‘Privatising Fidelity Printers raises more questions than answers’

Newsday

22 September 2021

Farai Maguwu, executive director of the Centre for Natural Resource Governance

WHEN President Emmerson Mnangagwa took over power in a November 2017 coup, he declared that the country would open up for business. The country’s vast mineral resources became a magnet to investors. His new dispensation implemented a raft of measures, among them tax incentives, to lure investors.

NewsDay (ND) senior reporter Cliff Chiduku sat down with Centre for Natural Resource Governance (CNRG) executive director Farai Maguwu (FM) to discuss tax incentives, the partial privatisation of Fidelity Printers and Refiners and a wide range of issues. Below are excerpts of the interview:

ND: Diamonds from Marange have always been considered blood diamonds under the Kimberley Process (KP). However, the Kimberley Process Certification (KPC) position shifted and has now certified them. What is the impact of this decision on diamond mining in Marange? Can it spin a boon or there will be further looting of the gems?

FM: Zimbabwean diamonds were certified as conflict free, mine by mine, in 2012 by KP. The current challenges on Marange are not new. They relate to several social justice issues such as:

- Compensation of relocated people
- Fair benefit sharing between government, companies and the local communities
- Pollution of rivers and water sources and finally
- The contentious human rights issues.

While all the above are excluded under KP definition of blood diamonds, the same are the focus of renewed calls for the KP to widen its scope and definition of conflict diamonds beyond diamonds used by rebel movements to try to overthrow legitimate governments. Clearing of diamonds as conflict free should ordinarily improve ease of trading Marange diamonds and afford the country a chance to optimise value from the gems, but transparency issues remain. To cure the transparency problem, there is need for political will to ensure that every carat is accounted for.

Zimbabwe has adequate skills along the diamond value chain to ensure it attains great standards of transparency. But for them to professionally do their job, there must be commitment towards good governance of the sector at the highest level. Without commitment to efficient, transparent and effective governance of diamonds, the KP certification can be abused to facilitate illicit financial flows (IFFs). What buyers want is a guarantee that diamonds reaching them are accompanied by KP certificates. This then puts a huge ethical responsibility on the government to ensure the KP certificate is backed by a social certificate from the Zimbabwean people.

ND: Mining is regulated by a number of laws. It is mandatory that before any mining activity commences, there should be an environmental impact assessment certificate. However, of late, we have seen many people who were arbitrarily removed from ecologically sensitive areas to pave way for mining operations. We have seen this in Marange, Mutoko and Manhize in Chivhu to mention but a few. How should this be handled?

FM: Zimbabwe needs a relocation policy that clearly lays down how mining-induced displacements should be handled. This must include steps to be taken if people are to be moved. There must be fair valuation of properties such as buildings, boreholes, land and orchards, among others for compensation purposes. People living on communal land have rights. Their land cannot be prospected on without their consent. There are certain measures prescribed by law that are not being respected, for example, distance from which to start prospecting from a river and homesteads, among others.

ND: Stakeholders have been pushing the government to adopt the Extractive Industries Transparency Initiative (EITI) to help promote transparency and curb corruption in the mining industry, but it seems there is little appetite to do so despite Zimbabwe being a signatory country, what could be the motivation?

FM: If the leadership had a clear vision of using natural resources to grow the economy, they would adopt any mechanism, including implementing EITI principles that help to create or strengthen standards of transparency and accountability. However, even if Zimbabwe was to be part of EITI, nothing was going to change as long as there is no integrity in national leadership.

Zimbabwe is a member of the KP, but the country continues to fail the accountability test mainly because of political interference in the administration of the sector. Thus global governance mechanisms cannot replace the role of government to practise good governance in the management of its natural resources. If the leadership is corrupt, they will always find a way to dribble past international mechanisms in pursuit of self-enrichment.

ND: Early this year, the government granted Great Dyke Investments a five-year tax exemption as a way to lure investment. However, such incentives represent revenue foregone[i]. This can be a source of IFF (illicit financial flows). How fair are Zimbabwean tax policies?

FM: The tax holiday granted to Great Dyke Investments and many others is prejudicial to the economic interests of Zimbabwe. First, there is no model used to determine the nature of the tax holiday. There is no cost-benefit analysis of such decisions. We also do not have any evidence showing that such incentives attract investors. Some of these companies make the most of the five-year tax holiday and at the end of it, they exit or change their corporate identity without paying government a penny.

Secondly, there is no agreement on the tonnage a company is allowed to extract and export during the tax holiday. It's like "for the next five years, take as much as you can". Clever companies would invest in machinery and ensure operations are 24/7. The concept of natural capital depletion is completely ignored. It would be sensible if they agreed on tonnage rather than giving a blank cheque. Communities lose an opportunity to benefit from their natural assets. Government loses an opportunity to generate revenue. Tax holidays are one way by which Africa continues to donate to enrich other countries.

Our tax policies need to be tightened and all the loopholes exploited to evade paying taxes must be plugged. Tax holidays must be debated by Parliament to ensure checks and balances. Currently, an individual with connections can receive a bribe, or might have some interests in the investment, prompting him to draft a statutory instrument for tax exemption for selfish reasons while undermining our national interest.

ND: The reality is that communities housing natural resources are not benefiting from their endowments. But community share ownership schemes (CSOS) have proved to be a success in other countries such as the Royal Bafokeng in South Africa, where did we go wrong in Zimbabwe? How can communities benefit from their endowments?

FM: CSOS were a campaign gimmick for the 2013 elections. They were never meant to benefit communities. They were also a means to incentivise chiefs and other key political influencers in resource-rich communities. The trustees of these CSOS were not democratically-selected. The concept started dying immediately after the 2013 elections. A closer look at trustees shows they are political actors. They were, therefore, answerable to those who appointed them. In rare cases where funds were deposited into CSO trust accounts, they were largely looted and communities had no power nor platforms to demand accountability.

However, the concept of CSO trusts is brilliant, but for it to function well, there is need for political will, improved regulations to ensure compliance by the mining companies and more importantly, an accountable, transparent and a skilled community-chosen board of trustees.

ND: The central bank recently ceded control of the refinery of gold, offering mining companies 60% of Fidelity Printers and Refiners (FPR), following the model of Rand Refinery in South Africa. What are the implications of entrusting the gold refining business in the hands of private capital?

ND: The RBZ (Reserve Bank of Zimbabwe) and its subsidiaries are State-owned and decisions pertaining to such structural changes must be transparent and Parliament must be allowed to play its oversight role. So far, we only have questions without answers. Who are the 10 companies to buy the 60% shareholding in FPR? How were they selected? Were there laid down procedures and equal opportunities to those interested?

While I don't think it is a bad idea to partially privatise FPR, we need to deal with regulations first by stating the objectives and rationale for doing so, plug loopholes so as to secure the national interest, explain the procedures for applying for the shares and the qualifications/requirements and put in place penalties for non-compliance.

ND: There seems to be reluctance by mining companies to beneficiate minerals locally. Chrome and platinum ore is still exported to South Africa despite talks of a refinery plant over the past couple of years, what should the government do to enforce beneficiation?

FM: Exporting raw minerals gives a lot of advantages to organised crime syndicates. They can falsify information, avoid paying tax and also undervalue the mineral. Most of these challenges can be addressed by processing the product locally. But because some mining companies in Zimbabwe have established trade links with big companies in other countries, they will do everything to continue exporting all minerals in their raw form. Having taken them out of Zimbabwe for a song, they can then raise the value significantly through value addition. The vested interests of some powerful politicians in these export deals make it impossible for government to come up with policies that encourage local processing of minerals.

ND: Platinum is generally referred to as platinum-group metals (PMG)s, however without refineries Zimbabwe could be losing on the other minerals being shipped out undeclared. Is there a mechanism to curb this?

FM: I am sure there are scientific ways to detect and estimate quantities of elements in ores and minerals. Leakages will be greatly reduced with local processing of minerals and the adoption of technology in value-addition.

https://www.newsday.co.zw/2021/09/privatising-fidelity-printers-raises-more-questions-than-answers/

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[i] Explanation of “revenue forgone”: The revenue forgone approach measures **how much tax revenue is reduced (relative to a benchmark) because a tax expenditure exists**. It is an ex post measure of the cost of a particular tax concession that compares the current treatment and the benchmark treatment, assuming taxpayer behaviour is unchanged.