



SUBMISSION TO THE COMMITTEE ON NATIONAL ECONOMY, TRADE AND LABOUR MATTERS.

ECONOMIC DIVERSIFICATION: THE CASE OF THE ZAMBIAN MINING SECTOR

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INTRODUCTION

Zambia is rich in mineral resources such as copper and cobalt, and mining is one of its important economic sectors. Mining has a major impact on the country's economy dating way back in the 1990's when copper prices slumped and the Zambia Consolidated Copper Mines (ZCCM) went into decline, leading economic stagnation. However the privatization of ZCCM in 2000 and the boom in copper prices that began in 2003, the sector was revitalized, with copper mines being reopened and new copper mines developed.

But the country has more than just copper and cobalt as it also has a great potential for such minerals as lead, zinc, gold, nickel manganese and gemstones among others. The mining is a leading economic pillar providing employment, foreign exchange and providing significant contribution towards poverty reduction in the country.

Therefore the mining sector needs to be well supported owing to the importance it occupies in the sphere of economic development for our country. From the 1950s to 1970s Geological surveys were conducted with assistance from the United Kingdom, and later in the 1990s they were conducted with assistance from the European Union (EU), World Bank and other cooperating partners. As a result of these surveys 1:100,000 geological maps were compiled, covering 58% of the country. However till now no detailed surveys have been made of the 42% making it difficult to evaluate the mineral potential of the this area despite reports of smallholder mining operation going on (JICA Report, 2009).

THE ADEQUACY OF THE POLICY AND LEGAL FRAMEWORK GOVERNING THE DIVERSIFICATION OF THE ZAMBIAN MINING SECTOR.

In terms of diversification in the mining sector, the 2013 Mineral Resources Development Policy provides for mineral diversification away from copper and cobalt to other mineral resources.

However in terms of Policy enforcements efforts are more tailored towards copper and cobalt mineral resources leaving a gap on non copper sector thus making it impossible for to grow and contribute to the economy.

The primary law governing the mining sector in Zambia is the ***Mines and Minerals Development Act No. 11 of 2015 (MMDA)*** as amended by the ***Mines and Minerals Development (Amendment) Act No. 18 of 2018***.

The MMDA principally deals with mining rights, licenses, large-scale mining rights, gemstone mining, health and safety, environmental protection, and geological services for analysis, royalties, and charges.

The other legislation relevant to the mining operations in Zambia include the ***Mines Acquisition (Special Provisions) Act, Chapter 218***, Volume 13 of the Laws of Zambia and the ***Mines Acquisition (Special Provisions) (No. 2) Act***, Chapter 219, Volume 13 of the Laws of Zambia. ***The Mines Acquisition (Special Provisions) Act***, Chapter 218 facilitates the acquisition of a 51% interest in each of the main Zambian copper mining companies by the Zambian Government. This law is aligned to copper mining and is silent on other minerals mined in Zambia.

The Zambian mining industry is administered by the Ministry of Mines and Minerals Development (the Ministry) (previously called the Ministry of Mines, Energy and Water Development), specifically by the office of the Director of Mines.

The ***MMDA*** gives primary power to the Director of Mines, Director of Mines Safety, Director of Mining Cadaster, and Director of Geological Survey. In addition, the Minister of Mines and Minerals Development (the Minister) has an appellate and superintendent role over the Directors' actions.

The act in its form has more inclination to copper compared to other important mineral resources in Zambia. Even on the taxation policy much emphasis is on copper, cobalt or vanadium leaving other minerals such as gold, manganese and emeralds. The legal frameworks need to cover other broad categories of mineral resources adequately to embrace diversification in the mining sector.

With a well-defined and inclusive mining policies and strategies in place, the sector has the potential to increase production capacity to generate more employment and foreign exchange earnings. The successful evolution of small-scale mining requires an enabling policy environment that recognizes its specific needs.

MINERAL RESOURCES IN ZAMBIA

- Zambia is internationally recognized as a major producer of **copper** and **cobalt** and is ranked as the seventh and second highest world producer respectively.
- In addition, it also produces precious metals (gold, silver), nickel, tin, iron, gemstones (amethyst, aquamarine, emerald and tourmaline), manganese, coal and industrial minerals (Limestone/Dolomite, Phosphates, Clays, Talc, Felspar).
- Industrial mineral such as limestone, sand and quarry
- The concentration of Mining activities is mainly by Copperbelt, Northwestern province, Central province, Luapula province and Eastern Provinces.
- Information on mineral resources in Zambia does not show the actual type and quantity of mineral countrywide as geological information's available only covers 58 % of the entire country.
- Therefore is important that for the country to fully utilize the mineral resources potential available by investing in mineral surveys and explorations to bolster more investments in the overall mining sector.

EXTENT OF MINERAL EXPLOITATION AND THEIR CONTRIBUTION TO THE ECONOMY

Since independence in 1964, Copper production in Zambia at the main center of mining activities and was already producing 12 percent of the world's copper (Sklar, 1974).

Zambia is Africa's second-largest producer of copper and is highly dependent on mining as its major productive industry. Mining contributes 77% of total export value, and 27.77% of government revenues according to the latest Extractive Industries Transparency Initiative (EITI) reporting of 2019. In addition the latest EITI reporting (2019) indicates that the extractive sector accounts directly for 9.9% of GDP and 78.4% of exports in Zambia. Indirectly, the mining sector may contribute as much as half of the GDP. The mining sector directly employs about 73,203 people representing 2.4% of total employed persons in Zambia.

The mining sector plays critical in the economy such as employment creation, local infrastructure development, linkages to other sectors, foreign exchange earnings and Government revenue.

According to UNDP (2013) it is estimated that the mining operations will contribute an average of 5-7 percent of GDP from 2013 up to 2025.

SUITABILITY OF THE INVESTMENT CLIMATE FOR NON-COPPER MINING SUBSECTOR

- Zambia is considered as a country with attractive investment climate due to favorable geology, its long history of mining, its political stability, and a relatively favorable economic environment. Zambia also enjoys a safe and secure atmosphere from war since its independence in 1964. But these positive aspects are overshadowed by a lack of transparency and accountability regarding revenue management.
- Lack of support for diversifying the economy and Limited backward and forward linkages in mining, Zambia has not fully harnessed the benefits from the mining sector owing to the historically weak backward and forward linkages in the mining value chain. This is largely because local manufacturers lack the capacity to deliver the more complex, high value-added products that account for the majority of mines' spending at a sufficient quality and quantity to meet the needs of the mines.
- A lack of deliberate policy to tailor made incentives and mining tax regimes for artisanal and small holder miners, the regulatory and incentive structure have not always been tailored for ASM. Part of the reason for this has been a traditional focus on large-scale mining, which has provided a steady flow of revenues and been the mainstay of the Zambian economy. This is best illustrated in the area of mining taxation policy. The Zambian government has undertaken numerous policy changes in the mining taxation system aimed at large-scale mining firms that have inadvertently negatively affected ASM miners involved in mining other mineral resources.

CHALLENGES FACED BY NON-COPPER MINING SUBSECTOR

- Lack of progressive reforms deliberately targeting the non-copper mining subsector to empower the players in the sector across various value chains.
- Lack of capital to invest in modern techniques of mining i.e. gold and manganese mining techniques still outdated.
- Lack of consistent and stable mining regime to investments by both local and foreign players in the sector.
- Profitability is highly sensitive to market factors: Supply demand and price dependence on the global markets i.e. London Metal Exchange.
- Limited leveraging of infrastructure for the growth of the non-copper mining sector, the wide spread power deficits in 2015/2015 adversely affected the operations of the mining sector in Zambia leading to low production. A typical example is the manganese mines in luapula and gold mines in Mumbwa who have no electricity to conduct basic value addition to the minerals.
- Lack of financing for artisanal and small holder miners as mining is widely considered a risky business leaving only commercial banks as the only source of financing though at higher interest rates.

OPPORTUNITIES THAT ARE AVAILABLE IN THE NON-COPPER MINING SUBSECTOR

- The rise in demand for electric cars in the West lead to the rise in the demand for manganese, a key component in the production of lithium batteries. In 2018 alone exports of manganese in Zambia nearly doubled from 33,000 to 57,000 tons. An opportunity exists for increased explorations for manganese leading to diversification in the mining sector from copper.
- The decision by government to embark on a local gold purchasing program by bank of

Zambia is yielding great results and therefore, lies an opportunity for formalization of artisanal small gold miners in order to improve productivity of the resource and incomes for the miners.

IMPEDIMENTS TO GROWING THE NON-COPPER SECTORS CONTRIBUTION TO THE ECONOMY

- Lack of a legal framework that underpins to protect and help grow the non-copper sector
- High level of informal players in the sector making it difficult to grow into formidable business to enable it contribute to economic growth
- Low production capacity in the sector thus making it difficult to contribute effectively to the economy.

STRATEGIES FOR ENHANCED CONTRIBUTION OF THE NON-COPPER MINING SUB SECTOR TO THE ECONOMY

- **Need for a national supplier development policy:** Stakeholders in the sector note the concern the lack of a national supplier development policy in the industry meant to foster more effective use of local products and services and consequently, 95% of good and services used by the mining industry are imported which disadvantages other subsectors in the sector. Typically, mining firms in Zambia source their manufactured goods, equipment and consumables from South Africa and other parts of the world which are more competitive.
- **Improve backward and forward linkages in mining and conducive business environment:** On the other hand, value addition to various commodities is very limited in Zambia. Many commodities are exported in their raw form or semi-processed forms which reduces Zambia's benefit from its mineral wealth. There is an increasing urgency to strength forward linkages in mining. Achieving this requires Government to play its role of providing a conducive business environment that addresses constraints to industrial development such as poor infrastructure, policy inconsistency, poor market linkages, lack of access to finance, high taxes on inputs among others. This would substantially reduce manufacturing costs and promote investments in manufacturing. Zambia therefore needs to develop a competitive manufacturing base that is capable of supplying reliably, a number of key products required by the mines in the long run. This is crucial to establishing strong backward linkages with local suppliers as well reducing input costs for mining firms.
- **Increased capacity for Artisanal Small Mining (ASM):** stakeholders in the Artisanal Small Mining emerald sector indicate that even though the miners have licenses they have had limited success in accessing finance, technology, Corresponding state support and the provision of essential public goods to ASM miners has also been lacking but the requirements for area fees, taxes, and royalties, and the compliance burden of meeting state regulations, has only been growing and institutional support from the state. In order to growth the ASM government must consider tailor made incentives for this segment of miner who are registered and formalized.
- **Formalization of Artisanal miners:** the new emerging ASM activity differs significantly from traditional ASM in Zambia. High levels of informality in contrast characterize sector. The more traditional challenges that occur with informal mining are therefore commonplace lack of safety standards, environmental concerns and child labour practices. A coordinated approach is needed if this diversity in the mining sector is to be harnessed and well managed. Government must therefore push for formalization of most of the Artisanal small mining players especially those in the gold and manganese subsector operating without license in rural areas. Government has been losing revenue through these mining activities.

- Need for increased funding to the ministry of mines and mineral development that will empower them to carry out continuous geological surveys and explorations which are key for investments in the sector.
- need for well-structured tax regimes and fiscal incentives for Artisanal and small miners in order to empower them for their growth activities.
- There is need for simplification and decentralization of issuance of mining licenses in order to make it affordable for artisanal and smallholder miners thereby promoting compliance that will help government easily collect revenue from the miners.

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