performance in mining of 15.8% which comes second after the finance sector recorded a 23% growth rate. MoFED (2011), postulated that royalties collected accounted to US\$ 20.7 million from mineral sales amounting to US\$593.8 in the period of January 2012 to September 2012. Contributing a total of 65% of the nation's exports mining has been considered a pillar of economic recovery. From the previous year of 2008 growth of mineral exports were postulated to be well over 88% with the gold production increasing by 1.39 tonnes to 4.97 tonnes in 2009.

The mining index dropped its points from 209.81 to 145.65 in September of 2009 owing to shortage of working capital which downsized production. However the mining sector later gain its confidence and the index significantly improved in October by 71.42 points. The mining index of 2009 was well above that of 2012 which was anticipated to be 96 points by September. This was motivated by average increase prices of certain minerals on the world market. Gold prices increased by an average of 45% during the period of 2009 to October 2010. Platinum being the country's number one mineral exporter averaged a price increase of 54% growth of prices in that same period.

After the financial crisis, a rebound of the mining industry was experienced and increased over the years. From a negative growth of 33.4% in 2008 to a positive growth of 8.5% in the succeeding was observed. As growth was rising the mining sector was boosting the economy and observed a 13% share towards total GDP. Mineral exportation stood at US1.7 Billion in October 2011 accounting for 67% of total exports and major contributions were from platinum, gold and diamonds. As economic growth became a concern, credit was channelled towards all productive economic sectors with the mining industry receiving 6% of the

US\$2.59 billion availed for beneficiation. The loan distribution to the mining sector improved by 3% and thus accounted for 9% of total loans disbursed in August 2012.

In Africa, Zimbabwe is projected to have the second highest platinum reserves following after the Republic of South Africa. Zimplats, Unki and Mimosa are among the core producers of platinum in Zimbabwe. Mining plays a significant role in the country thus there is a need to develop a framework which exclusively integrates other sectors with the mining industry. Coal, natural gas and limestone are used for energy generation in the country, for infrastructural development the mining sector produces steel, copper and cement and it subsidizes the agricultural sector with nitrogen and phosphate. This immense contribution has seen the establishment of a mining loan fund to assist small scale miners in the production of gold and chrome. Cumulative growth rates of the mining sector from 2009 to 2011 were 57.2% and the average annualised growth rate stood at 30%. Economic growth was projected at 5% in 2013 and it was mainly due to improvements in the agricultural and mining sector. Mineral exports rose by about 230% from 2009 to 2013 during the dollarization period. Revenue collection of the mining sector provided a US\$150 million excluding diamonds which collected a fiscal revenue of US\$130 million by end of 2011.

A mining tax rate of 8% has resulted in inadequate fiscal contributions and this poses a challenge as far as sustainable economic growth is concerned. World Bank (2013) also projects a decline in mineral pricing which also poses a strain in the development process of the economy as well as the mining sector. In 2013 the mining sector growth declined to 6.5% from a projected growth of 17.1% which is largely associated with low exploration, lack of capital and weakening commodity pricing. In conjunction with the World Bank projections, RBZ recorded a decline in the mining and quarrying sector from 37.4% in 2010 to 24.4% in 2011.

As the overall industry suffers, platinum production is expected to increase by 1000Kg in 2014. Zimplats established a concentrator in April this year, which boosted its production capacity by 48%. This is because of the leading continent's platinum producer is extracting the mineral much more expensive than before. Despite declining mineral pricing, small scale miners contributed 11 tonnes of gold in 2014 compared to the average of 1.2 to 3.9 tonnes in previous years. Faced with low working capital, Hwange managed to inject US\$40 million which would be generated towards capital equipment acquisition. As loans and advances available for sectorial distribution continued to be disbursed to the productive sectors, mining received 4% as compared to the manufacturing sector with a 13.8% loan advancement. RBZ () loans to the mining sector utilised 68% of the US\$158.2 million availed to this sector in 2013. As the global market remains a competitive mineral mining exports rose to 52% being the largest sectorial contribution RBZ ().

Table 1: Summary of Zimbabwe's debts in relation to GDP, Revenue and Exports

| | 2011 (%) | 2012 (%) |
|-----------------------------------|----------|----------|
| Debt/Revenue | 35 | 49 |
| Debt/GDP | 200 | 173 |
| Debt/Export of goods and services | 130 | 149 |

Source: Ministry of Finance and Economic development

2.2 Theory on taxation of non-renewable resources

Although times have changed since Adam Smith postulated the canons of "good tax system" in 1776. Many authors agree that the underlying concepts have somewhat remained the same and have only been rediscovered or modified to suit the contexts of recent times. Some of these works include Optimal Tax Theory contributors like; Ramsey (1927), Diamond and Mirlees (1971), Mirlees (1971), Stiglitz and Dasgupta (1971), Bradford and Rosen (1975), Auerbach (1982), Alm (1996), Black et al. (2003), Alley and Bentley (2005) and Mankiw et al. (2009). The basic principles are that an optimal tax system should balance between efficiency and equity, be economic and convenient. This paper retains simplicity in categorizing the principles of a good tax and thus uses those postulated by Adam Smith. The *Canon of Equity* stipulated that every person should pay to government depending on their ability to pay subject to the benefits they receive from government protection or provision of public goods. This illustrates the need to engage economic and social justice for people. Within the canon of equity, emphasis is placed on other factors like benefit principle and ability to pay principle. In the former, expenditure is linked to revenue as government charges citizens for services rendered and in the latter, paying taxes is determined by one's status on the economic ladder. (Magondo, 2006). The *Canon of Convenience* propositions that there is a need for ease in terms of the mode and timing of tax payments. This may imply that tax systems should be designed in ways that encourage people to pay taxes and subsequently raise tax revenue. The *Canon of Certainty* suggests that taxpayers should be able to determine the amount of tax they must pay as well as when and how they should pay it. This emphasizes on certainty by focusing on the need for sureness of how much, time and form of payment of taxes to government. This also means that government becomes knowledgeable about how much it can collect as taxes. *Canon of Economy* which suggests that the cost of collecting taxes should not exceed the amount of taxes collected otherwise it defies the whole purpose and rules out designing taxes that are difficult to collect.

In principle, the rationale for a theory base in this research is to partly establish what tax design is and why predictions by theory should work. It would be preposterous to assume that distortions can be eliminated; instead, governments may minimize the effects associated with such distortions. This may be used to understand tax incidence which refers to the study of who becomes the ultimate bearer of tax. Bailey (2002) suggests that this may cause shifts in three ways namely, backward forward or horizontal transfers by reducing prices to factors of production, increases in product prices and reducing dividends to shareholders. According to Magondo (2006), the time dimension of tax incidence is also important as short run and long run effects are not the

same. Furthermore, tax incidence depends on elasticities of supply and demand of the commodity; the more elastic demand is, the lower the tax burden on consumers, *ceteris paribus*. However, the more elastic supply is, the lower the tax burden on producers (Rosen, 1995).

The interaction of normative theory and other theories of taxation like the public choice approach, political economy and positive theory still preserves some of the fundamental aspects relayed by Adam Smith. In this regard even in the presence of heterogeneous environments, taxes should be efficient, fair, convenient and economic. When considering the political economy, theory suggests that taxes should be politically sustainable otherwise taxation without representation may be catastrophic. Furthermore, Tenhunen (2007) suggests that optimal taxation is heavily reliant on the philosophy of the political economy as any changes to taxes have to be endorsed by parliament. In this regard, an interaction of ideas by Feldstein (1976) and Ordover and Schotter (1981) may be yielding if we can relate to the intellectual gap between theory tax design and practice by tax reformers and political sustainability of taxes. This paper suggests that it may be difficult to expect sustainability of taxes if there is no intellectual capability in comprehending tax design to begin with. It becomes paramount to question whether the intellectual characterization of legislators matters in assessing the practice of tax design. It probably does.

Notably, research is profound in commodity taxation and income taxation however focus on natural resources or non renewable resources is somewhat scanty in developing countries. Some recent work includes Daubanes and Lasserre (2012) who reexamined the Ramsey's inverse elasticity rule in the presence of Hotelling non-renewable resources with the notion of government raising revenue and subsequently minimizing distortions. The findings show that non-renewable resources should be taxed in priority regardless of their demand elasticity or that of regular commodities and that the tax rate should be higher than commodities with the same demand elasticity. Meanwhile, tax on regular commodities should be constant and the resource tax should vary with time. According to Bergstrom (1982) cited in Daubanes and Lasserre (2012) a country should set its national excise tax rate according to a rule relating to equilibrium excise tax rates to demand elasticity and market shares. These were not designed to raise government revenue but rather aimed at capturing resource rents otherwise enjoyed by other countries.

Sandmo (1975) suggests that government revenue be covered by Pigovian taxes and Dasgupta and Stiglitz (1972) also share the same view. Essentially, governments may have low or high government needs. They are said to be low if they can be satisfied without causing any distortions on the economy. As such when they are high, resource rents must be entirely taxed away. Nonetheless using the Ramsey-Pigovian framework, Daubanes and Lasserre (2012) allude to the notion that if the generation of reserves by exploration is influenced by the net-of-tax rents during the extraction phase then reserves become a basic form of capital and royalties tax its income. Furthermore, in an open economy, for a country importing the resource, the result is that

domestic resource consumption is to be taxed higher than conventional commodities having the same elasticity. This means that Ramsey taxes acquire an optimum-tariff element capturing foreign resource rents. The notions raised by Daubanes and Lasserre (2014) stimulate interest over whether these guidelines are apparent in the design of taxes of non-renewable resources in developing countries like Zimbabwe.

Heady (1993) and Bird and Zolt (2008) suggest that there is need to understand tax design in order to undertake efficient tax reform. Moving in to institute changes to tax policy without understanding the fundamentals that led to its creation may have adverse effects to the economy. To this end, it is suggested that ineffectiveness of taxation may be the result of too much eagerness and frequency in its use as a policy instrument. Among other factors, Fjeldstad and Moore (2007) put highlight the significance of simplicity in tax design suggested in the global tax reform program as this would enable predictable and neutral tax systems that would not deter private business and minimize interference in market signals. In principle premise of simplification is to make taxes clearer and more transparent, easier and cheaper to administrate and to lessen vulnerability to extortion and corruption. In practice however, it becomes an attempt to reduce the discretion of politicians or tax administrators in stipulating the extent of tax liabilities of certain companies, types of investment projects or category of imports; the number of different taxes; the number of schedules or rates for each type of tax; tax exemptions; the extent of progressivity of tax rates; high marginal tax rates; and the number of procedures required to assess and collect taxes and adjudicate disputes.

Kaplow (2006) takes an important outcome from Atkinson and Stiglitz (1976) that differential commodity taxation is not optimal in the presence of an optimal nonlinear income tax (given weak separability of utility between labor and all consumption goods). The paper proves that this conclusion holds regardless of whether the income tax is optimal and given any commodity tax and income tax system, differential commodity taxation can be eliminated in a manner that results in a Pareto improvement. Stern (1987) focused on oligopolistic markets and as such market structures have implications for taxation. There is a significant amount of influence from tax professionals, which includes employees of national tax administrations and of international organizations like the IMF, and economists, accountants and lawyers who specialize in taxation in academia and in consultancy organizations. Nonetheless this does not signify unison on what tax reform ought to be. Just like Mankiw *et al* (2009) and Stern (1987), Fjeldstad and Moore (2007) concur with the notion that advancements in theory are not commensurate with the implications they set for practical policy implementation. It is asserted that vast forms of research into taxation are based on the 'optimal tax policy' which requires information on behaviour, actual and potential of different categories of taxpayers that is inconsistent with a practical emphasis on administrative simplicity. Fjeldstad and Moore (2007) propose that tax reform may contribute to state building through four main ways which include: providing revenue; shifting toward more appropriate revenue sources; creating

more effective tax administrations; and encouraging constructive state-society engagement around taxes.

Mineral resources are classified as non-renewable resources which mean that they are fixed in supply and can only be used up in a limited time frame. Notably they can be stored for future use. Mangondo (2006) asserts that these natural resources are gifts of nature just like land and forests and the suggested rationale for government intervention is to abate the risk of overexploitation. In some instances government may do so because commodities may be public goods or to mitigate negative externalities as seen in the case of environmental pollution. Some of the reasons for taxing natural resources include: revenue collection, increasing market dominance and conservation of these resources. In agriculture, land rent is paid as a contribution to government revenue for occupying and using land (otherwise a gift from nature). In the same vein, the same concept is applied to mineral resources. Nonetheless, failure may be unavoidable in instances where individual interests influence the political process despite the possibility of eventually undermining political sustainability. Mangondo (2006) suggests that mineral taxation may take the form of: export taxes, import taxes, tax on rents, ownership and production sharing, company income taxes, auction rights, royalties, income tax, withholding taxes, stamp duty and property taxes, fixed fees and sales taxes.

Taxes on rent are asserted to be non-distortionary as they affect economic rent and not economic behaviour. From a public economics perspective, such resources are usually obtained free of charge and hence should benefit everyone. However, Sunley and Baunsgaard (2001) suggest that resource rent should be levied on positive accumulation of cashflow in a company. This implies that less profitable projects are excluded and this comes as a discouragement in investing in successful projects as high taxes will be attached to them. According to Mangondo (2006), government can get a share of the resource rents by requiring firms to bid for the rights to exploit resources before the exploration stage. In ownership and production sharing, government has to pay a fair price for equity and require vigilance in separating government as a shareholder from being a regulator. Royalties refer to the fees charged for extracting resources from public lands but the expected revenue from it is far from that of resource rents.

2.3 Mineral Taxation in the World

According to Mangondo (2006), taxation can occur at different stages in the mining sector as the various forms may include; the prospecting stage, exploration stage and trade stage. Ndikumana and Abderrahim () resource-rich countries in Africa have not been able to fully embrace their resource wealth to mobilize government revenue. The empirical evidence suggests that African resource-rich countries have performed poorly compared to resource-scarce countries as well as oil rich Middle Eastern countries. According to World Bank (2012) economic rents from oil and mining average were about 28 percent of GDP despite market volatility emerging from the Euro Area crisis. China was still a major host of exports of minerals although slowdown was evident in some regions. Nonetheless,

discoveries of minerals may entail large revenues for newly resource-rich countries but there would be need for these countries to strengthen control over mineral resources. Zambia, Mauritania and the Democratic republic of Congo showed heavy reliance on mineral exports to China and as such were largely affected by the country's demand.

Otto (2000) focuses on mineral taxation in developing countries and suggests that it is generally conceived that tax discrimination is used in the mining sector. This is because of reasons that include: the high risk associated with the sector and the relative nature of the mineral resources (non-renewable). This makes it difficult to apply conventional tax structures and administration as done with general tax systems and thus most countries use tax discrimination in mining. Nonetheless, tax discrimination may result in inefficiency and may provide an incentive for oversupply and overexploitation of less taxed areas. Otto (2000) suggests that tax discrimination may be applied separately depending on the type of mineral, nationality of miner and scale of operations. Likewise, tax provisions depend on the nature of mining industries and some of these include: tax relief for imported equipment, low taxes on export sales, assist in mining development, provision of exploration incentives, ensuring tax stabilization, allow cancellation of taxes when minerals are prone to commodity price cycles, make provisions for post-production expenses, negotiating agreements for special tax provisions very large investment projects and ring fencing to avoid tax liabilities of one mine being paid for by another mine. (Otto, 2000).

Notably, Mangondo (2006) suggests that focusing on the largest contributors to global mineral production aids in providing some insight into taxation in the world. The study focused on Argentina, Australia, Brazil, Canada, Chile, China, Indonesia, Papua New Guinea, South Africa and the United States of America as the top mineral producers in that era. In general taxes are levied through direct and indirect taxation and most countries use a revenue-based royalty than profit-based. However, the latter is internationally more acceptable than the former as it has a cost increasing effect and this paper posits that it provides an incentive to shift tax incidence. In 2012, the leading mining producers were China, Australia, Chile, Brazil, Russia, USA, Peru, South Africa, India and Canada.

In Mlambo et al (2014) characterize and critique mining taxes and fees in Zimbabwe. These include; Royalties, corporate tax, PAYE, additional profit tax (special mining leases), VAT, capital gains tax, withholding tax, non-residents shareholder's tax, presumptive tax for small-scale miners, customs duties, marketing commission (MMCZ), licensing fees, environmental charges and local authority charges. Furthermore, there is need to consider the distinctive nature of mineral resources and the environment in which mining occurs. Mlambo et al(2014) suggest some critical elements as shown in Table 2 below:

Table 2: Summary of the unique nature of minerals and factors influencing mining

| Characterization of mining and its influences | |
|--|--|
| non-renewable resource, uneven geographical distribution of mineral resources, remote rural location, highly capital-intensive, irreversible investment, (heavy) mining equipment long lead times (time between discovery and production), long payback periods, | high risks, long life expectancies, existence of non-production costs, large closure costs, significant environmental impacts, price and revenue fluctuation, scale dichotomy existence of linkages with other economic sectors |

Source: Mlambo et al (2014)

3. Methodology

This paper makes an extensive literature review and content analysis by using a mix of primary and secondary source to critically analyze some policies and Zimbabwe's experiences. Vigilance was taken in extracting Eurocentric concepts of relevance to the case under review to aid in bringing insight into theory of natural resources/ non-

renewable resources from a Zimbabwean perspective. In turn, this is used in the development of a framework for a mineral tax system.

4. Framework for Mineral Taxation in Zimbabwe

This paper concurs with Mlambo et al (2014) that something is not right about the current framework of mineral taxation in Zimbabwe. This is because there is evidence to suggesting that it is ranked lower than country's like Botswana. Nonetheless, despite the mismatch with regional standards, this paper suggests that the paradox that Zimbabwe has a large mineral resource base should not prompt pursuance of an optimal tax system to maximize revenue. This proposition is motivated by the realization that the nature of minerals and the environment of the country's economy and that of the mining sector impinge the achievement of such optimality. This is where departure from Eurocentrics begins and hence Fig 1 below shows a simplified framework for mineral taxation in Zimbabwe which attempt to synchronize the objectives of ZimAsset in pursuit of sustainable development. Notably, this paper realizes that this is a process and hence the results of the proposed framework may not immediately resolve tax underperformance but will abate the prolonged suffering if the situation is left unattended to.

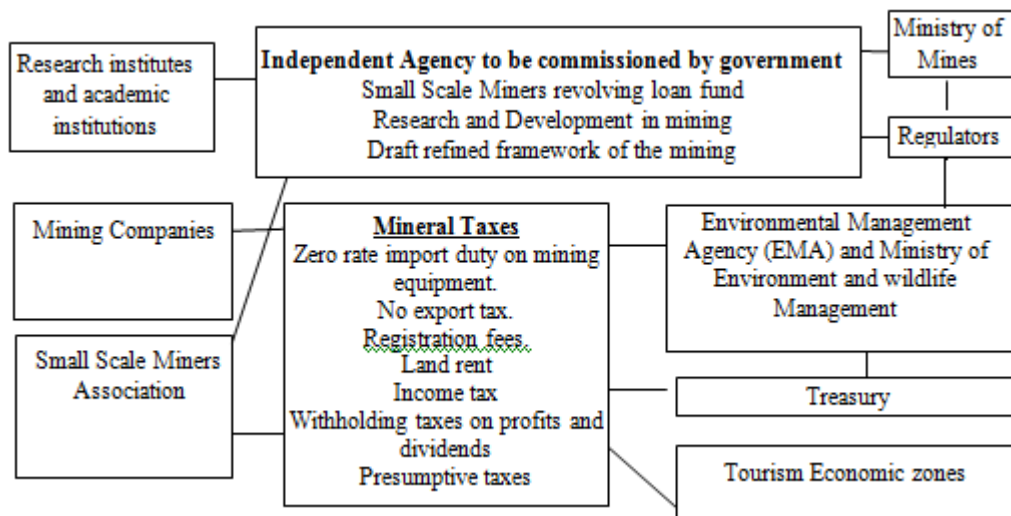


Figure 1: Framework for Mineral Taxation in Zimbabwe

5. Conclusion and Policy Implications

After considering the objectives of ZimAsset, this paper asserts that the mineral tax system would better serve a stimulator of other economic sectors for sustainable development than a source of finance for recurrent public expenditure. The situational analysis of Zimbabwe's economy posits that the country is stifled by fiscal stress and thus undermining the achievement of ZimAsset. As such, instead of attempting to fine tune the mineral tax system into an optimal system to provide the required tax revenue, the best tax system would be that which taps better tax revenue and channels it to other sectors of the economy like tourism, research and development in mining and a loan fund for

small scale miners to initiate sustainable development. The risk of seeking maximization of tax revenue from mining is huge because recurrent expenditure is immediate and would only drive government into deeper problems than presently being experienced. However, in a shorter time frame, the gains from investments in other sectors may provide alternative sources of tax for government and growth. In the medium to long term, government may yield benefits from increased activity of small-scale miners and innovation and enterprise from research and development in mining. Evidently, the compounded present day tax system has underperformed and hence there is no sufficient evidence that it will work in the foreseeable future. Instead of hoping and wishing for the unknown to change the economic

environment in Zimbabwe at an unknown time in the future, this paper advocates for immediate intervention through an initiative that requires coordination between government departments to abate a crisis and to begin moving forward until ZimAsset is realized.(or at least part of it). Historical experiences have shown that Zimbabwe has had a series of developmental plans which were largely unfulfilled and hence the possibility that nothing was done or something wrong was done. This paper suggests that.

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