ZAMBIA - ENHANCING MINING REVENUES: OPTIONS FOR A SUSTAINABLE FISCAL REGIME FOR RESOURCE MOBILIZATION

ANDREW MWABA
STEVE KAYIZZI-MUGERWA

UNU-WIDER DEVELOPMENT CONFERENCE 2023

Revving Up Revenues For Development: The Role Of Domestic Resource Mobilization
OSLO 6-8 SEPTEMBER 2023
OUTLINE

- What are the Key issues?
- Global Developments in the markets
- Zambia Trends in output and prices
- Mineral revenues issues
- Options to expand revenues
- Main Recommendations
WHAT ARE THE KEY ISSUES?

- Zambia’s minerals have provided significant resource inflows into the country’s economy for over 100 years.
- Mineral tax policy remains contentious for many stakeholders who feel that the country does not benefit from its resources to its potential.
- Many point to the paradox of rising copper prices and outputs without a corresponding boost in revenues and foreign reserves.

- One international civil society network puts it simply as “Zambia is notorious for earning very little from its minerals.”
- Zambia has changed its mineral tax regime repeatedly during the past decades in a bid to redress this, but only with modest success.
- The 2015 Mines and Minerals Development Act have been reviewed through broad consultation.
GLOBAL DEVELOPMENTS IN THE MARKETS

➢ World copper consumption is projected to grow steadily at an **average 2.5% a year** over the next ten years.

➢ Expected to reach **28 million tonnes in 2026** and **31 million tonnes by 2030**.

➢ Higher mineral prices and green energy demand **have presented new opportunities** for Zambia.

➢ Investors are lining up again for new ventures.

“global mining companies are looking to invest in countries they previously considered too risky, **including DRC and Zambia**, propelled by a dwindling pipeline of big copper mines elsewhere and record-high prices”

– South Africa Business Live Online of October 15, 2021
• After steep declines owing to collapsing output from low investment in mining in the 1990-2000s, copper staged a rebound.

• Production increased from 711,000 tonnes in 2015 to close to 900,000 in 2021.

► Mineral prices have also risen rapidly from 2015 in response to sustained demand.

► Prices exceeded $10,000 per tonne in 2021, earning it the tag of “New Oil”
MINING REVENUE ISSUES

- Zambia's revenues from copper and other minerals have not marched the trend in rising production and prices.
- The country accumulated little reserves in the face of higher prices.
- Zambian Kwacha depreciated to record lows against major currencies during the same period.
- This was contrary to the expectation that prices and output should be positively related to revenues and reserves.
A competitive tax regime:

- A mineral tax regime that enhances revenues and sustains production and investments.
- Botswana’s mineral tax regime has maintained the interest of existing firms and developers.
- Botswana receives large mining proceeds through a mix of royalties, dividends, and corporate taxes.

- Zambia should adopt best practices from such and other mining jurisdictions.
- A 2022 Mines and Minerals Amendment Act mainly targeted mineral royalties.
OPTIONS TO EXPAND REVENUES

Broader asset ownership by local interests:

- **Increase local ownership of assets by Government or other actors**
- **Strategic acquisition and ownership of such a stake would by mutual consent.**
- **The 50-50 JV between the Botswana Government and DeBeers is credited for a stable flow of revenues**

- **ZCCM-IH already holds on average 20% share in mining assets, which provide a base to build strong JVs**
- **Acquire at least 50% of the assets would be by leveraging reserves.**
OPTIONS TO EXPAND REVENUES

Capacity for mineral flow analysis and taxation:

- Revamp capacity for monitoring the flow of mining resources.
- Adopt policy reforms to ensure effective and fair taxation.
- Invest in capacity across the relevant agencies covering the mining sector.
- Acquire expertise in analyzing critical issues of base erosion and profit shifting.
- Build technical capacity to ascertain quantity and quality at exit of exports.
OPTIONS TO EXPAND REVENUES

Mineral and green energy value chains:

- Enter the minerals value chain created by the ongoing shift to green energy and EV.
- Expand alternative uses of metals locally, with the goal of boosting role in industrialization.
- Botswana uses negotiation cycles to get commitments of firms to invest in value addition.
- ZAMEFA and others to diversify beyond cables to produce complex products and EV components.
- Take joint measures with DRC and other neighbours to build a mineral-industrial complex.
MAIN RECOMMENDATIONS

► Adopt a mineral tax regime which enhances revenues by encouraging investment to sustain and grow production

► Expand local ownership of mineral assets through broader local participation and, hence, assuage resource nationalism

► Revamp institutions to monitor and ensure effective and stable taxation and consider creating a dedicated and high-level unit for mining within ZRA

► Deepen participation in global minerals value chains adding value to Zambia’s copper and cobalt that are key to renewable energy technologies and EVs
END.