

POLICY
BRIEFING



GOOD GOVERNANCE AFRICA

A strategy to future-proof Zambia's mining industry

By Vincent Obisie-Orlu

November 2022

A strategy to future-proof Zambia's mining industry

By Vincent Obisie-Orlu

Executive summary

Zambia is in an opportune position to benefit from the growing demand for copper to support the global energy transition. Policymakers in President Hakainde Hichilema's administration have an opportunity to build a resilient and high-performance Zambian economy to bring a true *New Dawn*. To realise this vision, Zambia must address key economic challenges such as the legacy effects of the previous instability of the mining regulatory system. Volatile changes have plagued the country until recently, with past governments changing mining taxes in response to the copper price. Resultantly, investment growth has diminished and the multiplier effect that would otherwise have been associated with mining has been foregone.

Poor macroeconomic governance and mining growth retardation have also pushed Zambia's national debt to unsustainable levels, as exports have been insufficient to fund debt repayment. The country is now seeking debt relief from its external creditors and has struck a deal with the International Monetary Fund. In this first of a

two-part policy briefing series, we examine the key economic challenges associated with mining governance reform and provide recommendations that will help develop a resilient mining tax regime and a more streamlined regulatory environment. The second briefing will address the debt challenge.

Considering the growing demand for copper to meet the global net-zero goal, and an impending global supply crunch, more copper will need to be produced and Zambia is in a prime position to do so. At the same time, Zambia has declining copper ore grades. Our primary recommendation, therefore, is that a profit-based Mineral Royalty Tax (MRT) framework be strongly considered. This will enable investment in the necessary capital and infrastructure needed to increase output and promote exploration. Though profit-based MRTs can be exploited by mining companies making claims of increased capital investment to increase outputs, when combined with the implementation of the Extractive Industries Transparency Initiative (EITI)'s reporting standards, the risk of exploitation is reduced.

Recommendations

1. The Zambian government should consider crafting a profit-based mineral royalty tax (MRT) regime. This will require consultation and engagement between the government and the mining industry. Any future MRT should be clear, stable and not constantly changed in response to fluctuations in the copper price.
2. Zambian Consolidated Copper Mines Investment Holdings (ZCCM-IH) should decide whether it is a mining company or an investment holding company, as trying to be both appears to be sub-optimal. Such clarification is likely to further boost investor confidence.
3. The Zambian government should continue its commitment to resolving issues in the mining rights licensing process and increasing its transparency.

Introduction

Zambia's President Hakainde Hichilema achieved a historic electoral victory in August 2021. Hichilema succeeded in his sixth attempt for the presidency. The election also marked Zambia's sixth handover of power to a different political party. In the year since his victory, President Hichilema has faced various economic, social, and political challenges that threaten to hinder progress for socio-economic transformation in the country. These challenges include debt sustainability, corruption, unemployment, food insecurity and rising inflation. In addition, his administration has inherited a history of relatively poor relations between the government and private investors. Economic recovery from the COVID-19 pandemic has also been slow,¹ not helped by the subsequent economic shock caused by Russia's invasion of Ukraine.²

President Hichilema's administration has made progress on some of these key challenges. For instance, it has moved towards crafting a more effective mineral taxation policy³ and reached a deal for a \$1.4 billion extended credit facility from the International Monetary Fund (IMF) in December 2021,⁴ followed by an additional \$1.3 billion extended credit facility in late August 2022.⁵ More recently, the 2023 Budget Speech shows promise in the development of a strategy to use mining to promote broad-based economic development and address the debt question.⁶

Zambia is Africa's second-largest copper producer and the world's seventh largest,⁷ producing 800 696 tonnes of copper in 2021. Zambia also produced 247 tonnes of cobalt in 2021.⁸ The price of copper has fluctuated over the last decade, moving from \$8,569/ton in January 2012, to

\$4,471.79/ton in January 2016 before recovering to \$9,972.10/ton in January 2022. As of the time of writing this policy briefing, the copper price is \$7,749.00/ton.

This recent, sustained increase in copper price has been buoyed by the growing demand for green infrastructure and technologies as the world attempts to move towards net-zero emissions to combat climate change.⁹ Copper is a critical mineral for the energy transition, being a currently irreplaceable component in solar panels, wind turbines and electric vehicles.¹⁰ While the war in Ukraine, and the energy security implications of Russia's response to western sanctions have temporarily seen a halt to these transitions, they are still very much under way. The long-term effect of the war will likely be for all nations to reduce their reliance on fossil fuels and increase local renewable power generation capacity.

Though the price of copper has historically been volatile, the current increased investment in green technologies suggests that the current increase is structural rather than cyclical.¹¹ Indeed, at present, the expected demand needed to support the ambitions of the energy transition outstrip the current global supply.¹² A shortage in the supply of copper risks slowing down the pace of the energy transition.¹³ To meet this demand, greater exploration and production investment is needed. Mining companies, in turn, require favourable and stable conditions to ensure a long-run return on high-capital outlay investments.

The future outlook for the copper market, combined with a more stable policy regime, presents opportunities to futureproof Zambia through capitalising on copper to

- 1 Fabricius, P., 2022. ISS TODAY ANALYSIS: Honeymoon for Zambia's Hichilema drawing to a close as economic crunch time looms. Daily Maverick. Available at: <https://www.dailymaverick.co.za/article/2022-02-11-honeymoon-for-zambias-hichilema-drawing-to-a-close-as-economic-crunch-time-looms/>.
- 2 Buchanan-Clarke S and L Maluleke. The Russia-Ukraine War and Addressing Africa's Food Security Challenges, Good Governance Africa, Intelligence Report. August 2022. <https://digitalmallblobstorage.blob.core.windows.net/wp-content/2022/08/Russia-Ukraine-Intelligence-Report.pdf>, accessed 15 September 2022.
- 3 Mitimngi, Taonga Clifford, and Matthew Hill. "Zambia Announces Mining Tax Breaks, Pares Deficit in 2022 Budget." MINING.COM, 29 Oct. 2021, <https://www.mining.com/web/zambia-announces-mining-tax-breaks-pares-deficit-in-2022-budget/>. Accessed 5 Sept. 2022.
- 4 Mfula, Chris, and Karin Strohecker. "IMF, Zambia Reach Staff Level Agreement for \$1.4 Bln Support Plan." Reuters, 3 Dec. 2021, <https://www.reuters.com/markets/rates-bonds/imf-zambia-reach-staff-level-agreement-14-bln-support-plan-2021-12-03/>. Accessed 5 Sept. 2022.
- 5 International Monetary Fund (IMF). "Zambia: Request for an Arrangement under the Extended Credit Facility-Press Release; Staff Report; Staff Supplement; Staff Statement; and Statement by the Executive Director for Zambia." IMF, 6 Sept. 2022, www.imf.org/en/Publications/CR/Issues/2022/09/06/Zambia-Request-for-an-Arrangement-Under-the-Extended-Credit-Facility-Press-Release-Staff-523196. Accessed 27 Oct. 2022.
- 6 Musokotwane, Situmbeko. "2023 National Budget Speech | National Assembly of Zambia." Parliament.gov.zm, 1 Oct. 2022, www.parliament.gov.zm/node/10630. Accessed 27 Oct. 2022.
- 7 Pistilli, Melissa. "Copper in Africa: DRC, Zambia, South Africa and Namibia | INN." Investing News Network, 8 Feb. 2021, <https://www.investingnews.com/daily/resource-investing/base-metals-investing/copper-investing/copper-in-africa-south-africa-drc-zambia/>. Accessed 5 Sept. 2022.
- 8 Reuters. "Zambia's 2021 Copper Production Falls by 4.5%." Reuters, 22 Mar. 2022, www.reuters.com/world/africa/zambias-2021-copper-production-falls-by-45-statistics-agency-2022-03-22/. Accessed 5 Sept. 2022.
- 9 Birol, Fatih. "Clean Energy Demand for Critical Minerals Set to Soar as the World Pursues Net Zero Goals - News - IEA." International Energy Agency (IEA), May 2021, www.iea.org/news/clean-energy-demand-for-critical-minerals-set-to-soar-as-the-world-pursues-net-zero-goals. Accessed 5 Sept. 2022.
- 10 Ibid
- 11 International Energy Agency (IEA). "Executive Summary - the Role of Critical Minerals in Clean Energy Transitions - Analysis." IEA, May 2021, www.iea.org/reports/the-role-of-critical-minerals-in-clean-energy-transitions/executive-summary. Accessed 5 Sept. 2022.
- 12 Wood Mackenzie. "Global Copper Investment Horizon Outlook Q3 2022." Wood Mackenzie Global Energy Research, 28 Sept. 2022, www.woodmac.com/reports/metals-global-copper-investment-horizon-outlook-q3-2022-150062615/. Accessed 27 Oct. 2022.
- 13 Iannucci, Esmarie. "Copper Shortages to Hamper Net-Zero Targets - Report." Mining Weekly, 14 July 2022, www.miningweekly.com/article/copper-shortages-to-hamper-net-zero-targets-report-2022-07-14. Accessed 5 Sept. 2022.

build a sustainable, diversified, and inclusive economy. The current tightening of monetary policy around the world is expected to weaken global economic outlooks and in turn place temporary downward pressures on the price of copper.¹⁴ However, the long-term outlook described above is likely to weigh most heavily in capital-allocation decisions.

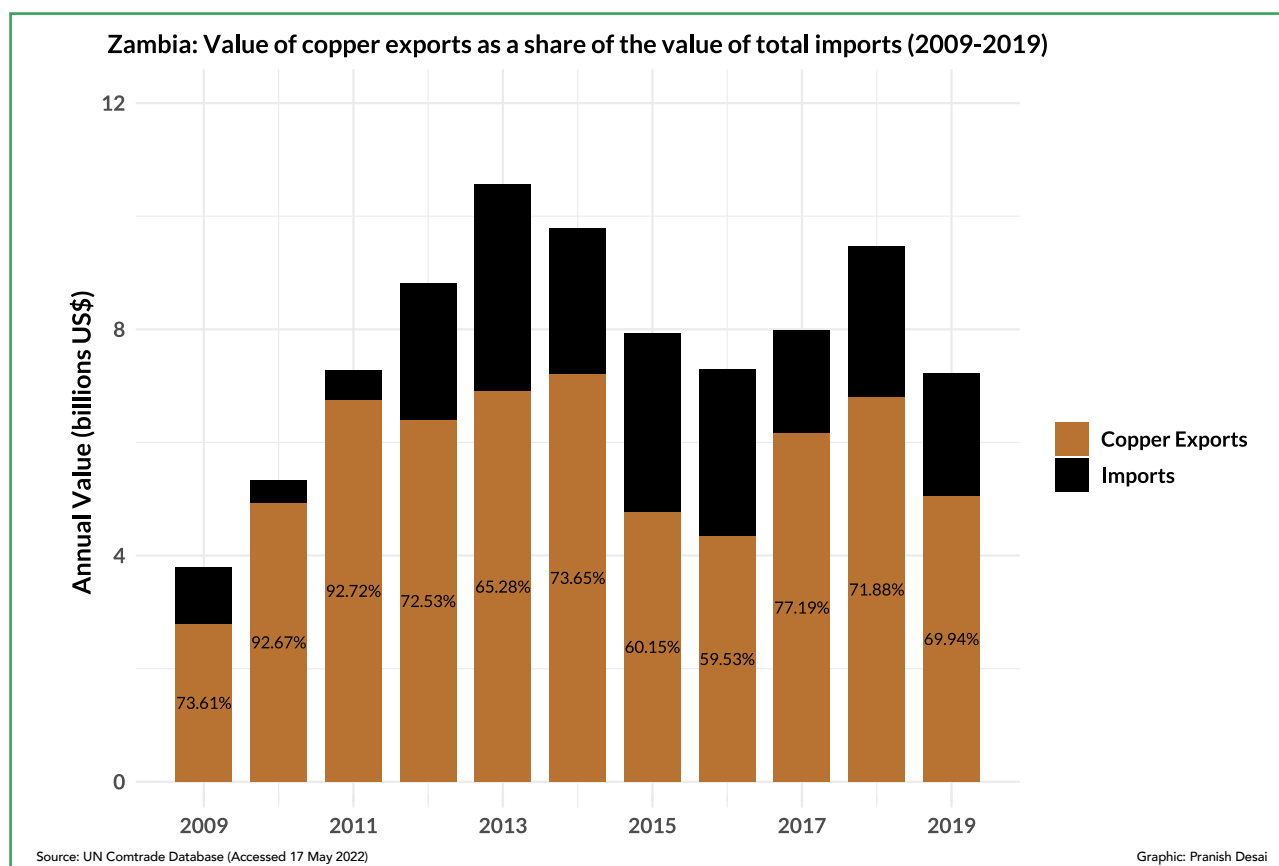
The status of the Zambian economy

Zambia is a large, landlocked and resource-rich country that shares borders with eight countries: Angola, Botswana, Democratic Republic of Congo (DRC), Malawi, Mozambique, Namibia, Tanzania, and Zimbabwe. Sparsely populated, it has a population of almost 18 million people.¹⁵ According to the World Bank, Zambia had a gross domestic product (GDP) of \$18.11 billion in 2020, down

from \$23.31 billion in 2019,¹⁶ and a GDP/capita of \$985 in 2020, down from \$1,305 in 2019.¹⁷ Zambia's copper exports as a share of total imports amounted to almost 70% in 2019, as demonstrated by the graph below. This is a high dependency ratio.

From 2019 to 2020 alone, Zambia's economy contracted by 4.9%. According to the African Development Bank, this is attributable to the COVID-19 pandemic shutting down the local economy, disrupting global supply chains and falling demand for copper.¹⁸ Moreover, Zambia's currency depreciated, which made imports more expensive, spurring inflation. This hurt consumers considerably.¹⁹

As indicated in the graph above, growing global demand for green infrastructure has driven a rise in copper prices. Over



¹⁴ Lawson, Alex. "Copper Price at Lowest Level since 2020 as Fears over Global Economy Grow." The Guardian, 15 July 2022, www.theguardian.com/business/2022/jul/15/copper-price-at-lowest-level-since-2020-as-fears-over-global-economy-grow-inflation. Accessed 5 Sept. 2022.

¹⁵ The World Bank (n.d.). Zambia Overview. [online] World Bank. Available at: <https://www.worldbank.org/en/country/zambia/overview#1>. Accessed 5 Sept. 2022.

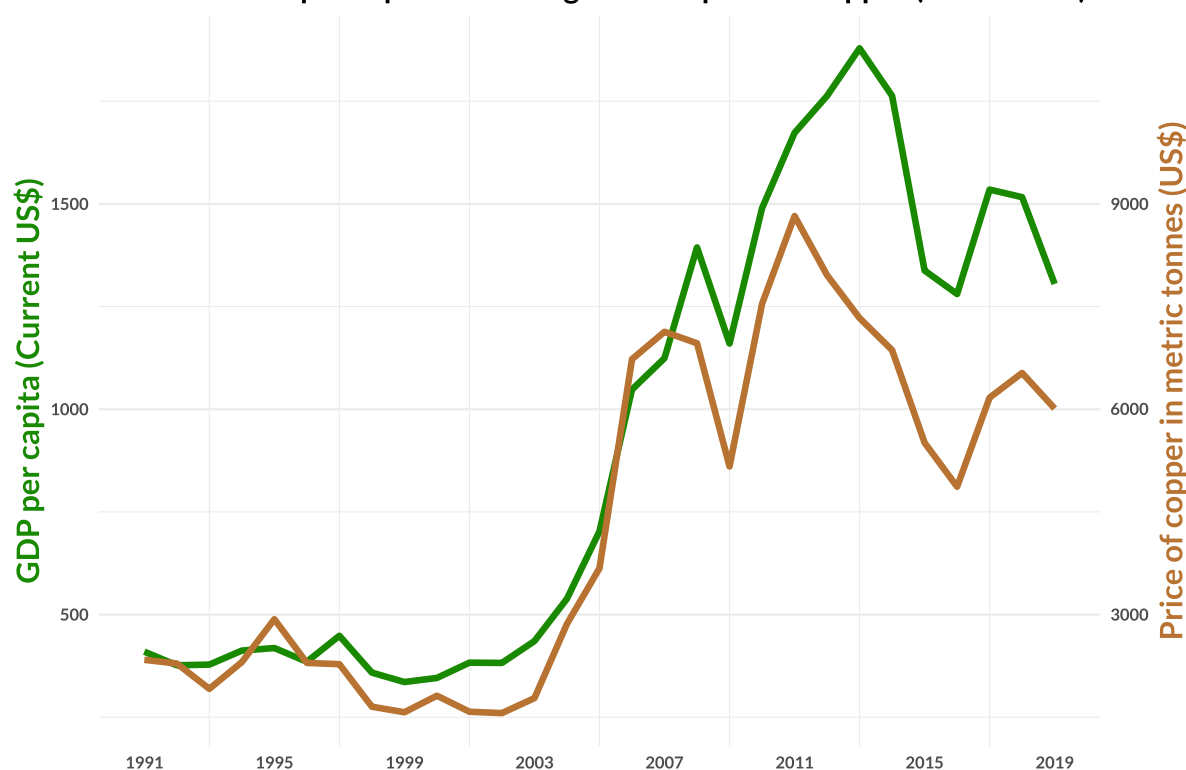
¹⁶ World Bank (n.d.). GDP per capita (current US\$) - Zambia | Data. [online] data.worldbank.org. Available at: <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=ZM>. Accessed 5 Sept. 2022.

¹⁷ World Bank (n.d.). GDP (current US\$) - Zambia | Data. [online] data.worldbank.org. Available at: <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=ZM>. Accessed 5 Sept. 2022.

¹⁸ African Development Bank Group, 2021. Zambia Economic Outlook. African Development Bank - Building today, a better Africa tomorrow. Available at: <https://www.afdb.org/en/countries-southern-africa-zambia/zambia-economic-outlook> Accessed 5 Sept. 2022.

¹⁹ Ibid

Zambia: GDP per capita vs Average annual price of copper (1991-2019)



Source: World Bank, IMF (Accessed 17 May 2022)

Graphic: Pranish Desai

the course of 2021 alone, prices increased by approximately 50%.²⁰ This contributed to the country's expected GDP growth of 3.3% forecast for 2021, according to the Zambian Ministry of Finance.²¹ However, the projected GDP growth figures do not track with those presented by the Economist Intelligence Unit (EIU), which reports Zambia's real GDP growth in 2021 as 1.9%. Hichilema's administration projects GDP growth of 3.5% in 2022, rising to 4.4% in 2024 following strategic intervention in the agriculture, tourism, mining, manufacturing, energy and transportation sectors in the context of restored macroeconomic stability.²² These projections are a little closer to the EIU forecasts of GDP growth at 3% in 2022, rising to 4.5% in 2024.²³

As demonstrated by the graph above, Zambian GDP/capita closely correlates with the copper price. The current

movement of growing demand for copper and the policy reforms proposed by President Hichilema seem likely to generate stronger GDP/capita growth if the reforms come to fruition. Therefore, the policy focus must be on ensuring a stable, attractive investment environment to kickstart the mining industry and connect it to other sectors of the economy as a matter of urgency.

The mining industry contributed an average of 14% to GDP between 2014 and 2019, making the industry the second largest contributor to the national economy after wholesale and retail trade.²⁴

The World Bank defines "mineral rents" as the "difference between the value of production for a stock of minerals at world prices and their total costs of production". Zambia's

20 Statista Research Department. "Copper Annual Market Price." Statista, 11 May 2022, www.statista.com/statistics/533292/average-price-of-copper/#:~:text=In%202021%2C%20the%20average%20annual Accessed 5 Sept. 2022.

21 Lusaka Times, 2022. Zambia: Zambia projects 3.3% GDP growth in 2021, targets 3.5 GDP growth this year. Lusaka Times. Available at: <https://www.lusakatimes.com/2022/02/08/zambia-projects-3-3-gdp-growth-in-2021-targets-3-5-gdp-growth-this-year/> Accessed 5 Sept. 2022.

22 Ibid

23 Economist Intelligence Unit. "Zambia | EIU." Zambia - the EIU View - GDP Growth, The Economist Intelligence Unit, 19 June 2022, www.viewpoint.eiu.com/analysis/geography/XN/ZM/essential Accessed 5 Sept. 2022.

24 Oxfam. "Copper for Development Report." Copper for Development Report, Oxfam, 8 Apr. 2021, www.oxfamamerica.org/explore/research-publications/copper-for-development-report/ Accessed 5 Sept. 2022.

mineral rents – as a proportion of GDP – peaked at 15% in 2007 but declined to 1.8% in 2019. Thus, while mining remained a significant contributor to the economy, its cost base was rising rapidly. This truth must be communicated in a way that helps citizens and critics alike to understand that Zambia's copper mines are among the most costly in the world to operate, with increasingly lower ore grades.²⁵

The development of a stable and resilient mining tax regime

A future mining tax regime will need to be both investor-friendly and resilient to shocks in the copper market. The government would be well advised to ensure that the minerals tax regime is structured in a manner that attracts and sustains investment. For instance, deducting mining royalty fees from corporate taxes can reduce the risk of mining companies not making a return on their investments.

Having a stable, transparent, regulatory environment is required to rebuild trust and sustain the early signs of growing investor confidence. Zambia has been strongly criticised for regular changes to its mineral taxation regime, particularly under Lungu's government.

According to a report by Southern Africa Resources Watch (SARW), Zambia's MRT has changed 10 times in the past 16 years, the most recent change being the country's 2019 sales tax on the mining sector.²⁶ The Natural Resource Governance Institute (NRGI) has recommended that the government implement a stable MRT that does not change every time the copper price changes as this makes planning difficult for companies to plan over the lifetime of their mining operations.²⁷

An unstable minerals regulatory system is not conducive to attracting mining exploration or production investment. Companies are unwilling to make long-term investments in mining infrastructure if taxation instability undermines

profitability. Instability also increases the incentive to maximise short-term extraction at the expense of long-term value generation.²⁸ It is essential to note that mining is a long lead-time activity. It takes several years from the granting of an exploration license to a mine becoming fully operational (if the exploration process is successful). Mining is also capital-intensive, requiring large and risky sunk costs, along with investment in expensive technology to increase efficiencies that will optimise life-of-mine expansion.

According to Eric Lilford and Pietro Guj, policymakers and governments should consider several factors in developing minerals royalty tax regimes.²⁹ These include the administrative complexity needed to implement said MRT, the price of the commodity being taxed, and the other taxes charged to companies. It is similarly important to consider the average cost base confronting mining companies in any given jurisdiction.

As is with any MRT, a profit-based MRT comes with its advantages and disadvantages. One of the main advantages is that it attracts greater royalties for the government when the price of copper is high. It also captures more royalties from profit-producing mines, which are often larger and more established, while allowing smaller miners and early exploration projects to have a lower tax burden. The disadvantage of a profit-based MRT is that it reduces royalty income for the government when commodity prices are low, in addition to being more difficult to administer than other MRTs such as those based on revenues or production volumes.

Part of the administrative difficulty emerges because royalties are calculated on provisional results, which are then subject to adjustment at the end of the financial year after accounts are finalised and audited.³⁰ However, when paired with reporting and disclosure initiatives such as the EITI, the profit-based MRT's administrative and compliance complexity is reduced.

25 Manley, David. "Ninth Time Lucky: Is Zambia's Mining Tax the Best Approach to an Uncertain Future?" Natural Resource Governance Institute, 2017, <https://resourcegovernance.org/sites/default/files/documents/ninth-time-lucky.pdf>. Accessed 27 October 2022.

26 Nyangu, M. (2020). The rise and fall of the mining tax regime in Zambia. [online] SARW. Available at: <https://www.sarwatch.co.za/wp-content/uploads/2020/03/Zambia-mining-tax-1.pdf>. Accessed 5 Sept. 2022.

27 Manley, David. "Ninth Time Lucky: Is Zambia's Mining Tax the Best Approach to an Uncertain Future?" Natural Resource Governance Institute, 2017, <https://resourcegovernance.org/sites/default/files/documents/ninth-time-lucky.pdf>. Accessed 27 October 2022.

28 Morgan, R. (2018). Looking forward: the future of mining in Africa. [online] Good Governance Africa. Available at: <https://gga.org/looking-forward-the-future-of-mining-in-africa/>. Accessed 5 Sept. 2022.

29 Lilford, Eric, and Guj, Pietro. Mining Taxation: Reconciling the Interests of Government and Industry. Cham, Switzerland, Springer, 2021.

30 Ibid

As noted previously, demand for copper is greater than its current supply, and is expected to further rise in the years to come. Additionally, Zambia's open-pit copper mines are costly to operate, with declining ore grades. As such, a profit-based MRT offers an opportunity for the development of new mining projects, as mining projects will be taxed on their profits, enabling greater capital investment in the industry. The quality of ore at underground-mine levels may differ significantly from those currently available in open-pit mines, and exploration has begun assessing those options. However, developing underground mines is costly, suggesting all the more reason to adopt a profit-based MRT.

Since at least 2019, mining companies have complained about their inability to deduct mineral royalties from corporate income tax, arguing that this results in double taxation.³¹ While mineral royalties have again become tax-deductible from corporate income tax under Hichilema, analysts have pointed out that more needs to be done to avoid the changing minerals royalty rates of the past.³²

Zambia's government has taken steps towards addressing the long-standing issue of unpaid VAT refunds owed to mining companies.³³ In January 2021, Zambia is reported to have paid \$400 million in VAT refunds to mining companies.³⁴ A backlog remains. As of June 2022, there is no reporting on the matter.

A more collaborative approach to negotiating future changes to tax regulation would be beneficial for all stakeholders. For instance, a task team or committee consisting of various stakeholders could be established to negotiate future changes to tax regulation. This could include the Minister of Mines and/or Finance as the government representative, the Zambia Chamber of Mines

to represent the private sector, and a selection of civil society organisations and local communities to represent citizens.³⁵ A stable and resilient mining tax regime would allow mining companies to increase their investment, enabling the creation of more jobs in the mining industry that leverage Zambia's increasingly well-educated workforce.

Need for mining regulatory and industry reform

The mining landscape in Zambia consists of several state-owned mines, mines owned by private companies and mines co-owned by both the Zambian government and private mining companies. These include the Zambian Consolidated Copper Mines Investment Holdings (ZCCM-IH), the state-owned mining and investment-holdings company;³⁶ First Quantum Minerals (FQM); and Vedanta Resources to name a few.

Hichilema's administration has proposed increasing copper production to 3 million tonnes over the next 10 years.

No clarity exists yet on how it intends to achieve this.³⁷

The country also produced 247 tonnes of cobalt in 2021 according to national statistics.³⁸ Cobalt is another critical mineral for the global energy transition, being an essential component of rechargeable batteries that power electric vehicles and store power generated from wind and solar.³⁹

The restoration of investor confidence is crucial for Zambia to capitalise on the copper and cobalt booms respectively. Under the previous administrations, historical mistrust between investors and the Zambian government has plagued the industry. Addressing this mistrust is essential to restore investor confidence.⁴⁰ Radical transparency is the key to this restoration.⁴¹

31 Reuters (2020). Zambia chamber of mines says double taxation hurting investment. Reuters. [online] 28 Sep. Available at: <https://www.reuters.com/article/us-zambia-mining-idUKKBN26J774> Accessed 5 Sept. 2022.

32 Leon, Peter. "Zambia Must Restore Foreign Confidence to Revitalise Its Mining Sector." Financial Times, 4 May 2022, www.ft.com/content/056f5bb7-b9b4-4e81-ac83-335bba164b3c Accessed 5 Sept. 2022.

33 Harvey, Ross. "Can Zambia's Copper Become a Flywheel for Industrialisation?" Occasional Papers, South African Institute for International Affairs, [online] 11 Sept. 2019, www.saiia.org.za/research/can-zambias-copper-become-a-flywheel-for-industrialisation Accessed 5 Sept. 2022.

34 Mfula, Chris, et al. "Indebted Zambia Pays \$400 Million in VAT Refunds to Mining Firms." Reuters, 13 Jan. 2021, www.reuters.com/article/uk-zambia-debt-idUSKBN2911BT Accessed 5 Sept. 2022.

35 Siyobi, B. (2021). Copper is king – Zambia stands to win. [online] Good Governance Africa. Available at: <https://gga.org/copper-is-king-zambia-stands-to-win/> Accessed 5 Sept. 2022.

36 It is recommended that the CEO of the ZCCM-IH consider focusing on ZCCM-IH being an investment holding company, as opposed to mining company.

37 Denina, Clara, and Helen Reid. "Zambia Seeks Debt Reduction as Part of Restructuring Package, President Hichilema Says." Reuters, 9 May 2022, www.reuters.com/business/zambia-expects-debt-negotiations-finish-by-end-june-minister-2022-05-09/ Accessed 5 Sept. 2022.

38 Reuters, 2022. Zambia's 2021 copper production falls by 4.5%. Reuters. Available at: <https://www.reuters.com/world/africa/zambias-2021-copper-production-falls-by-45-statistics-agency-2022-03-22/> Accessed 5 Sept. 2022.

39 Nogrady, Bianca. "Cobalt Is Critical to the Renewable Energy Transition. How Can We Minimize Its Social and Environmental Cost?" Ensia, 14 May 2020, ensia.com/features/cobalt-sustainability-batteries/ Accessed 5 Sept. 2022.

40 Mining for Zambia. "What Do next Year's Changes to the Mining Tax Regime Actually Mean for Zambians? -" Economic Contribution - Mining for Zambia, Mining For Zambia, 24 Nov. 2021, miningforzambia.com/next-years-changes-mining-tax-regime-actually-mean-zambians/. Accessed 22 June 2022.

41 Gordon, James. "Governance Matters: How Can Transparency Lead to Real Accountability in the Extractives Industry?" Good Governance Africa, 2 Mar. 2021, gga.org/governance-matters-how-can-transparency-lead-to-real-accountability-in-the-extractives-industry/. Accessed 5 Sept. 2022.

Below are two significant incidents which previously undermined or eroded investor confidence in Zambia, and contributed to distrust between the government and the mining industry:

- In January 2021, the Lungu administration took out a loan of \$1.5 billion from Carlisa Investments Corp, a holding company through which Glencore owned its stake in the Mopani mine, to buy Glencore's stake in the mine.⁴² The deal transferred ownership of the mine from a joint venture between Glencore, ZCCM-IH and FQM to being fully owned by ZCCM-IH.⁴³ The Zambian government has since struggled to find investors to partner with to run this mine. This raises a question about the role of the ZCCM-IH; it should decide whether it is a mining company or an investment-holding company. To be both appears to be inefficient at best, creating what appears to be an expropriation risk.
- The Zambian government has been in a longstanding conflict with Vedanta Resources following the Lungu administration's seizure of the Konkola Copper Mines and its subsequent liquidation in 2019.⁴⁴ The matter was been referred to international arbitration in 2019 but has yet to be settled.⁴⁵ The settlement of this case is an opportunity for the Zambian government to indicate that it is in the business of mining and demonstrate respect for property rights. The Hichilema administration has pointed out that the country's exploration and mining rights licensing application and processing system has been abused and lacked transparency with some companies owning too many mining rights.⁴⁶ This resulted in the suspension of issuing new mining licenses in March 2022, while the government undertook an audit of the mining licencing system. The finalised report has since been submitted to President Hichilema.⁴⁷

Conclusion

Indeed, while President Hichilema has taken steps to improve investor confidence in Zambia and the 2023 Budget Speech shows signs of promise towards the use of mining to spur broad-based development and long-term growth, more still needs to be done.

The development and implementation of a stable and resilient MRT that is not subject to change in response to changes in the copper price are critical for sustained broad-based mining-led development in Zambia. It is our view that a profit-based MRT is the best solution, allowing for more favourable tax conditions for new mining operations, and end-of-life operations. To reduce the likelihood of exploitation by mining companies, the implementation and further integration of the EITI into Zambian mining codes will be crucial.

The Zambian government's progress in resolving issues in the mining licencing process is commendable, however, existing conflicts between the Zambian government and mining companies require urgent resolution. Additionally, clarity on the nature of the ZCCM-IH will further boost investor confidence.

A strategy to futureproof Zambia will rely on the stability of the country's mining regulatory framework. By addressing this issue, Zambia stands to leverage its strengths and develop a more diversified economy able to support broad-based development.

42 Society for Mining, Metallurgy & Exploration. "Zambia Agrees to Take on \$1.5 Billion Debt to Buy Glencore Copper Mine - Society for Mining, Metallurgy & Exploration." Society for Mining, Metallurgy & Exploration, 19 Jan. 2021, www.smenet.org/newsarticle?articleID=3398 Accessed 5 Sept. 2022.

43 Reuters. "Zambia 'Very Close' to Picking Investor for Mopani Copper Mine - President." Fin24, 25 Apr. 2022, www.news24.com/fin24/companies/zambia-very-close-to-picking-investor-for-mopani-copper-mine-president-20220425 Accessed 5 Sept. 2022.

44 Mfula, C. and Reid, H. (2021). Zambia says it will restore 'sanity' to rattled mining sector. [online] MINING.COM. Available at: <https://www.mining.com/web/zambia-says-it-will-restore-sanity-to-rattled-mining-sector/> Accessed 5 Sept. 2022.

45 Mining for Zambia. "The Fight for KCM: International Arbitration Explained -." Mining for Zambia, 23 Aug. 2019, miningforzambia.com/the-fight-for-kcm-international-arbitration-explained/. Accessed 27 Oct. 2022.

46 Reuters (2022). Zambia to cap number of mining licences issued to single firms. Reuters. [online] 29 Mar. Available at: <https://www.reuters.com/world/africa/zambia-cap-number-mining-licences-issued-single-firms-2022-03-29/> Accessed 5 Sept. 2022.

47 The Lusaka Times. "Zambia : Mining Audit Report Finalised and Handed over to President Hichilema." The Lusaka Times, 29 May 2022, www.lusakatimes.com/2022/05/29/mining-audit-report-finalised-and-handed-over-to-president-hichilema/ Accessed 5 Sept. 2022.

Notes



For more bespoke advisory services on ESG-related matters, contact our Good Governance Africa advisory services team.

Contact us

Tel: 011 268 0479

Email: info@gga.org

Web: www.gga.org