Making the most of mining?

Prepared by Herbert Jauch for Insight Namibia, November 2011

The question of the mining sector's contribution to Namibia's socio-economic development came into sharp focus during the past few months. The debate was triggered by government's proposed increase in mining taxes but several key questions remained unanswered. The mining industry made attempts to polish its image, for example in the form of hiring a local economist to glorify its contribution to the Namibian economy. The industry tried to defend what mining companies seem to perceive as their right to control and exploit Namibia's mineral resources as they see fit. However, the fundamental question remains: is Namibia really making the most of its mining sector in terms of socio-economic benefits?

This question is not only haunting Namibia but almost all countries on the continent. In Zambia, for example, the government earns a mere US$ 6 million from its most profitable mine which records profits of US$ 360 million. Claude Kapembe, the director of Southern African Resource Watch pointed out that foreign direct investment (FDI) on the continent tends to focus on extractive industries which do not create a substantial number of jobs. Also, Africa's taxation systems have to be changed as currently tax payments tend to only start in earnest when the mine is already in decline. Kapembe therefore proposed significant changes to the operations of the region's mining operations, including new mining contracts; the introduction of windfall taxes; indigenisation and nationalisation, including the creation of state-owned companies; community shareholding; beneficiation before exports; technology transfer; and systematic skills development as measures for Southern Africa to reap more benefits from mining.

In Namibia, the mining industry historically played a key role in the colonial economic exploitation and attracted huge capital investments. Namibia's physical infrastructure – roads, railways, harbours, water and electricity supply – was developed largely in accordance with the demands of the mining industry. At the time of independence, mining contributed about 22% of Namibia's total taxes and virtually all minerals were exported in raw form. The task after independence thus was for the Namibian state to gain greater control over this completely foreign-owned sector and to ensure that the massive wealth created would benefit the country's population - and not merely the companies' shareholders or a small local elite.

By all accounts, this has hardly been achieved and with the exception of NAMDEB, no significant change in ownership patterns occurred. A copper smelter and a few diamond polishing and cutting factories are the only beneficiation activities that take place 21 years after independence. The government's recent attempt to increase mining tax was welcomed by many organisations and individuals (including the SWAPO Party Youth League and the Basic Income Grant Coalition) because it was seen as an important step to ensure more local benefits. The Finance Minister had proposed to do away with the zero-rating of VAT on the export of raw minerals and to introduce a standard rate of 15% plus a levy of 5% on the export of unprocessed raw minerals. This was certainly not an unreasonable proposal and made sense for two main reasons: Firstly, such taxes would encourage local processing of minerals and thereby create the much-needed local jobs. Secondly, the additional tax revenue could be used to ensure far greater public benefits from the country's mineral wealth. As pointed out by the BIG Coalition, the new revenue could be used to introduce a country-wide basic income grant and thus benefit all Namibians.

The mining companies, however, were not interested to debate this proposal seriously and instead chose to threaten the government with mine closures and with tarnishing Namibia's image amongst foreign investors. The mining companies thus essentially resorted to blackmail tactics and the Namibian government backtracked within just a few days. This has shown the power of these global corporations who continue making huge profits from Namibia's non-renewable resources. In 2010 alone, Namibia's mining sector exported minerals worth N$ 14 billion but only paid a little more than 10% of that amount (N$ 1,6 billion) to the Namibian state in the form of taxes and royalties. The bulk of these payments (N$ 1,1 billion) came from NAMDEB while uranium companies like Rossing and Langer Heinrich only paid royalties but no corporate tax at all. There is no doubt that Namibia's current taxes on mining companies are quite low but the country's non-renewable resources will only last a few years. Thus any dollar lost in possible revenue will be lost forever. The current zero-rating on the export of raw minerals, unprocessed fish, game, crude oil and gas gives a tax-free ride to those extracting minerals and other natural resources without local processing. This directly undermines local economic growth, job creation and the possible redistribution of wealth in favour of the poor.

Namibia's classification as an upper middle-income country is largely based on its relative abundance of resources. However, this abundance is not matched by a system of fair distribution and thus the benefits accrue to just a small local elite and the foreign mining companies. There is thus an urgent need for structural changes to remedy the state of affairs. The question of how the country's mineral wealth can be used to reduce the huge and ever widening gap between the rich and the poor as posed by the BIG Coalition requires a serious answer. It is against this background that the proposed increases in mining taxes must be seen as a step in the right direction. There also needs to be a political commitment to use mining revenues directly to the benefit of the population, especially the poor. Using it for a national basic income grant should certainly be a serious consideration. This can even be done within the framework of capitalist market economies as shown by the US state of Alaska which puts 25 percent of the profits of its oil revenue into a fund which is then equally distributed to all citizens.

The proposal for increased mining taxes in Namibia should also be seen in the context of international trends. In recent years, several countries have decided to generate additional state revenues from non-renewable resources. Australia, for example, has increased its royalty tax to 30 percent (compared to less than 10 percent in Namibia) and South Africa is currently debating measures (including nationalisation) to increase the country's benefits from mining. These are urgent and immediate matters as potential revenue is lost with every day that passes.

Namibia's proposed increases in mining taxes thus are long overdue and need to be complemented by other measures as proposed by Kapembe and outlined above. It is a cause for concern that the Namibian government has capitulated so quickly in the face of the threats by mining companies. There is no doubt that Namibia urgently needs to socialise the benefits from its natural resources to overcome the huge levels of socio-economic inequality that characterise the country today. The time has come to take decisive action as mineral resources cannot be recovered once they are gone. Failure to act now will mean that the missed opportunities will haunt Namibia in the years to come.

Herbert Jauch is a labour researcher and educator based in Windhoek.