DEATH AND TAXES

By Khadija Sharife

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Conventional economic logic has it that resource-rich developing nations, desperately in need of revenue, must locate economies within the extractive industries as a means of increasing growth as indicated by Gross Domestic Product (GDP).

Single or, better yet, double digit growth is precisely the medicine prescribed by economic doctors. Yet GDP, a specialised scorecard designed to measure overall economic activity, is grossly inadequate as it fails to distinguish the quality and coordinates of growth.

This is especially crucial as it relates to the mining industry: liquidating finite resources such as gold is only sustainable if the primary sources of revenue, i.e. tax and commodity prices, are adequately captured and invested. According to the UN, 80% of African exports are primary commodities. Unfortunately for Africa - the seemingly permanent home of the infamous 'resource curse' - despite the 2003-2008 boom in commodity prices, tax concessions and multinational transfer, mispricing prevented governments from optimising mining revenue.

In 2007, suspected transfer mispricing to Europe and the US cost South Africa close co R4,5 billion, while low royalty rates from unrefined minerals such as gold and diamonds saw the government forego R3,4 to R4 billion in royalties for 2006.

In addition, the true costs of mining such as the loss of ecological services providing livelihoods for millions dependent on natural resources, i.e. surface water, fisheries and fertile land, as well as environmental degradation, are externalised or hidden by multi nationals. Ecosystem services are rarely if ever economically valued neither is the true cost of environmental degradation.

Corporations control some 60% of global trade that is largely self-regulated and not subject to corporate country-by-country reporting - documents already possessed by companies concerning actual economic activity, and other details related to corporate operations in those countries.

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Instead, mining activities - the key source of investment in many African countries, including South Africa - are often negotiated in secret by an unholy wedlock composed of governments anxious to attract foreign direct investment (FDI) and multinationals eager to obtain tax holidays, control of national infrastructure such as ports, exemption or limited liability concerning human and environmental laws, amongst other conditions.

Secrecy clauses are often compensated for via corrupt governments extracting bribes and other lucrative 'gifts' from multinationals competing for limited resources. These bribes are then 'washed' in off shore financial centres before being stashed in tax havens. Not all tax havens are alike: some specialise in hedge funds while others in geographic proximity or the creation of complex dummy corporations. These concessions were aggressively promoted by the World Bank and IMF's structural adjustment programmes, following massive loans granted to dictators and other corrupt regimes by foreign banks and international finance institutions such as the World Bank.

These policies, purportedly designed to ensure macroeconomic stability, forced trade and capital liberalisation, drastic cuts co state expenditure on basic services, privatisation and other policies.

Capital liberalisation facilitated the exposure of vulnerable nations to high- risk foreign investment that was subject to mass capital investment reversal, thus destabilising economies.

Meanwhile, trade liberalisation undermined local industries in favour of cheap dumped imports; the domino effect was to further reduce sustainable financing by exterminating local sources of tax substituted by 'rents' from mining and other corporations. Each year, Africa loses $148 billion in capital flight: this is four times the sum of foreign aid. Despite Sub-Saharan Africa maintaining the developing world's highest employment- to-population ratio (67%), the region is the poorest in the world.

Ironically, Sub-Saharan Africa is also the leading source of global capital flight. Not only does mining usually result in destroyed environments and dispossessed and impoverished communities, but corrupt governments fail to invest state revenue in infrastructure, healthcare, schools, water and waste sanitation and other produced and 'intangible capital' industries. The latter refers to the quality of rule, skilled and educated populations and institutions that are both transparent and democratic.

Though Africa is heavily dependent on resources (natural capital), high income or first world countries, such as the US, depend on intangible capital (80%) for their income and just 2% for their natural capital.

As states are no longer primarily (and financially) dependent on and accountable to citizens via taxation (and reciprocal bargaining), corruption, environmental and human rights abuse and appropriated state revenue flourishes.

More than 60% of this global figure is caused by 'creative accounting', i.e. transfer mispricing, tax evasion

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and tax avoidance of corporations and high net worth individuals (HNWI). Currently, some $11,5 trillion is stashed off-shore, of which a quarter belongs to the UK.

Others include exotic postcard islands such as the Bahamas economically dependent on illicit flight, famous havens such as Switzerland - washing one third of flight capital and the haven of choice for African dictators due to its secrecy laws, as well as states like Delaware, in the US.

One common mechanism used is when multinationals declare no profits in host countries, only in tax havens where subsidiaries are registered.

It is also common for companies to include shelf liability in contracts, allowing for them to declare bankruptcy at any time, delinking debts and accountability of subsidiaries operating in Liberia or Nigeria from parent companies based in the US.

In 2006, according to the South African Revenue Service (SARS), South Africa lost the equivalent of 45% of state revenue to tax evasion and avoidance by corporations and HNWls, yet the bulk of the population have been forced to bear the brunt of taxes conveniently shifted to consumers.

Illicit flight continues unabated as neither individuals nor corporations are subject to mandatory laws concerning automatic exchange of information between states experiencing flight and those on the receiving end.

The legal interface, comprising bankers, lawyers, accountants and other respectable high powered corporate animals ensure that government officials, law enforcement agencies and civil society are kept in the dark for $750 to $1 000 on average, per hour.

Though the recent G20 Summit, held in London - the world's leading offshore centre - declared a new world order built on financial regulation, the task was handed over to a recapitalised but unreformed IMF.

Proposed bilateral reforms included suspected tax evasion on request only, ensuring the continuation of said practices.

In addition, the confidentiality clauses attached to contracts effectively blocks attempts by civil society to monitor how revenues are invested and the concessions granted to multinationals.

Though countries like Sudan, Equatorial Guinea and Nigeria maintain high GDPs, the structural disconnect between growth and development is blatant on examination. The solutions include: legal rights granted to the ecology under the guardianship of communities; transparent and comprehensive tax regimes; databases accessible co civil society monitoring revenue; multi-stakeholder processes concerning exploitation of resources; economic valuation of ecosystem services; mandatory automatic exchange of information between states and corporate country-by-country reporting, amongst others.

It is certainly true that nothing is certain save for death and taxes. The only difference is that, in Africa, it is the lack of (foreign corporate) taxation that causes death.

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