Zimbabwe loses millions of dollars to Illicit Financial Flows (IFFs) with the mining sector accounting for 70 percent of the money lost — prejudicing the country of the much needed revenue for national economic development.

It is also estimated that the country has lost about US$32 billion in the past two decades and an average of US$34 million annually.

Zimbabwe Coalition on Debt and Development (ZIMCODD) social and economic justice ambassador, Precious Luphala, said the extractive sector was prone to leakages due to the opaqueness of some mining deals.

She said resultantly, Treasury may at times fail to account for some of the revenues generated from the sector, which is primed to grow into a US$12 billion revenue sector by 2023.

“About 70 percent of the money that flows out of the country emanates from the extractive sector and this is mainly to the secrecy around it,” she said in an interview on the side-lines of the recently held Zimbabwe Annual Multi Stakeholder Debt Conference hosted by African Forum and Network on Debt and Development (AFRODAD) in conjunction with (ZIMCODD) in Bulawayo.

The IFFs are a drainage to the fiscus resulting in reduction in domestic expenditure and investment, both public and private.

“When governments are unable to harness domestic resources due to IFFs, their budgets will be underfunded.

“There is a lot of inequality around the sector, the money that should improve service delivery is lost due to illicit flows.

“It is even worse in communities where those resources are extracted from because there is usually environmental degradation and little development to show for the vast resources available in such
areas,” she said adding that more needed to be done to plug the loopholes as well as recover money lost in IFFs.

IFFs also increase tax burdens on citizens who are squeezed of their earnings to fund development projects or servicing debts.

According to UNCTAD’s 2020 Economic Development in Africa Report, the region loses an estimated US$88,6 billion, equivalent to 3,7 percent of Africa’s GDP to IFFs, with half of it emanating from the extractive sector.

AFRODAD policy consultant, Michael Zuze, said the extractive sectors tended to come under high level control.

“This is because the sector is too technocratic and secretive,” he said.

A Mbeki Report (High-Level Panel, 2015) classifies sources of illicit funds that is commercial (tax evasion, trade miss-invoicing and abusive transfer pricing, use of tax havens activities), criminal activities (drug trade, human trafficking, illegal arms dealing, terrorist financing and smuggling of contraband) and corruption which involves bribery and theft by corrupt officials.

According to the UNCTAD report, IFFs are concentrated in high value, low weight commodities especially gold which constitutes 77 percent of the leakages from the extractive sector followed by diamonds and platinum at 12 percent and 6 percent respectively. Indications are that IFFs have a causal relationship with debt and inequalities across the region.

“IFFs lead to loss of resources and tax revenue resulting in an increase in budget deficits. “IFFs contribute to such deficits because they represent foregone Government revenue (including potential revenue) and may force states into borrowing,” said Mr Zuze.

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