The good company dilemma as multinationals' burdens rise in SA

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THE ANNOUNCEMENT by Finance Minister Enoch Godongwana, in the 2024 National Budget, of the introduction of a Global Minimum Tax Bill comes as no surprise, but raises broader questions about the roles, responsibilities and future operations of multinational corporations operating in South Africa.

Efforts to tackle multinational profit shifting from high to low tax jurisdictions and stem the race to the bottom of effective tax rates dates from 1992, but has been endorsed by some 135 OECD (Organisation for Economic Co-operation and Development) and EU countries from 2021.

In this regard, South Africa will be falling in line with the Global AntiBase Erosion (GloBE) model, which aims to ensure that multinationals with an annual revenue exceeding €750 million (R15.35 billion) pay a minimum 15% level of tax on their income in respect of every jurisdiction in which they operate.

The South African Revenue Service estimates an additional R8bn in corporate tax collections from the application of the global minimum tax from 2026/27.

It is difficult to argue against the merits and justification of

the GloBE model, but it does raise questions regarding the additional burden placed on responsible corporations operating in South Africa, particularly when operating against the backdrop of a failing State sector. Yet a failing State sector confronts good companies with a basket of dilemmas.

Business is generally agnostic and adaptive with respect to the politics of the government of the day, but is keenly attuned to the operating, legislative and regulatory environment.

Where governments are unable to manage and sustain the core institutions of State, business confidence plummets, followed invariably by a frigid investment climate. We are currently in such a phase.

The first and most fundamental dilemma facing good companies is whether the depth and extent of State sector failure presents an existential threat to the business, rendering continued operations unviable.

This decision is the easiest if based purely on economic, financial and profit-driven grounds.

On these variables, key metrics such as return on investment and the sustainability of margins are determinant.

Moreover, if the business is multinational, then alternative tax rates, markets and jurisdictions are weighed dispassionately against a matrix of risk and reward.

Despite heightened geo-political tensions, global capital remains abundant, fluid and unsentimental. Features of State sector failure such as the collapse of State-owned energy, transport and logistics infrastructure make the decision of multinational companies to disinvest easier.

Paradoxically, however, State sector failure also presents good companies with immense opportunities to fill the void left by an incapable State.

Indeed, such failures present market and demand-driven opportunities seized by the private sector in recent years in the fields of health, education, private security and, increasingly now, energy.

If the economic and financial decision is to remain in the market and the failing State is deemed a manageable risk (while accepting some financial cost and squeeze on margins), then does a failing State sector place a greater responsibility on companies not only to conduct their affairs as good corporate citizens, but also to take on a social welfare role?

Stated differently, is corporate social responsibility more onerous when the State sector is failing? The answer is more complex than it appears.

For some sectors, notably mining, their primary operations are often found in locations with almost entirely absent State infrastructure, let alone social services.

Characteristically, mining houses are providers or funders of basic services to surrounding communities ranging from housing, electricity and clinics to basic education.

While these operating features of good mining houses may ensure a social licence to operate, the State sector is largely absent from the dayto-day lives of the surrounding communities.

But while good companies increasingly take on the role of the provider of social services for employees and communities in an environment of State sector failure, two consequential questions arise.

Firstly, are companies really equipped to provide social services? Secondly and more profoundly, by doing so, aren't good companies simply propping up the failing State sector and allowing it to abrogate its core responsibilities?

The first question is not merely Friedmanite. Rather than asserting that a company's social responsibility is to make a profit for shareholders, the more textured issue rests on whether corporate entities, be they retailers, banks or energy companies, can be, or even should be, configured to deliver social welfare. The more

profound dilemma confronting good companies is not only whether their corporate social responsibility programmes are sustainable in an environment of deepening State sector failure, but whether in fact such programmes serve to sustain government failure.

Viewed from this perspective, vicariously, good companies may be providing government with its own social licence to operate.

Karl Marx, beloved of and referenced by many in post-apartheid governments, saw the inevitability of deepening crises of capitalism leading to worker immiseration, revolution and an eventual communist utopia. That capitalism experiences repeated, cyclical crises is demonstrable. That the State has re-emerged as a key player in all economies in the post-global financial crisis and Covid shocks is equally true.

Yet, rather than capitalism, locally it is the State sector that is now facing a structural crisis and being propped up by good companies.

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