



*A policy brief for a post-COVID
Zambian economy*

The Road to Recovery

The Zambia Chamber of Mines
July 2020

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Foreword

We do not yet know what the full impact of COVID-19 on Africa will be. The relatively low numbers of cases reported thus far, compared with other continents, have raised hopes that African countries may be spared the worst.

But, whilst the health impact of COVID-19 remains unclear, the impact on livelihoods is certain to be injurious. The standard 'locking down' response to halting the spread of the virus has brought about an unprecedented freeze in economic activity; never before have the world's workers, and consumers, been required to stay at home. Indeed, the economic impact of COVID-19 here in Zambia – a resource dependent nation with a proud history of mining – was felt long before the first case was reported.

The pandemic is an unprecedented threat to development, which could set the continent back by 25 years. So, even in the midst of this health crisis, Governments must safeguard their economies to avoid long lasting damage.

The International Monetary Fund (IMF) notes that the pandemic will "aggravate existing economic vulnerabilities"; this is particularly true for Zambia. Yet, this is no time for inaction.

The initial policy priorities must be to ramp up health care capacity and focus on mitigating economic losses. Then, the emphasis must switch to supporting an economic recovery, and returning the economy to a sustainable growth path.

Necessarily, pursuing these policies will entail Government both spending massively, and receiving less revenue. This is the price of protecting lives and livelihoods.

In this report, we consider the economic impact of COVID-19, at the global and continental levels, and specifically on Zambia. This report considers the policy options, and the particular order in which they must be taken, to avoid disaster. The response to COVID-19 will involve substantial external funding, but not of the sort that will drown us in debt for generations to come.

With decisive action, the Zambian economy can survive this crisis, and be set back on its feet afterwards. We have no time to lose.

Zambia Chamber of Mines



Chapter 1

Economic Outlook

1.1. Taking stock: assessing the global economic impact

The COVID-19 pandemic, the global lockdown in response, and the ensuing economic freeze have disrupted billions of lives and are threatening decades of development progress. Current forecasts suggest that it will be the most severe recession since the end of World War II, and the first output contraction in Emerging Market and Developing Economies – of which Zambia is one – in at least the past six decades.

The World Bank forecasts a range of possible outcomes for global economic decline this year, with output in emerging and developing economies likely not to recover to 2019 levels until 2022¹.

COVID-19 represents both a demand and supply shock to the world economy, with

each region and country feeling the pain differently, depending upon its own unique characteristics. The supply shock arises from the battle to halt the virus; businesses are unable to operate, with workers away from the factory floors. Goods and supplies are not manufactured, and when they are, logistics routes are not functioning properly. The demand shock, especially for raw materials, originally arose from the sudden shut down of the Chinese economy early in 2020, as China went into isolation. This has persisted as the virus has made its way through the developed world, which is the largest market for finished goods. At present, it is the demand shock that has had the greatest negative impact in Africa, due to its dependence on commodities.

¹ World Bank, *Global Economic Prospects*, June 2020, 2020.

1.2. The impact of COVID-19 on African economies

In its most recent edition of 'Africa's Pulse'², the World Bank forecasts that **economic growth in Sub-Saharan Africa will decline from 2.4 percent in 2019 to between -2.1 and -5.1 percent in 2020.**

According to Professor Sir Paul Collier³, Africa faces a "triple whammy" from COVID-19. Sharp falls in commodity prices, travel and tourism, and remittances from overseas workers are the greatest immediate knocks to the continent, which collectively will mean far lower income and foreign exchange earnings. In his view,

“ Africa faces a “triple whammy” from COVID-19. Sharp falls in commodity prices, travel and tourism, and remittances from overseas workers ”

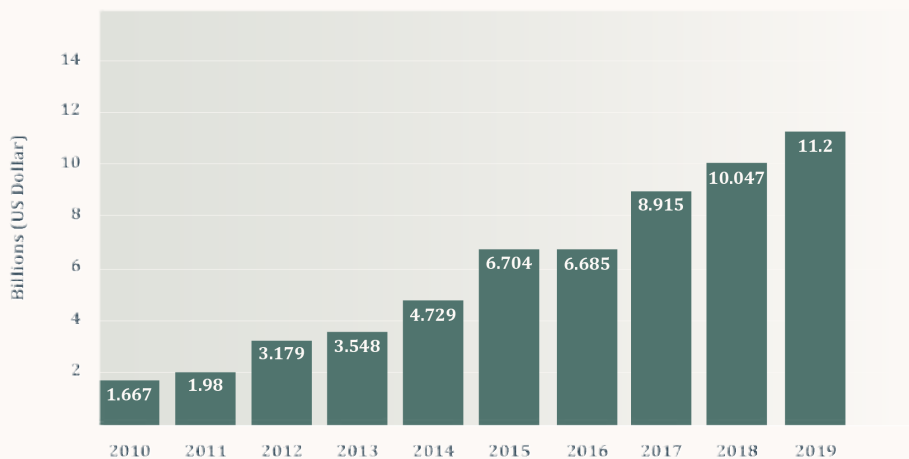
these factors are likely to persist over the next two to three years – far longer than most African Governments can withstand.

So, what then of Zambia? What has been the impact of COVID-19 so far, and what are the country's prospects?

² World Bank, *Africa's Pulse*, Vol 21, 2020.

³ Collier, P, "Africa faces a 'triple whammy' from COVID-19", *Critical Conversation Podcast*, *Critical Resource*, 2020.

External debt levels in Zambia 2010 - 2019



1.3. The Zambian economy pre-COVID-19

As with the human body, an economy's ability to withstand the worst effects of COVID-19 is a function both of its prior health – its resilience to external shocks – and the treatment it receives to coax it back to health.

As for Zambia, the economy was already in poor health by the end of 2019. This was mainly due to significant increases in external borrowing over recent years, compounded by drought, the electricity

crisis, as well as a slowdown in mining activity, and thus revenues and foreign exchange. The Ministry of Finance show Real GDP growth at just 1.9% in 2019 compared to 4% in 2018⁴.

Total debt of \$17.4 billion was reported by the Ministry of Finance in 2019, consisting of external debt of \$11.2 billion (an estimated 50% of GDP) and domestic debt of \$6.2 billion (an estimated 25% of GDP). With rising debt levels compounded by the

depreciation of the Kwacha versus the USD (23% in 2019), debt service payments of around \$1.4 billion utilised an estimated 40% of annual tax revenue collections in 2019.

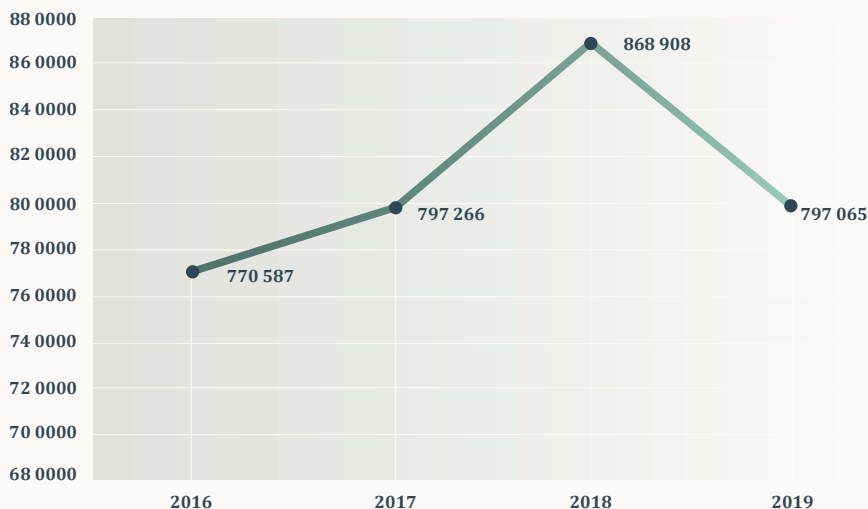
In addition to the high cost of debt, copper (one of the country's key earners) saw a decrease in production in 2019, following years of continued, albeit muted growth. Despite higher rates of taxation introduced in early 2019, **mineral royalty tax revenues were down 12% in 2019**

compared to 2018, in US Dollars, which are the collection currency.

The economic outlook for Zambia in December 2019 was therefore already troubling, and then in early 2020 the COVID-19 pandemic hit.

⁴ *Economic Management Department, Annual Economic Report 2019, Zambia: Ministry of Finance, 2020.*

Copper Production in Zambia 2016-2019



What is GDP?

Gross Domestic Product

Gross Domestic Product (GDP) is the sum of the value of goods and services produced in the economy. In short, the earnings of a country.

GDP is used in this report (and by economists generally) to illustrate different statistics. Firstly, the percentage change in GDP represents the relative fortunes of a country's economy over a period, typically a quarter (three months) or a year. If the GDP measure is up on the previous period, the economy is growing. That generally means

more wealth and more new jobs. If negative, the economy is shrinking. And, two consecutive three-month periods of shrinking meets the most widely accepted definition of a recession.

Secondly, GDP is often used to illustrate the proportionate size of a country's debt pile, compared to the nation's annual earnings (i.e. XX% of GDP). Why is this an important measure? It is no different to evaluating a personal loan; lenders will be concerned about your ability

to repay if your personal debts represent a large and increasing portion of your income. A failure to repay debts or meet running costs then looms large. Self-evidently, a lower percentage is more manageable, and gives greater room for manoeuvre in times of crisis.

1.4. Impact of COVID-19 on the Zambian economy

The macro-economic picture

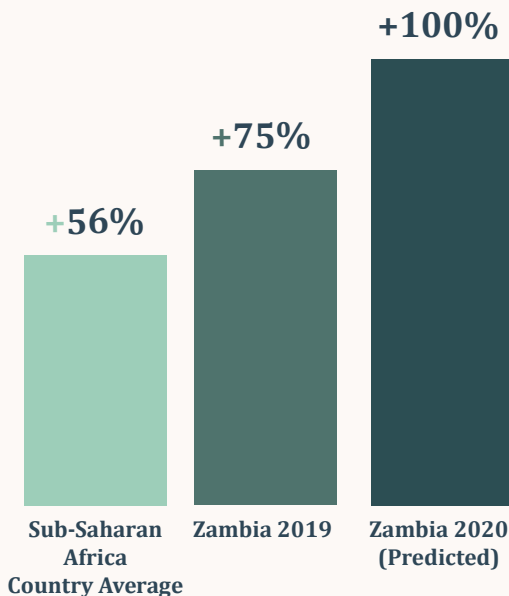
The World Bank regards Zambia, along with five other countries, as being highly exposed to the trade (and therefore economic) impacts of COVID-19, due to its reliance on the export of commodities, and its connection with China.

Taking these effects into consideration, the IMF now predicts the real GDP growth in Zambia to be -5.1%⁵ in 2020, compared to the 3% target⁶ announced by the Minister of Finance in the 2020 Budget Speech. Furthermore, the depreciation of the Kwacha against the US dollar, estimated at 30% for the period January to May 2020, is causing

an increase in the already unsustainable debt servicing costs, a large portion of which is denominated in dollars. As a result, the IMF predicts total debt in Zambia will swell to over 100% of GDP in 2020 (75% 2019), compared to a Sub-Saharan African country average of 56%.

“*debt in Zambia will swell to over 100% of GDP in 2020 (75% 2019), compared to a Sub-Saharan African country average of 56%*”

Debt to GDP comparison



A study by the World Bank⁷ found that countries whose debt-to-GDP ratio exceeds 77% for prolonged periods experience significant slowdowns in economic growth. Pointedly: every percentage point of debt above this level costs countries 1.7% in economic growth. This phenomenon is even more pronounced in emerging markets, where **each additional percentage point of debt over 64% annually slows growth by 2%.**

Further signalling the concern of outside observers, in April 2020, the Fitch Ratings agency downgraded Zambia from its CCC rating to a CC rating. This downgrade was based on the view that the shock from the coronavirus pandemic has exacerbated

Zambia's already constrained external liquidity, now increasing the likelihood of a 'default event' (in other words, a failure to repay debts on time, and as agreed)⁸.

⁵ IMF, *Regional Economic Outlook, Sub-Saharan Africa, June 2020 Update*

⁶ Ng'andu, B, 2020 *Budget Speech, Zambia: Ministry of Finance, 2020.*

⁷ World Bank Group, *Finding the Tipping Point -- When Sovereign Debt Turns Bad, 2010.* URL: <https://elibrary.worldbank.org/doi/abs/10.1596/1813-9450-5391>

⁸ Fitch Ratings, *Fitch Downgrades Zambia to 'CC', 2020.* URL: <https://www.fitchratings.com/research/sovereigns/fitch-downgrades-zambia-to-cc-16-04-2020> Accessed: 01 July 2020.

How are Zambia's businesses faring?

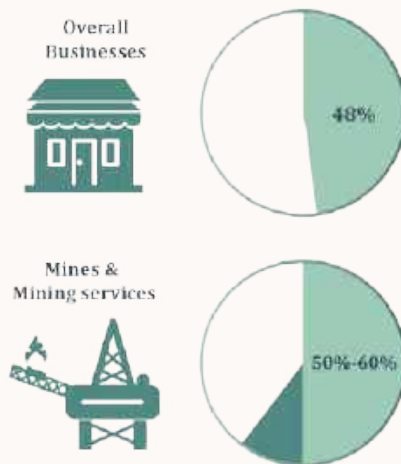
Diving deeper into the real economy, Zambia has undoubtedly already started to feel the economic effect of the COVID-19 pandemic. The strong containment and mitigation measures that Zambia, neighbouring countries and trade partners have put in place to limit the spread of the virus have disrupted supply chains, production, and reduced demand sharply across most sectors.

Despite improvements, Zambia is still facing logistics bottlenecks at its borders⁹, which is holding up vital trade between Zambia and South Africa.

The picture that is painted by two key business surveys, both released in June, is that Zambia's private sector is facing a progressively worsening business environment, and is despondent about the future. According to Stanbic Bank's Purchasing Manager's Index (PMI)¹⁰, business activity decreased for the fifteenth successive month in May, with the rate of contraction accelerating to a new survey record. Output, new orders, backlogs of work, employment, and quantity of stocks all saw significant and increasing declines across companies, with most participants either pessimistic about the future, or citing extreme uncertainty.

Impact Capital Africa's COVID-19 Zambia Survey (June 2020)¹¹ reveals that 87% of those Zambian businesses surveyed across all sectors have been negatively affected, with an extremely troubling **48% reporting that they were at risk of failure within the next 12 months.** Unsurprisingly, the greatest risk cited by businesses is to

Risk of failure within the next 12 months



Source: Impact Capital Africa's COVID-19 Zambia Survey (June 2020)

cashflow, with access to affordable finance and Government financial aid regarded as critical for survival, together with the resolution of VAT issues, and the removal of tariffs, other trade barriers, and overly restrictive employment regulations.

⁹ As of 5 June 2020

¹⁰ Stanbic Bank Zambia PMI, Downturn in Zambian Private Sector Intensifies in May, (June 2020).

¹¹ Impact Capital Africa. COVID-19 Zambia Survey. Inside business: impact & responses. Report June 2020

The impact of COVID-19 on Zambia's mining sector

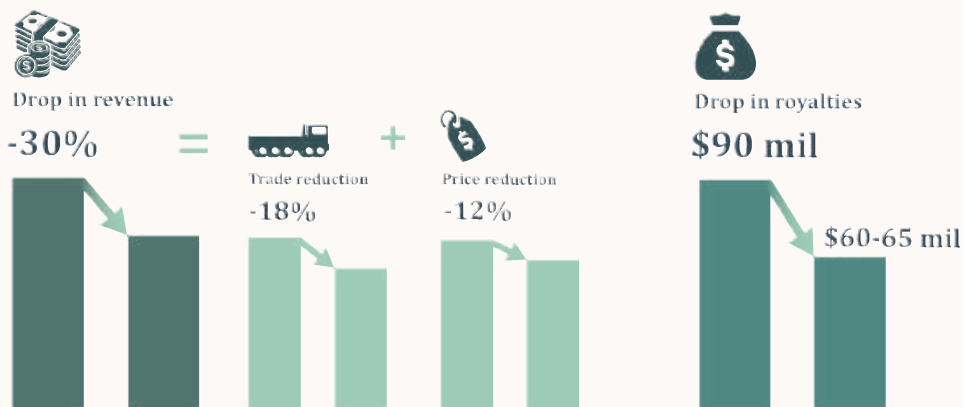
Zambia's mining companies have suffered an alarming drop in revenue over the three months from February-April 2020, illustrating the deep impact of COVID-19 on mining finances.

The collapse in revenues - falling 30% over the period - can be attributed to two main factors. Firstly, severe global restrictions on movement have played havoc with the mining supply chain, and hindered the export (and therefore the sale) of copper. Secondly, the copper price is down on average by 12% over the period when compared to 2019. So, while companies have been able to maintain production levels, they have struggled to export and sell their copper, and have received a considerably lower price for the sales they have made.

The fall in mining revenues has led to a corresponding fall in mineral royalty payments. For the industry, royalty payments are estimated to have come in at approximately **\$60-65 million over the three months, rather than the \$85-90 million** that could have been expected, illustrating how closely Government revenues mirror the fortunes of the mining industry.

Given escalating mining costs over recent years, and a drying up of capital, COVID-19 has added unbearable pressure to mining finances. Between 50-60% of the respondents to the Impact Capital Africa (ICA) June survey from the mining and mining services sector, mainly representing smaller operators, believe that their businesses will ultimately fail within the next 3-12 months. This finding is of great concern, given the significance of the sector to the wider Zambian economy.

The collapse in mining revenues & royalty collections



For Dr Grieve Chelwa, a Zambian economist and academic at the University of Cape Town, the country's economic destiny lies in what happens on the world market to its main export as countries slowly begin to open up. "Economic activity is still going on [locally] but our biggest economic driver is what really happens to copper exports and prices. When those things slow down, then the economy itself slows down."¹²

The COVID-19 pandemic has evidently had, and will continue to have, a large

negative effect on economic activity in Zambia. As is clear from the data on mining royalties, Government revenues will also fall as activity and trade decline. Yet, despite this, the Government has to act to protect lives and livelihoods through this crisis.

¹² Asiedu, K, *Zambia has become the poster child for the good, bad, and ugly of the China-Africa story*, Quartz Africa, 2020.

“*Economic activity is still going on [locally] but our biggest economic driver is what really happens to copper exports and prices. When those things slow down, then the economy itself slows down*”



Chapter 2

Policy interventions

for a post-COVID economic recovery

In previous economic recessions, a key goal of fiscal policy has been to stimulate demand, to kick-start the economy. However, in the current crisis there has been international consensus on a two phased policy approach, with the primary phase objectives being to protect lives and livelihoods, and the secondary phase objective being economic recovery.

What exactly does the 'lives and livelihoods' mantra mean? Over the short-medium term, it means improving the capabilities of healthcare systems, and providing emergency financial lifelines to both people and companies, to sustain them through a period of economic inactivity, in the hope that they can re-emerge intact afterwards.

It is intended that these lifelines should remain in place solely for the short-medium term, given the large fiscal costs of maintaining them. Once the virus is contained (on a global scale), a longer-term support package, coupled with policy reforms to

stimulate investment, are the bases upon which to build an economic recovery.

The lives and livelihoods mantra



2.1. Phase 1: Protecting lives and livelihoods

The aim of initial economic policy responses around the world has so far been to preserve the web of economic relationships between

“ Government should recognise first and foremost that the country's survival post-crisis depends on the private sector's resilience. ”

Professor Oliver Saasa, 27 March 2020¹⁴

employers and employees, producers and consumers, and lenders and borrowers, to prevent permanent exits from supply chains. Otherwise a temporary, but severe health crisis could have a lasting and disastrous impact on the economy ¹³.

Yet, whilst the virus itself differs little across the world, the response to it will – not least because of the widely differing sums of money available to Governments.

For Zambia in particular, pre-existing high debt levels and tightening financing

conditions are constraining the policy response, which likely explains why there have been, by the end of June 2020, no substantial policy responses announced or implemented.

But the price of inaction will be high. As is clear from the Zambian private sector data, without major fiscal support, there will be widespread business failures and unemployment in the coming months.

2.1.1. Protecting livelihoods means protecting key industries and viable businesses

The global consensus is that protecting a country's **key industries**, and the businesses within them, is critical for the survival of the entire economy. These are typically the industries that fit one or more categories of **bringing in foreign exchange and external investment, being large employers, or having extensive linkages with other parts of the economy**. For countries such as Zambia, with limited fiscal firepower, it is essential that every dollar in assistance reverberates through the economy. So, whilst it may seem counter-intuitive to focus support on 'big business', these are the pillars of the economy that keep the roof from falling in.

Funding for Zambia's farmers and agribusinesses will need to be protected. The ICA survey indicates that the sector is less at risk of business failure, but could see major job losses over the next 12 months, without access to affordable finance. Zambia has had a bumper harvest this year, but logistical disruptions could cause shortages in certain areas. Early warning systems for food shortages, and associated emergency food provisioning systems will need to be implemented.

What should be prioritised, given limited means?

¹³ IMF, *Fiscal Monitor – Policies to Support People during the COVID-19 Pandemic*, April 2020.

¹⁴ *Mining for Zambia, How can Government prevent an economic disaster post-COVID-19? (2020)*. URL: <https://miningforzambia.com/how-can-government-prevent-an-economic-disaster-post-covid-19/>. Accessed: 01 July 2020.

“The objective in supporting firms in the short term should be to address immediate liquidity challenges (i.e. “to keep the lights on”), limit firm closures/bankruptcies (particularly in cases where more productive firms may be at greater risk of closure), and prevent widespread layoffs. It is important that this type of support is rapid, transparent and time-bound.

World Bank¹⁵

”

Zambia's manufacturing sector is struggling too; more than 80% of sector respondents to the ICA survey reported that the pandemic would reduce their prospects. Importantly, a large portion declared that

Making every dollar in fiscal support count



they were already attempting to diversify their offering, and pivot toward health and hygiene products to support the fight against COVID-19.

As well as affording the sector immediate economic relief, in the form of tax deferrals, the Zambian Government could work with the sector to devise a package of incentives that would encourage diversification towards meeting the COVID-19 demand. The African Union has established its African Medical Supplies Platform, giving preference to African manufacturers and suppliers. This will pool the healthcare requirements of Africa's 55 nations, creating huge economies of scale in the procuring and pricing of essential medical supplies. This is too good an opportunity to miss.

The mining sector is unarguably a key sector for the Zambian economy. It is a large employer, and the country's main exporter and source of foreign exchange – copper alone amounted to two thirds of Zambia's total exports in 2018¹⁶. Furthermore, its tentacles spread far and wide across Zambia's economy, supporting a large

mine supply industry, banking, and other services.

Zambia cannot afford to see any mining operations fail during this COVID-19 crisis, because the impact on the rest of the economy would be calamitous. As Professor Oliver Saasa put it in a March 2020 interview:

“ if the mines in Copperbelt Province close today — or a significant share of them — you will see the whole of the Copperbelt's economy go down. Those who are linked in that supply chain will also be affected: suppliers of goods and services — and not only those who are providing labour. So, the entire landscape — or the DNA — of the Copperbelt would change significantly, and definitely not in the interests of the Zambian economy. ”

But, why should the Government deploy its limited financial resources on the private sector, when its own revenues are under pressure?

There is a clear strategic imperative to do so. The future of Government revenues depends upon the continued existence of the private sector, and the taxes and duties that flow from it. Piling pressure on the private sector in search of revenue, will needlessly invite a collapse of the economy, and thus government revenues.

The order of policy steps is therefore essential if we are to walk the road through to recovery: firstly, protect viable businesses and sectors through the period of crisis; ease the existing pressure of Government liabilities in order to do so; then, review existing policy frameworks to encourage renewed investment to initiate an economic recovery; in the end, benefit from a period of growth with an expanded tax base, in order to pay down COVID-19 and pre-existing debts and arrears.

¹⁵ World Bank Assessing the impact and policy responses in support of private-sector firms in the context of the COVID-19 pandemic, COVID_19 Notes, Finance Series, 2020.

¹⁶ The Observatory of Economic Complexity, Zambia Country Profile, 2020. URL: <https://oec.world/en/profile/country/zmb/> Accessed: 01 July 2020.

The principles

To guide these policy steps, the World Bank has identified a set of principles that Governments should adhere to “to do no harm and rebuild damaged investor confidence in this crisis environment”¹⁷:

1

Dialogue with the private sector before introducing measures, and ensure that those decided upon are addressing their most stringent business needs.

2

Speed is of essence, and so is transparency, both in the allocation of resources and announcement of the measures in a form that is easily accessible to public.

3

In a fast evolving and complex environment, the importance of data cannot be over-emphasised—**tracking and monitoring evidence and impact** makes a difference.

4

Remember that the **immediate crisis response steps will have to be succeeded by policy measures that enable longer-term investment competitiveness**, taking account of the underlying global economic environment.

So, with that in mind, what sort of financial protection measures could Zambia’s policy makers deploy? And, what do Zambia’s businesses need right now?

¹⁷ World Bank, “Supporting Businesses and Investors” Investment Climate Policy Responses to COVID-19, 2020.

2.1.2. Targeted fiscal measures: short-medium term

What are Zambia's businesses asking for?

It is clear from the ICA survey, which took in respondents across all sectors of the economy, that Zambia's businesses are urgently looking to Government for the kind of support measures that other African countries have already instituted¹⁸.

Across the board, businesses need **access to affordable finance**, in the form of grants and low interest loans, and relief from taxes – either by having them waived, or at least deferred during the period of crisis, in the form of **tax holidays, zero VAT, and the removal of customs duties**¹⁹. These measures would collectively provide liquidity, aid cashflow and business solvency, and ease and encourage cross-border trade.

Early on in the crisis, the Organisation for Economic Cooperation and Development (OECD)²⁰ and African Tax Administration Forum (ATAF)²¹ issued guides of best practices for tax authorities, containing a range of administrative actions that would quickly address firms' immediate cashflow problems. Some of the key measures recommended include:

- **Extending deadlines for taxpayers, both for filing and payment**
- **Deferring tax payments (tax 'holidays')**
- **Suspending penalties for late filing or payment**

- **Suspending debt recovery activities (i.e. the garnishing of wages and bank accounts, asset seizures, sales etc.)**
- **Quicker tax refunds**
- **Suspending audits**

Based on the OECD and ATAF guidance, the policies being implemented in other African nations, and the state of the Zambian economy, the Zambia Chamber of Mines in March submitted to Government a list of key recommended measures that could be implemented in Zambia, as part of a phased plan to ensure a post-crisis economic recovery. **(See Appendix 1.)**

As yet, these measures have only been minimally applied in Zambia, and have therefore not had the desired effect in relieving businesses' cash flow – as the feedback from the private sector shows.

Settling the nation's domestic arrears

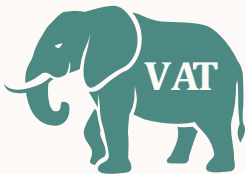
For many Zambian businesses, simply being paid the money owed to them would go a long way to ensuring their continued survival.

According to the Ministry of Finance's own statistics, the Government has accrued more than \$2 billion in domestic arrears – essentially, money owing in VAT refunds, or goods and services delivered, that have not yet been paid for.

It is critical that these sums are settled; these are Zambian businesses that have fulfilled their end of the bargain, and now desperately need payment. Many of these arrears relate to infrastructure projects, and so it is perhaps no surprise that companies in the construction and infrastructure sectors are currently at greatest risk of business failure²².

Recognising the seriousness of the problem, the President of Zambia, H.E. Edgar Chagwa Lungu, announced in June that part of the COVID bond funds would be directed at reducing the arrears owed to domestic suppliers of goods and services. No mention was made of VAT arrears, however.

VAT: the elephant in the room



The largest sum that has now accrued over a period of some years, is VAT refunds. Depending upon how you value the arrears, **the amount outstanding lies somewhere between \$1.5-2.2 billion²³. Valued conservatively, the amount owed to the mining sector alone is at least \$1 billion and climbing, as unpaid refunds continue to accumulate.**

Even prior to COVID-19, these accumulating unpaid debts made it difficult for companies to raise investment, needlessly heightening their investor risk profile and, year after year, eroded cashflow and made financial planning an impossible exercise.

“Valued conservatively, the amount owed to the mining sector alone is at least \$1 billion.”

For a fiscal plan for economic recovery to have the necessary credibility, it must address these outstanding liabilities and make provision for the payment of future VAT refunds. It is difficult to see how external budget support could be made available with these remaining unaddressed. A repayment plan for historic refunds (which could mean offsetting amounts against future tax liabilities, amongst other options) and a guarantee of timely settlement of refunds going forward, would provide certainty and dramatically ease the cashflow pressures on the private sector, and especially on many of Zambia's miners.

¹⁸ World Bank, *Africa's Pulse*, Vol 21, 2020, pp: 106-119.

¹⁹ See p. 28, ICA survey

²⁰ OECD, *Tax administration responses to Covid-19: Support for Taxpayers*, Forum on Tax Administration, 2020. URL: https://oecd.dam-broadcast.com/pm_7379_119_119698-4f8bfnejoj.pdf Accessed: 01 July 2020.

²¹ ATAF, *COVID-19 Measures for Tax Authorities*, African Tax Administration Forum, 2020. URL: <https://www.ataftax.org/ataf-publishes-measures-to-help-manage-the-impact-of-covid-19-on-tax> Accessed: 01 July 2020

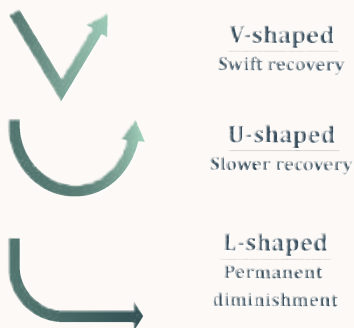
²² See p. 16, ICA Survey

²³ Calculated by the Zambia Chamber of Mines, using members' data, and publicly available information

2.2. Phase 2: Facilitating the post-crisis economic recovery

Once the immediate crisis has passed, the emphasis should switch decisively towards facilitating an economic recovery. It is vital that the economy, and society, bounce back quickly; this is the much-desired swift ‘V’ shaped recovery. At all costs, Zambia must avoid the slower more painful ‘U’, or the ‘L’ of prolonged or even permanent diminishment.

Economic recovery possibilities



Can Zambia achieve a swift V-shaped economic recovery?

Zambia can avoid long-lasting damage from the present crisis, but only if it successfully walks the tightrope between managing its debt obligations, and rebuilding an economy that will, eventually, bring it back into surplus.

Like defusing a bomb, there are a number of delicate manoeuvres that must happen to avoid destruction.

- **Restructuring debts** with repayments based on the revised domestic forecasts.
- **Reviewing operating expenditure**, which means looking for savings, maintaining key public services, and developing the ‘right’ sort of infrastructure – that which is productivity enhancing – making it quicker and easier to do business. Given recent experiences, spending could be aimed at improving Zambia’s Information and Communications Technology (ICT) networks.
- **Attracting the investment necessary to rebuild industries**, so that a newly expanding economy may provide the domestic revenues necessary to repair the deficits accumulated during the crisis period, and repay debt.

This will require a different approach to taxation than the one in evidence in recent years, because re-imposing high levels of taxation will stunt the recovery immediately. This does not mean foregoing tax revenues indefinitely. Instead, it means letting the economy, and thus the tax base, grow – and then reaping the rewards that will come from the new base’s tax revenues, and through increased economic activity, consumption and employment. Slow, safe and steady may sound boring, but it is what investors, creditors, and ordinary citizens want to see of a nation’s finances.

²⁴ Jericho Chambers, *Life After Coronavirus: Who Pays & How? A Global Responsible Tax Response*, 2020.

“

The question is not just who pays and how – but when? Later is better...to avoid the same mistakes being made that were made after the 2008 crisis...to make sure that economies are preserved and capacities are kept.”²⁴ [In reference to the swift increases in VAT and income tax, together with the ‘austerity’ spending cuts that defined the post-2008 crisis period.]

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*Pascal Saint-Amans, Director, Centre for
Tax Policy & Administration, OECD*



Chapter 3

Financing

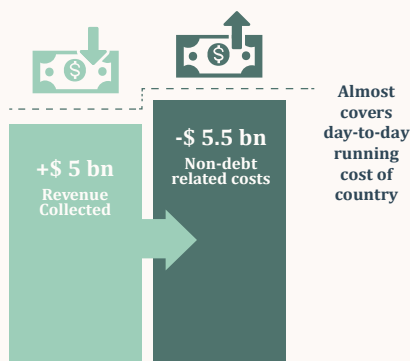
an economic recovery

3.1. The funding gap

How can Zambia finance the measures to protect lives and livelihoods? And, how can it afford to forgo immediate tax revenue, to let the economy recover?

Revenues can run the country – almost

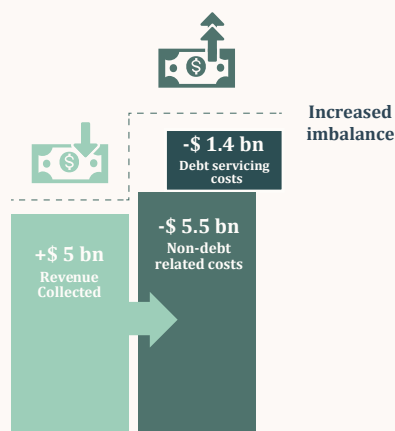
Based on the 2019 Ministry of Finance Economic Report, revenue collections and non-debt related costs amount to **\$5 billion coming in** and **\$5.5 billion going out**. This suggests that pre-COVID revenue collections are almost enough to cover the ‘day to day’ running costs of the country.



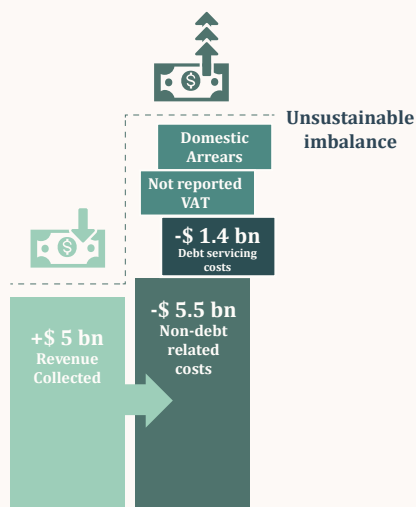
The additional weight of debts and unpaid bills

In addition to the non-debt related costs, the Economic Report also highlights significant other costs incurred in the year. These include debt servicing costs, estimated at **\$1.4 billion**, and an increase in domestic arrears in 2019 of \$300 million, bringing the closing balance to **\$ 2.1 billion**.

This means there is a significant and unsustainable gap between revenue



collections and total costs. While large spending cuts and debt management can go some way to help, funding assistance from an international financing institution such as the IMF will be required to bridge the remaining gap during the period it takes for new fiscal policies to be implemented, and domestic revenues to grow to the level needed.



3.2. Funding assistance

Funding assistance generally excludes the repayment of existing debts, and therefore debt and the related debt servicing costs should be removed from the equation when looking at the levels of funding assistance needed. The Government acknowledges that the levels of debt, as well as the related servicing costs, are unsustainable, and this is now being separately addressed through a debt restructure project managed by the financial advisory firm, Lazard Freres.

Funding assistance can then be focused on rebalancing the remainder, with the objectives being to support and promote private sector investment and economic growth for the longer-term, while also assisting with meeting short-term spending needs. The conditions of funding assistance are also likely to require a detailed review of spending, to ensure this is impactful.

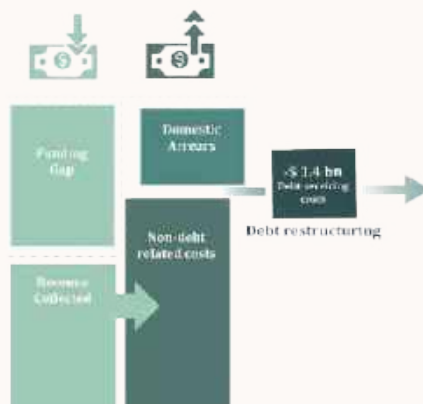
Building for the future

Long-term investor-friendly fiscal policies are likely to result in lower revenue collections in the short term. But, if implemented properly, they will lead to increased and more sustainable revenue sources into the future, derived from an expanded tax base and a larger economy.

In the interim period while investment and economic growth is building up, the 'funding gap' which arises (being the difference between revenue collections and costs to be covered) can be met by funding assistance. Costs here would include both day to day

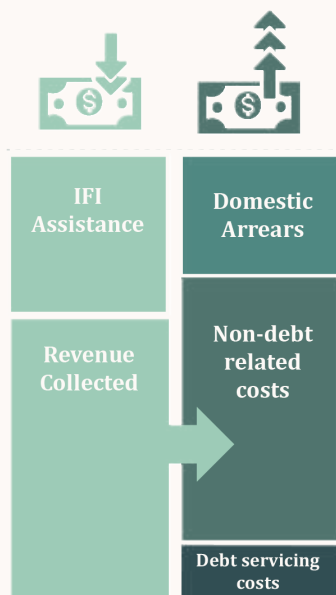
running costs, as well as repayment of domestic arrears over an agreed timeframe.

Funding assistance is typically in place for a period of **three to five years** with highly favourable lending terms, such as a zero percent interest rate in the immediate term, a grace period of 5½ years (meaning payments of interest only during this period) and a final maturity of 10 years. This is very different from the expensive commercial debt that Zambia has taken on in recent years. It is vital that Zambia does not increase its commercial debt, which would only increase the funding gap. The country needs ample breathing space, to allow for revenues to first fall, as investment is drawn in, and then grow as the economy is rebuilt through the next 5-year period.



While multiple funding options from International Financial Institutions (IFIs) have always existed, as a result of the COVID-19 crisis, a number of existing funding programmes have increased the

amounts available. In addition, in some cases new funding initiatives have been set up.



The IMF has announced that it is making \$100 billion available through rapid disbursing emergency facilities, while the World Bank has announced \$14 billion fast-track financing. The African Development Bank has also raised \$3 billion to help with the fallout from the virus. In addition, the G20 group of nations, World Bank, IMF and African Development Bank have all called on creditors to African countries to hold their fire.

The IMF is currently encouraging countries to ease strains and bridge financing gaps by proactively seeking external concessional financing and relief on debt costs to assist with economic recovery. This includes funding from IFIs²⁵.

However, a funding package from the IMF (or similar) will require progress on debt sustainability as well as fiscal policies to support recovery which must be presented and agreed to. This will take some time.

“

*Any IMF financial support, including emergency financing, is contingent on steps to restore debt sustainability... As indicated in last year's Article IV consultation with Zambia, and as published in the report...Zambia's public debt is on an unsustainable path, under current policies, as the Minister said in February, and we note the Government's commitment to restore debt sustainability through fiscal policy adjustment and debt management.*²⁶

”

Support from the IMF is also the key to unlocking funding from other institutions such as the World Bank, which has committed to supporting Zambia, if the IMF does so first²⁷.

Zambia will therefore need interim solutions to cover the gap in the short term.

²⁵ IMF, “A Cautious Reopening”, *Regional Economic Outlook, Sub-Saharan Africa*, IMF World Economic Outlook Database, 2020.

²⁶ IMF Press Briefing. Gerry Rice, Director, Communications Department, 21 May 2020.

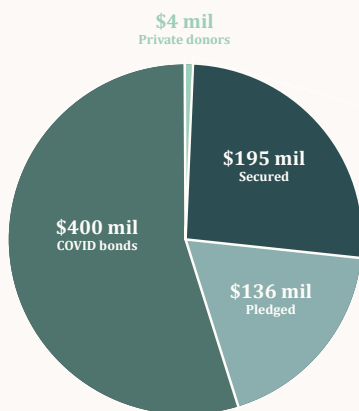
²⁷ Ministry of Finance. *Zambia and World Bank hold talks*. June 2020.

3.3. Interim solutions

The Ministry of Finance announced that, as at May 2020, funding of ZMW 3.5 billion (estimated \$195 million) to fight the coronavirus pandemic had already been received, and that a further ZMW 2.4 billion (\$136 million) is expected from facilities within the EU. Total pledged funding is therefore estimated at ZMW 5.9 billion (\$332 million).^{28 29 30} ZMW 78 million (\$4 million) has also been received in cash and donations in kind, from private donors³¹. In addition, a COVID-19 Bond was issued for ZMW 8 billion (\$440 million) in June 2020 to raise additional funds.

Further funding options which need to be actively pursued by Zambia to bridge the financing gap include the G20 agreement with the IMF and World Bank, to suspend or defer all payments relating to debt for one year.

Funding announced to date

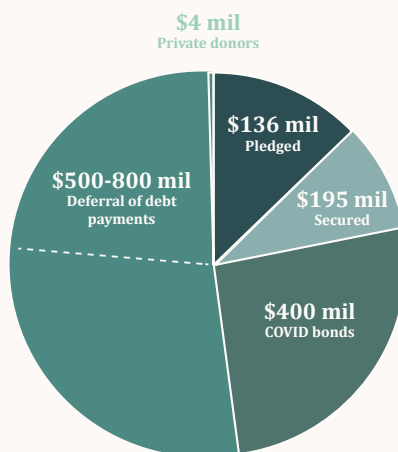


Total: \$735 mil

Dealing with the debt

The suspension or deferral of debt payments is undoubtedly the critical short-term measure. Zambia's debt services costs are estimated to be around \$1.5 billion for 2020³². Repayments due to the G20 countries are estimated at around \$500³³ million, predominately owing to China.

Funding plus deferral of debt



Total: \$1. 235 - \$1.535 bil

“Multilateral and bilateral financial institutions must work together with commercial creditors in Africa, especially to defer loan payments and give Africa the fiscal space it needs... Social distancing is imperative now. Fiscal distancing is not.”³⁴

Akinwumi Adesina, President of the African Development Bank.

”

Deferral of a significant portion of these payments until 2021/2022 will provide essential fiscal space to implement 'lives and livelihoods' measures, and provide sufficient time to get a longer-term agreement in place with the IMF. The G20 relief was announced in April and signalled as something which would be implemented with immediate effect, however to date there has been no indication that Zambia has requested or received these suspensions and deferrals of debt.

²⁸ Ministry of Finance. *Co-operating Partners Pump K2.7bn in Zambia's COVID-19 fight*. April 2020.

²⁹ Ministry of Finance. *The COVID-19 purse swells again*. May 2020.

³⁰ Embassy of the Federal Republic of Germany, Lusaka. *Germany committed on a global scale to fight against COVID-19 and ready to support Zambia*. May 2020.

³¹ Ministry of Finance. *Donations (Kwacha) made to the government for the fight against COVID-19 – 1st March to 30th April 2020*. May 2020.

³² Africa Confidential. *On the brink of sovereign default*. May 2020.

³³ *Ibid*.

³⁴ CNN International, *Opinion: The pandemic is no time for fiscal distancing*, 2020. URL: <https://edition.cnn.com/2020/04/03/africa/adesina-fiscal-distancing-opinion/index.html>. Accessed: 01 July 2020.

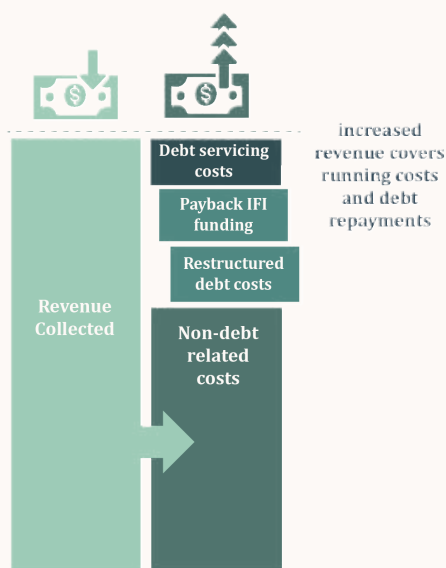
3.4. The long-term fiscal position

If Zambia walks the tightrope to recovery, restructuring debt obligations under the Lazard Freres project, with revenue growth facilitated by policy reform and funding assistance, the expected long-term fiscal position should see:

- Increased revenue collections
- Reduced debt costs resulting from the Lazard Freres debt restructure program
- Efficient day to day expenditure, following a review of spending policy under the funding assistance program

Revenues then earned would be largely sufficient to cover all costs incurred, including the repayment of the amounts

utilised under the funding assistance programme.



An aerial photograph of a winding asphalt road that snakes through a hilly, arid landscape. The terrain is covered in dry, yellowish-brown grass and sparse green shrubs. The road has white lane markings and curves through the hills. In the bottom left corner, there is a semi-transparent hexagonal grid pattern. A light green rectangular box is positioned on the right side of the image, containing the chapter title and subtitle.

Chapter 4

Long-term investment policies:

recovery through growth

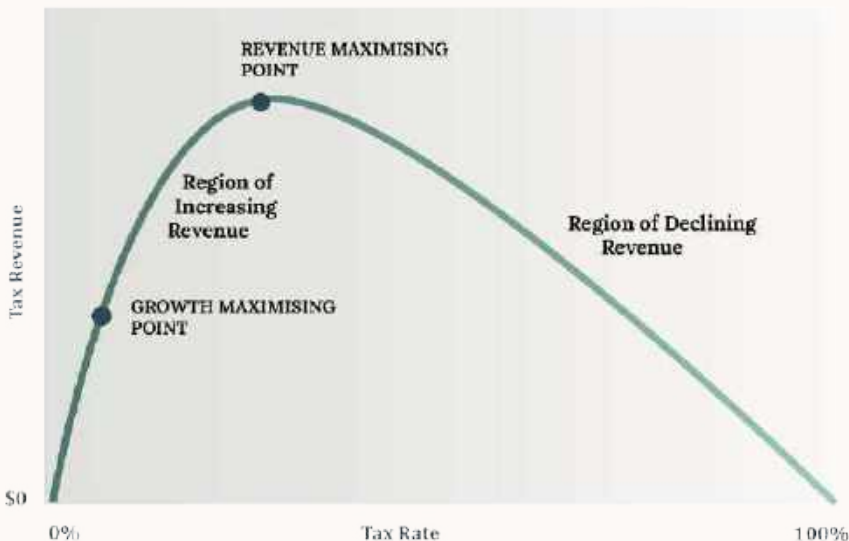
It is vital that Zambia's economy recovers quickly in 2021; it can only do so through fresh investment and the revitalisation of existing businesses. For government revenues, this translates into both sustaining the existing tax base, and increasing it through the establishment of new businesses. This is what will provide the means to settle the nation's finances.

Bolstering revenue collection cannot simply be done by increasing the tax burden on existing taxpayers. This will slow economic recovery and be a barrier to new

investment and ultimately lead to a decrease in revenue collections. The phenomenon of tax rates increasing beyond a certain point, then resulting in lower economic activity and declining tax receipts, is well understood by economists, and is illustrated by the Laffer Curve.

Expanding the tax base requires a strategy in which both tax policy and revenue administration efforts are well co-ordinated. Investment into Zambia by new and existing businesses is crucial – not least into the mining sector.

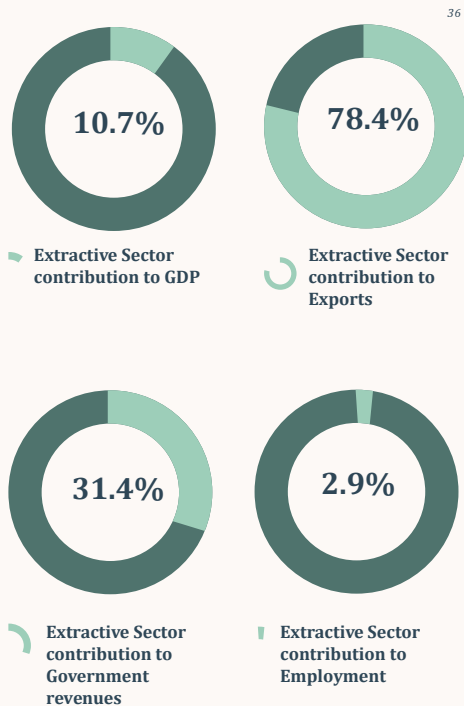
The Laffer Curve



This graphic is purely for illustrative purposes; it does not purport to identify either growth maximising or revenue maximising points for the Zambian economy. Growth and revenue maximising points could theoretically be anywhere between 0-100%; also, the curve could potentially be flatter or steeper, or involve more than one peak. The Laffer curve is a pedagogical device for understanding where the 'sweet spots' are for a taxation regime, acknowledging that after a certain point taxation levels can have a dampening effect on economic activity.

4.1. When mining flourishes, so does Zambia

The agricultural sector, although sometimes considered the backbone of the economy, represents just 3% of GDP (although it employs 50% of the workforce)³⁵. The extractive industry (largely mining), however represented 10.7% of GDP in 2018, generated three quarters of export earnings, and made up 31.4% of Government's revenue collections. Mining is therefore arguably the vital sector in Zambia in terms of economic contribution and revenue collections.



“*The mining sector accounts for close to 80% of Foreign Exchange earnings for Zambia. Those earnings have a direct effect on the economy, especially with respect to inflation, interest rates, and the exchange rate. The mining sector is also the largest taxpayer... We have to find ways of inoculating them against the post-viral effects.*

(Professor Oliver Saasa)³⁷”

In addition to tax revenue and royalties, the sustainable contribution that the mines make, in towns and communities – by being the catalyst for economic growth, employment and rising disposable income – cannot be ignored³⁸. Every Zambian knows instinctively that the nation's fortunes are tied to those of the mining industry.

Growth in mining during the investment years of the early 2000s went hand in hand with the rising fortunes of ordinary Zambians.

Copper production vs Human Development Index



By 2013, annual copper production had reached 760 000 tonnes, regaining production levels last seen in the late 1960's. Direct employment in the industry had risen too, from 22 000 when nationalisation ended, to 90 000.

In 2015, the World Bank predicted that Zambia's copper production would reach almost 1.5 million tonnes by 2019, thereafter requiring a renewed surge of investment to continue on an upward trajectory³⁹. Yet, production has still not breached the 1 million mark – and is now instead on a downward trend. This deceleration has been caused largely by unpredictability in mining policy, with a strong tendency toward resource nationalism, and increasingly onerous mining taxation (particularly since

January 2019) which has made it difficult to raise the capital mines need to build production.

Breaching the 1 million mark will require new, large mines which take many years to build. Construction started at Kalumbila, the last big new mine, in 2010, with the mine opening only in 2015. This doesn't include years in the exploration pipeline before that.

Losing the balance

Establishing new mines, and keeping existing ones in production, requires huge amounts of capital from investors. Understandably, these investors require an adequate return. **Yet, the effective**

tax rate for mining companies has now reached an astonishing 93%. This means that, in the event that companies can make an operating profit, almost all of it goes straight to Government.

On any view, this now represents a gross imbalance in risk and reward between investors and the State.

The Fraser Institute's Annual Survey of Mining Companies now **ranks Zambia 71 out of 76 countries (2018: 45/83) on their investment attractiveness index**, which is an astonishing fall from grace. 0% of respondents – not one – felt that Zambia's taxation regime “encourages investment.”⁴⁰ This is significant for a country which now desperately needs investment for economic growth.

Something had to give, even before COVID-19 appeared. Neither Zambia nor its miners could afford for the status quo to continue. COVID is evidently a disaster, but it presents here an opportunity – one must never let a good crisis go to waste, as the saying goes. So, can the sector be placed back on a growth footing?

A turn around?

As both the World Bank and the International Council on Mining and Metals noted as far back as 2014/15, the Zambian mining industry would need substantial further investment, or production levels would start to decline. The decline has now started, and will take time to be reversed. The main priority is to secure investment, without which nothing can happen.

This means investment into existing mines, to extend the lives of these mines

and sustain production in the short-medium term. It can also mean substantially expanding them too. Lubambe, for example, has a large high-grade undeveloped copper project, containing nearly 10 million tonnes of copper. It can, and should, be developed into a long life, large scale mine – however investors require a stable and attractive investment regime for this to happen.

An environment conducive to developing mines would also greatly increase exploration activity, which is essential for the longer-term future of the mining industry. Exploration budgets have dwindled in the last decade⁴¹, but as Zambia's economy is still dependent on copper, finding these deposits is not only essential to building the mining pipeline, it is essential to the health of the economy itself.

³⁵ World Bank, *World Development Indices: Employment by Sector and World Development Indices: Structure of Output*, 2019.

³⁶ Zambia Extractive Industries Initiative (ZEITI), 2018 report.

³⁷ *Mining for Zambia*, Op. Cit.

³⁸ *Mining for Zambia, The 10-year miracle. The story of mining in North- Western Province*, 2018

³⁹ World Bank, *Making Mining Work for Zambia*, 2015.

⁴⁰ *Mining for Zambia, Zambia slips into the world's bottom ten jurisdictions for attractiveness as a mining investment decision*, 2020. URL: <https://miningforzambia.com/zambia-slips-into-the-worlds-bottom-ten-jurisdictions-for-attractiveness-as-a-mining-investment-destination/>. Accessed: 01 July 2020.

⁴¹ *Mining for Zambia, Exploration – the future of Zambian mining*, 2018. URL: <https://miningforzambia.com/exploration-future-zambian-mining/>. Accessed: 01 July 2020.

Mining employment:

The magic of the multiplier

Every month, an estimated ZMW 150 million in mining wages and salaries are paid out to the approximately 20 000 employees and contractors working at Barrick Lumwana, First Quantum Minerals (FQM) Sentinel and FQM Kansanshi.

After allowing for deductions in the form of Pay-As-You-Earn tax, and remittances of a portion of expatriates' monthly salaries, most of that money is spent in Zambia.

As well as direct employment (those working on the mine itself), mining also creates indirect

employment (jobs created as mines procure supplies from local businesses) and induced employment (jobs created as employees of both the mines and their suppliers spend their wages and salaries, and so create additional demand and jobs in other industries).

In its 2014 report, the International Council on Mining and Metals (ICMM) cited a World Bank report based mainly on a study of Kansanshi. It estimated total employment in 2010 – direct, indirect and induced – at 300 000 people. “This implies an employment

multiplier of more than five,” the report says. In other words, for every direct job at Kansanshi Mine, an additional five indirect and induced jobs were created elsewhere in the economy. “The total number of jobs is likely to have increased even further since then, as direct mining employment has risen,” the report adds⁴².

⁴² *Mining for Zambia, Op. Cit., 2018.*

4.2. Partnering in success: A mining regime for economic recovery

Good policies are crafted in partnership, and the benefits of them enjoyed in partnership. As the history of the last two decades shows, an imbalance in the distribution of risk and reward between State and investor ultimately leads to dissatisfaction all round.

A mining regime designed to attract investment is built on four strong pillars. The details that make up each pillar must be the product of intense debate and collaboration between policy makers, the sector and its stakeholders.

1. Mining taxes must strike a fair balance between the State and the investor

Be competitive with other mining investment destinations

EY, the international tax advisory firm, conducted a benchmarking exercise for the Zambia Chamber of Mines in December 2018, which revealed that royalties, and other taxes, applicable in Zambia since January 2019 are not competitive with other comparable copper mining jurisdictions⁴³.

Zambia must offer an equitable balance, between benefiting itself from its resource endowment, and rewarding those that have risked their capital in mining and refining that resource into saleable commodities. In determining that balance, policy makers should have reference to comparable mining jurisdictions, acknowledging that capital is mobile and will move where the returns are most attractive.

Be realistic about royalties

One of the factors in the present imbalance, since at least 2014, is the over-reliance on royalties to drive mining taxes. Zambia must return to a balanced system of taxation. Taxing profits means that everybody – State and investor – does well, and the benefits spread throughout the economy. Excessive royalties instead raise the costs of doing business and, at the current extreme, suppress business (and thus taxes and economic activity) in a cycle of diminishment.

As observers point out, the royalty policy has been driven by other considerations:

“The instability in mining taxation policy in Zambia seems to signal constrained capacity in the revenue administration’s ability to collect revenue from the sector... The shift to an increased reliance on mineral royalty versus profit-based taxation is a clear indication of this. Mineral royalties are much easier to collect and require less effort as opposed to a profit-based tax system that requires more sophisticated audit skills to verify mining firms’ reported profits (or losses).⁴⁴”

Therefore, in tandem with a return to a balanced taxation policy, the issue of

incapacity and the reasons for it must be solved so that the Revenue Administration can properly oversee taxpayers. Multilateral partners could play a key role in this.

2. A successful mining industry is built on plentiful, competitively priced power

Electricity is one of the largest cost items for all mines. This cost has increased in recent years, whereas the availability of electricity – and the predictability of power supply – has declined.

Since early 2017, the Zambia Chamber of Mines has advocated for comprehensive reform of the power sector, and ZESCO, together with the notion of *efficient* cost-reflective tariffs. In the words of Nathan Chishimba, then President of the Chamber –

“We in the mining sector have never shied away from the reality of cost-reflective tariffs. We are business people, and costs are something we deal with every single day... We are committed to tariffs that reflect the cost of providing electricity in an efficient, transparent and internationally competitive manner.”⁴⁵

The abundance of affordable electricity was one of the greatest incentives to mining investment in the early 2000s. Zambia needs a reliable supply of cost efficient, competitively priced electricity. The health and well-being of citizens, businesses and the broader economy depend on it. Zambia’s ability to grow and diversify over the coming decades depends on it.

The mining sector commits itself to transparent electricity pricing, in the pursuit of *efficient* cost-reflective tariffs.

3. Make it easy to employ the right people

An expanding mining industry has the capacity to boost direct employment many times over, and even more during times of mine construction. However, despite some recent revisions that were welcomed by the sector, the Employment Code Act still looms large. In its unadulterated form, one mining company estimated that it would increase the cost of employment by as much as 40%⁴⁶. In the present COVID-19 climate, it is simply not sustainable, and will likely impede a rapid uptake of new employment in the recovery period.

Many of Zambia's major mining companies are multinationals, with operations all around the world. Employees move between operations. In fact, Zambia has low levels of expatriate employment in the mining sector (between 1-2% of the overall work force) compared with other mining jurisdictions.⁴⁷ Mines should ideally recruit locally, but should not be restricted from recruiting internationally.

Identifying immigration and employment policies that nurture the upliftment and employment potential of Zambians, whilst simultaneously allowing businesses access to a pool of international talent, will be vital for the post-COVID recovery.

"The importance of skilled immigration reform cannot be underestimated, and is an essential building block for the sustained global competitiveness of any economy."⁴⁸

4. And, easy to trade

Zambia is a landlocked country, without a significant industrial base. For the

foreseeable future, high specification equipment will have to be imported, and the bulk of metals exported. In this period of COVID restricted trade, it is vital that duties and tariffs on imports and exports be lifted.

In the medium term, care must be taken not to increase the burden of an already weak position; for example, imposing tariffs on the import of specialised capital equipment simply raises the cost of investment, deterring it instead of attracting it.

In the long term, a comprehensive plan must be initiated to develop local manufacturing capability, so that more supplies can be sourced locally, with greater value addition conducted in country. The mining industry is a centre of excellence within the economy; can it be a 'flywheel' for economic diversification?

⁴³ Zambia Chamber of Mines, *Taxing the Mining Sector, Mining for Zambia*, 2018.

⁴⁴ Chibuye, B. Siwale, T. *Mining taxation policy in Zambia: The tyranny of indecision*, International Growth Centre, 2019. URL: <https://www.theigc.org/blog/mining-taxation-policy-in-zambia-the-tyranny-of-indecision/>. Accessed: 01 July 2020.

⁴⁵ Zambia Chamber of Mines, *A Brighter Future: Powering Zambia's Economy*, Mining for Zambia, 2017.

⁴⁶ *Mining for Zambia, Striking a Balance*, 2019. URL: <https://miningforzambia.com/striking-a-balance/>. Accessed: 01 July 2020.

⁴⁷ ICMM, *Enhancing mining's contribution to Zambia's economy and society*, 2014.

⁴⁸ De Smet, D, *Employing Skilled Expatriates: Benchmarking skilled immigration regimes across economies*, Washington, DC: World Bank Group, 2013.

Game changer:

The extraordinary impact of securing a new mine

Sentinel mine

\$2.1 billion investment = \$233 million in taxes and royalties paid in 2019

+

\$412 million in goods and services procured from Zambian companies



The last significant investment in the mining industry was by the First Quantum Group, back in 2010 with its investment in Kalumbila. When the \$2.1-billion Sentinel mine was opened in August 2015, in the presence of President Lungu, it represented the single-largest upfront infrastructure investment in Zambia since the Kariba Dam. The mine had taken five years to build. Thousands of contractors were employed, and more than 265 000 tonnes of equipment were transported to the site, in 14 500 massive truckloads. There was nowhere for the mine's employees to live, and so

an entire town – Kalumbila – was built from scratch at a cost of \$200 million. There was no existing power grid, so FQM had to construct more than 600 km of power lines, running halfway across the country down to the west of Lusaka⁴⁹.

The sheer scale of the investment shows up in Zambia's macro-economic data, in the correlation between the money flowing in (FDI) during the main construction period of 2010-14, and the corresponding increase in the country's GDP.

In 2019 FQM Sentinel mine employed some 7 000 people (employees and contractors), produced 220 000 tonnes of copper⁵⁰, and paid and an estimated \$233 million in taxes and royalties⁵¹ in Zambia. It also spent approximately \$400 million procuring goods and services from Zambian companies. This demonstrates the level of growth in production, tax revenues and the opportunities for other businesses, which can be achieved on an annual basis, by attracting new investment into Zambia.

FDI vs GDP 2010 - 2015



⁴⁹ Mining For Zambia, Op. Cit., 2018.

⁵⁰ First Quantum Minerals Ltd. Annual Report, 2019.

⁵¹ First Quantum Minerals Ltd. Tax Transparency and Contributions to Government Report, 2019.

Conclusion

COVID-19 is, we hope, a once in a lifetime crisis. It is presenting extraordinary challenges to Governments the world over. As this report shows, there are no easy decisions for Zambia's policy makers to take – but take them they must. There is a clearly signposted, if narrow, pathway through this crisis and beyond. It is time to put aside past differences, and walk forward together.

“*When future generations look back at this crisis, will they view it as a decisive turning point and, if so, in which direction? Will they conclude that we understood that a pandemic is a shared crisis needing an effective and co-operative response? Or will they conclude, instead, that we allowed our capacity for co-operation and the fragile progress of economic development to wither away? We do not know their answer. That depends on what we now decide. We know what we should do: act, together.*”

*Martin Wolf*⁵²

⁵² Wolf, M, “Covid-19 will hit developing countries hard”, *Financial Times*, 9 June 2020.

Appendix 1

Phase 1 – Protecting livelihoods

Expected Covid-19 Impact	Proposed Solution			
	PAYE	Indirect taxes including customs	Business taxes	Mineral Royalty Tax
Staff illness/quarantine or modified working patterns may impact the ability of entities to file returns on a timely basis. Flexibility on penalties for late filings would recognise the extraordinary situation businesses will be working under.	Suspension of interest and penalties for late filings/payments so as not to penalise companies for missed deadlines during the COVID-19 crisis. [Provisions implemented to allow waiver of interest and penalties at ZRA discretion.]			
Businesses will be incurring additional expenses to mitigate the impact of COVID-19 in the workplaces and surrounding areas. For mining companies this will also include increasing current levels of stock and machinery to try to cushion the impact of the likely supply chain interruptions.	<p>In order to mitigate the negative cash-flow impact, which is likely to cripple the industry, it is proposed that any tax payments due during the COVID-19 crisis are either:</p> <ol style="list-style-type: none"> 1) Set off 100% by any outstanding VAT refunds which the ZRA owes to the company, or 2) Deferral of 100% of payment of all liabilities where no refunds are pending <p>These measures would free up cashflow for use towards supporting the industry in its fight against COVID-19.</p>			

<p>Face to face contact should be limited to help control potential spread of the virus. In addition, staff time should be focused on business-critical issues, as there is likely to be additional pressure on staff and potential reduction in staff presence due to illness/quarantine.</p>	<p>While we laud the efforts of the ZRA to recover unpaid taxes, we propose that new and existing tax assessments be put on hold for the duration of the crisis to allow for the continuity of business operations as assessed taxpayers may have challenges complying with the statutory time limits for the objection and appeal process. This should include rescheduling any appointments between ZRA and taxpayers.</p> <p>An extension of the statute of limitations to 31 December 2020 is recommended for any period due to expire in 2020. This is to prevent any new assessments being raised during crisis months and to protect ZRA's ability to assess these issues from being time barred.</p> <p>It is also proposed that ZRA offer six-month tax amnesty on all current open assessments and audits, with waiver of interest and penalties to incentivise closures of cases and payment of taxes where due.</p>			
<p>As noted above, businesses will be incurring additional expenses to mitigate the impact of COVID-19 in the workplaces and surrounding areas. For mining companies this will also include increasing current levels of stock (largely made up of spare parts) and machinery to try to cushion the impact of the likely supply chain interruptions. As well as increased office costs to support COVID-19 responses such as sanitisation, protective wear and additional office cleaning etc.</p>		<p>VAT on business related expenditure is typically a fully recoverable cost in the mining industry. Any irrecoverable amounts will increase the overall cash costs of running the business at a time when there is already pressure on costs.</p> <p>The recently introduced SI90 introduced irrecoverable VAT on business expenses such as office cost (including cleaning) and spare parts, amongst others. Spend on these items will be key to supporting the industry through the current crisis. The net VAT costs on such items should be nil, to maximise the amount of goods/services which can be purchased with the cash available. It is therefore recommended that SI90 is revoked in full, i.e. include restrictions on recoverability of VAT on fuel and electricity.</p> <p>[SI90 provisions on irrecoverable VAT removed, no changes to restrictions on fuel and electricity]</p>		

Due to the financial impact of the Covid-19 crisis, particularly the negative impact already being seen on the price of copper, the mining industry is expected to be under pressure to cut costs, and this will have an impact on the level of spend on sustaining capital as well as capital investment.		To ensure that the funds are available for sustaining capital and for some capital investment, it is recommended that mining rebates are reintroduced for capital equipment for the mining sector and that import duty rates increases which were introduced in January this year are reversed.		
Due to the scale of the COVID-19 crisis, the Government is likely to need assistance from local businesses. This will range from implementing the required sanitation, distancing and quarantine regulations at the place of business, to larger donations to support the wider efforts around the country.			To promote grant of donations by corporate entities to mitigate the spread of the virus and alleviate the negative effects of the pandemic, we propose that any expenditure incurred by corporate entities for donations made directly to the public or indirectly through hospitals or institutions for disaster management towards the effort to combat the COVID-19 pandemic, be deductible in computing the taxable income of the relevant taxpayer in the year of income.	

<p>In the current environment there is a very high level of uncertainty on some of the key factors which impact the results of the mining industry. The price of Copper and the USD to ZMW exchange rate being two key variables. With the level of uncertainty around these two key variables it will be difficult to accurately forecast the annual results and likely tax payments for the year.</p> <p>In addition, as mentioned in the comments above, businesses will be incurring additional expenses to mitigate the impact of COVID-19 in the workplaces and surrounding areas, putting pressure on cashflows. Staff illness/quarantine or modified working patterns may impact the ability of entities to file returns on a timely basis.</p>			<p>It is therefore recommended that first provisional payment and filing for corporation taxes due 31 March/10 April is deferred until July.</p> <p>This would mean the first filing and payment would be made in July, with provisional payments being split 33% across each of payment dates, rather than the current 25% instalments.</p> <p>For instalments due later in the year a process should be implemented to easily adjust provisional payments, without penalty or assessment, as more certainty over results is reached.</p>	
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The above provisions focus largely on the mining industry-specific impacts of the COVID19 crisis, however it is crucial that provisions are also put in place to support the response to the medical crisis.

To that end, we propose that the Government zero rates essential supplies such as sanitizers, toiletries, masks, gloves, vitamins and specialized medical equipment. This allows suppliers to provide essential supplies at affordable prices and claim any excess credits. In addition, we propose that the Government zero rates taxable goods for emergency relief purposes for use in specific areas and within a specified period.

Similarly, we propose that Government implements a zero import duty rate for essential supplies and emergency relief goods, and considers whether an accelerate customs clearance process can be applied to the import of such goods to ensure these are given high priority and are able to get to the communities which need these as quickly as possible.

Phase 2 – Protecting Livelihoods part 2

Expected Covid-19 Impact	Proposed Solution		
	Indirect taxes including customs	Business taxes	Mineral Royalty Tax
<p>Businesses will continue to incur additional expenses to mitigate the impact of COVID-19 in workplaces and surrounding areas. In addition, businesses will have the costs of employment of infected or locked down personnel.</p> <p>Cash availability for operational spend will be key, as this ongoing spend is needed to minimise the impact on key items such as production levels as much as possible.</p>	<p>We acknowledge that the Government has initiated a process to restart the repayment of VAT refunds on a go-forward basis to ensure these are paid within the 30 days noted under guidance, however a much more aggressive process is needed to provide businesses with the much needed liquidity to continue operations during this crisis.</p> <p>We therefore propose that the Government implements repayment of these refunds.</p>	<p>It is recommended that the restrictions of losses carried are removed, to allow historic losses to cover up to 100% of taxable profits.</p> <p>The ability to utilise losses from prior years, to a greater extent, allows for reduced pressure on cash flows. Cash can then be prioritised for key operational spend.</p>	
<p>As pressure mounts on businesses there will be a focus on the profitability levels of products and supply chains in the new high cost, low revenue environment. Products and supply chains which have no / very low profits margins will likely be suspended or discontinued.</p>	<p>It is recommended that export duties on precious metals and gemstones are suspended/removed. Reduced levies will encourage exports of gemstones and precious metals, which otherwise may not be deemed profitable.</p> <p>[Suspensions on these export duties have been implemented]</p>		

	<p>In addition, it is recommended that the 5% import duty on concentrate is withdrawn to allow local smelters to improve their net export revenue. [Suspension on this import duty has been implemented]</p> <p>Exports are key to the Zambian economy and therefore efforts should be made to sustain these as much as possible.</p>		
<p>As pressure mounts on businesses there will be more cost-cutting plans implemented in order to prioritise cash for key spend.</p> <p>Sustaining capital and capital investment are two key areas where cuts are likely to be seen. The impact of cuts in these areas will likely be seen in further decreased production levels in both the short and longer term.</p>		<p>It is recommended that 100% capital allowances are introduced for mining related spend.</p> <p>Increased capital allowances will help to incentivise upkeep of sustaining capital spend and small investments due to the tax relief received. This is key to production levels and the speed at which the mines can bounce back from the crisis.</p>	
<p>Levels of revenue are expected to decrease due to a combination of factors, mainly the decreased Copper price but also potentially decreased levels of production and demand.</p> <p>As the price of copper is not within the control of the mining industry, but the global market, and costs are expected to remain fixed, or even increase during this crisis, there will be a negative</p>		<p>To prevent the mining industry from becoming entirely lossmaking, it is recommended that Mineral royalty tax expenses should be considered deductible costs. These are essential business-related costs and non-deductibility essentially taxes income which has not been earned.</p>	<p>It is recommended that the mineral royalty rates applicable in 2018 are reinstated i.e. reversal of 2019 rate increases.</p> <p>Excessive royalty rates are a major cost item and will make mining activities unprofitable at the current low copper prices, leading to losses and ultimately mine shut down.</p>

<p>impact on the profitability of the industry, which is not sustainable.</p>			<p>It is also recommended that a sliding scale is implemented to ensure only additional revenue earned from price increase is subject to higher rates.</p> <p>This will ensure that the mines are not subject to excessive marginal rates of tax when the copper prices increase only slightly above the rate thresholds. The current regime creates a perverse incentive to reduce production to minimise tax costs at these marginal rates, rather than encouraging the ramp up that will be needed when the crisis abates.</p>
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Phase 3

Lastly, when the immediate crisis has passed, and we look toward the future, the industry should work together with the Government to put in place a fiscal regime that will attract the necessary investment, so that the mining sector can make a quick recovery, as it did in 2009 after the last global crisis. It is recommended that consultation on this should commence immediately, with the aim to conclude on the details of a new regime by the end of 2020. This could then be implemented early in 2021.

The Zambia Chamber of Mines
July 2020