



## RESOURCE NATIONALISM IN ZAMBIA

### *Mining Fiscal Regime, Productive Linkages, Artisanal & Small-Scale Mining*

#### KEY MESSAGES

- ◇ The bargaining power of multinational mining investors vis-à-vis the Zambian state remains a barrier to both strengthening the fiscal regime and enhancing local content policies.
- ◇ Zambia's mining fiscal regime has been undermined by policy inconsistencies and continuing irregularities in tax collection despite institutional innovations like the formation of Mining Tax Unit (MTU) and the Mineral Value Chain Monitoring Project (MVCMP).
- ◇ Artisanal and small-scale mining has been linked to improved livelihood outcomes but continues to suffer from poor safety conditions and remains subsistence-based and informally organised.
- ◇ Local content policies have been recognised as key to enhancing economic gains from the mining sector but have been inconsistently applied and encountered significant opposition from large-scale mining firms.

#### INTRODUCTION

Resource Nationalism re-emerged in Zambia with the surge of support for the populist Patriotic Front on the Copperbelt following the 2006 elections. Beginning initially with efforts to bolster mineral taxation revenues following a resurgence of copper prices – resulting directly in the enactment of the *Mines and Minerals Development Act* of 2008 – Zambian Resource Nationalism has since expanded to include a number of other concerns. It has largely coalesced around three cross-cutting issues: strengthening the mining fiscal regime to ensure tax compliance and prevent illicit financial flows; distributing the benefits of natural resources at the community-level through Artisanal and Small-scale Mining (ASM); and developing linkages between the mining sector and local industries. However, policy inconsistency, political turnovers, and the structural influence of large-scale mining firms have undermined a consistent approach to resource nationalism and reduced the effectiveness of regulatory innovations.

#### KEY FINDINGS

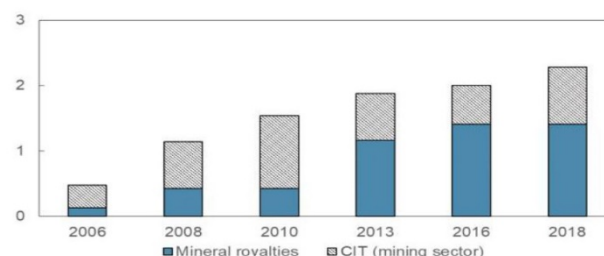
##### *Mining Fiscal Regime*

Improving taxation became a key policy goal of successive governments following the privatization of Zambia's mines in the late 1990s. Government faces pressure from transnational mining companies to lower effective tax rates, while being challenged by serious tax evasion through production under-

reporting and transfer pricing. Despite institutional reforms and a more robust Zambian Revenue Authority (ZRA), the mining fiscal regime has suffered from policy inconsistencies and declining effectiveness. Between 2000 and 2019 there were 9 changes to the mining fiscal regime, rendering the effective tax unstable and unpredictable. Government has struggled to strike a balance between maximizing revenues and incentivizing much-needed foreign investment to expand production.

Two key innovations were the establishment of the MTU in 2009 and the rollout of Norwegian-funded MVCMP from 2013 to 2017. With the inclusion of specialists in geology, mining engineering, and statisticians, the ZRA made critical gains in audits and tax analytics, and more effectively tackled tax avoidance and illicit financial flows in the mining sector.

**Figure 1: Mining Sector Contribution to Government Revenue (% of GDP)**



Source: International Monetary Fund (IMF). *Zambia: Staff Report for the 2019 Article IV Consultation*. IMF Country Report no. 19/263 (Washington: IMF, 2019), p. 57.

However, despite these institutional innovations and resultant mineral revenue gains, mining taxation remains largely dependent on mineral royalties (see Figure 1). Revenue-based royalties require less information than profit-based taxes like Corporate Income Tax (CIT) and are therefore easier to capture. In contrast, CIT is more susceptible to tax evasion by large-scale mining firms. Underfunding and low capacity at the Ministry of Mines resulted in weak regulatory frameworks, reflected in fragmented data and public finance management systems. Together these have blunted the effectiveness of taxation measures and innovations.

#### *Artisanal and Small-scale Mining*

Our research suggests that the growing ASM sector could help diversify Zambia's mining sector away from its heavy reliance on copper, and contribute to more sustainable development and improved livelihoods. As of 2019, there were 550 small-scale mining licences and 344 artisanal mining licenses active in Zambia (Oxfam Zambia 2019). However, the high cost of obtaining capital equipment and supplies, the absence of sufficient government support (including provision of geological surveys), and lack of access to affordable domestic finance remain significant obstacles to expanding ASM production.

While our research confirmed that ASM is closely linked to improved livelihoods due to the embeddedness of its operators in local communities, the overall social and economic impacts of ASM policy innovations appear to be mixed. For example, the previous government's populist approach, which permitted ASM operators to access copper slag dumps, addressed immediate ASM operators' financial needs at the expense of safety concerns, leading to loss of life. Resource nationalist policies which facilitated formalized access to mining rights for ASM operators did not prove effective in moving them beyond subsistence mining.

#### *Local Content Policies*

Establishing local content requirements on foreign mining companies has been a key policy objective since 2011. Two notable efforts were the Zambia Mining Local Content Initiative (ZMLCI) in 2012-13 and the drafting of a local content statutory instrument in 2020. However, limited progress has been made in implementing local content strategies due to the structural power of large-scale mining companies and the involvement of 'politically exposed persons' (PEPs) in mine supply chains. First Quantum Minerals, which accounts for over 60% of Zambia's copper production, actively resisted the implementation of local content measures. Local content provisions in the *Mines and Minerals Development Act* of 2015 are vague and have been unevenly enforced, in part because PEPs already serve as suppliers and service providers to the large-scale mines, and therefore have not forcefully advocated for their application.

#### REFERENCES

Oxfam Zambia, 2019. *An Overview of Artisanal and Small-Scale Mining in Zambia* (Lusaka, Oxfam Zambia).

#### RECOMMENDATIONS

- ◇ Strengthen taxation capacity to improve CIT capture and reduce government's revenue dependence on royalties.
- ◇ Support mineral diversification and ASM growth by investing in the Geological Survey and Mine Development Departments in the Ministry of Mines
- ◇ Enact robust local content measures to ensure local value addition and encourage diversification beyond copper dependence.
- ◇ Improve access to development financing for small-scale miners and local manufacturing to support capitalisation, technology upgrades and expanded production.
- ◇ Strengthen transparency by requiring the public disclosure of mining procurement contracts.

***Resource Nationalism in Southern Africa*** is a research partnership of African and Canadian universities, non-governmental organisations and research units, and researchers working in Tanzania, Zambia and Zimbabwe on themes of ASM, taxation and industrial policy reforms in the extractives sector. The project is supported by funding from the Social Sciences and Humanities Research Council of Canada and contributions from partner organisations. For further information on the project please visit us at <https://resourcenationalism.ca/>



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