ICMM International Council on Mining & Metals

PRESS INFORMATION SHEET 1

ICMM assesses mining's contribution to Zambia's national and local economy

The macro-economic contributions of mining

On 7 November, the International Council on Mining and Metals (ICMM) hosted a multi-stakeholder workshop in Lusaka, Zambia to discuss the first ever independent study of the mining industry's contribution to the national and local economy of Zambia.

The study is being prepared by Oxford Policy Management (OPM) for ICMM and will be published in the coming months, incorporating feedback from the workshop and a factual check by government. The scope of the study includes the **macro-economic contributions** of mining in Zambia. Its preliminary conclusions in this area are as follows. *Conclusions relating to other important areas are shown in Information Sheets 2 and 3.*

- Zambia still has an exceptionally high level of macro-economic dependence on mining by international standards. Compared to other countries, mining makes an unusually large contribution to total **export earnings,** to total national **investment** and to total **foreign direct investment.** These contributions have increased in recent years.

- The changes in the economy since the privatization of the industry have been profound. Since the late 1990s, total new **investment** in all sectors of the economy has risen from circa $500 million to well over $3 billion annually.

- This impressive rise in total national investment has been led by the mining sector. Cumulative new **investment in mining** since 2000 has been approximately US$10 billion. These investments followed several years of almost zero new investment in mining through the late 1990s.

- Large increases in **production** – especially of copper – have resulted from this surge in new mining investment. By the year 2000 copper production had collapsed to only 221,000 tonnes. But the large new investments both in the Copperbelt and in North Western province have generated a recovery to levels close to the historical peak of 700,000 tonnes seen in the 1970s (the International Copper Study Group data show 696,000 tonnes in 2011).

- These macro-economic gains were certainly interrupted by the 2008 global crisis and the temporary fall in copper prices. But they have withstood this set-back to quickly surpass the pre-2008 levels.

- The data from the study suggests that **production could rise further in the future to well over 1 million tonnes by 2016** if the known company plans for further investment go ahead.

- The production gains have consolidated Zambia's high level of dependence on mining for its **total export** and **foreign exchange** earnings. At 80%, this level of export dependence is now the highest of all the world's mining economies alongside Botswana. It is a source of considerable vulnerability in the event of a down-turn in commodity prices.

- These factors combined have been important contributors to both the sustained high **GDP growth rates** that Zambia has achieved between 2000 and 2012 (the only time since independence when growth has been positive in five or more consecutive years) and to Zambia's ability to build a strong **foreign reserves** position (to over three months of imports).

- Mining **employment** levels have risen on the back of the gains in investment and production. But the sector's contribution to **direct employment**, still accounts for less than 2% of the total labour force and about 8% of total formal sector jobs.

- Previous studies have shown that the various multiplier effects greatly increases this employment contribution – by a factor or four or five times. In particular, mining is an especially dominant source of both **formal sector** jobs (direct and indirect jobs) and **informal** jobs in local areas and increasingly so in North Western province.

- In relation to **government revenue** the study finds that, by 2011 and 2012, mining taxes plus royalties had come to account for over 30% of total government tax revenue from only 8% in 2006. This more recent level of mining's tax contribution surpasses that expected at the time when the short-lived windfall tax was introduced in 2008 and in 2012 was the equivalent of 5.9% of GDP.

- This strong **government revenue** contribution of mining is of recent origin and is explained by a combination of the tax reforms introduced in 2008, the on-going increases in production and the expiry of the capital allowances applicable to the first wave of new private investments after 1998.

- It is clear that prior to 2008 the tax revenue contribution from mining was much lower and was much criticized. But now the Zambian tax take (as a percentage of both total taxes and of GDP) is among the highest in the world.

- The official data on mining's **contribution to GDP** is extremely confusing – probably due to the out-dated base year (1994) for the national accounts data (which the CSO is in the process of updating). For 2012 the official data shows a mining sector contribution of only about 3% of GDP (in current prices). The true figure is estimated in the report to be almost five times higher than this at 14% of GDP.

- This exemplifies a more general challenge of **data weaknesses and data availability** in Zambia. The study suggests that this is a major source of many of the damaging and highly publicized conclusions about mining's contributions to the economy. The Government and the Chamber of Mines have committed to resolving this issue.

- The **forward-looking analysis** included in the report shows the prospect of further significant rises in investment, production levels and government tax payments from mining in the next few years. But this prospect is contingent on the domestic policy framework as well as the international environment. It will also have to involve labour-saving investments in new technologies to defend the competitiveness of Zambia's existing mines.

The study suggests that there are three main **challenges** to address if mining is to sustain its present central role in Zambia's macro-economic performance.

- While most international observers agree that the demand for copper might still increase at high rates from a historical perspective, the high prices of recent years were the result of a conjuncture of several factors that are very unlikely to be repeated. There will therefore be periods when the copper price stays well below current levels, possibly for prolonged periods. Zambia's extremely high reliance on mining makes it extremely vulnerable to a price down-turn. This very real possibility should be an increasingly important factor in policy considerations.

- The recent but very large increase in government revenues from the mining sector provides opportunities – not seen in any previous era – to develop coherent plans to build greater sustainability into the macro-economic trends that the mining sector makes possible. There are two main ideas here – (i) to more actively decentralize a larger proportion of the mineral revenues to local areas, including to non-mining districts, to help catalyze and spread the broader benefits of mining; and (ii) to begin to assign some part of those revenues for a futures investment (or stabilization) fund to help deal with a less favourable commodity price future.

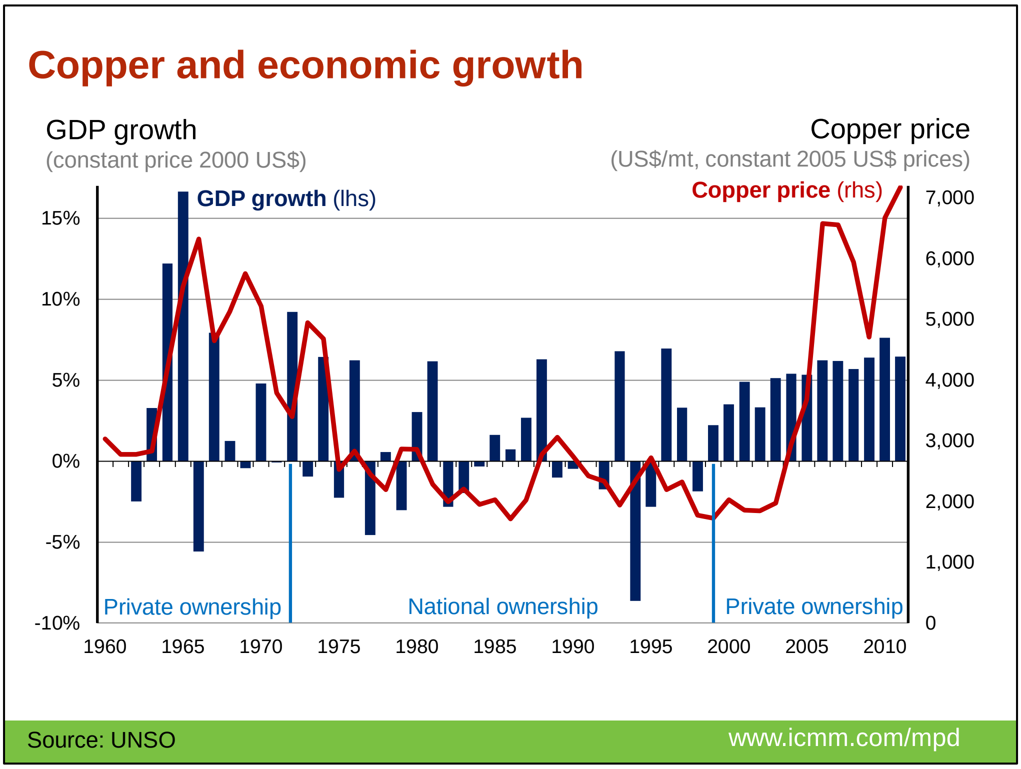
- The older Zambian mines in the Copperbelt are undoubtedly high cost by international standards. The new investments already planned by the companies (circa $5 billion is possible in the next few years) will be designed in part to lower those costs. This could have a negative effect on employment levels. At the same time, the higher average wages made possible by gains in productivity could provide a new stimulus to develop further economic activities in the regions affected. This will require a well informed and coherent policy response.

Zambia data

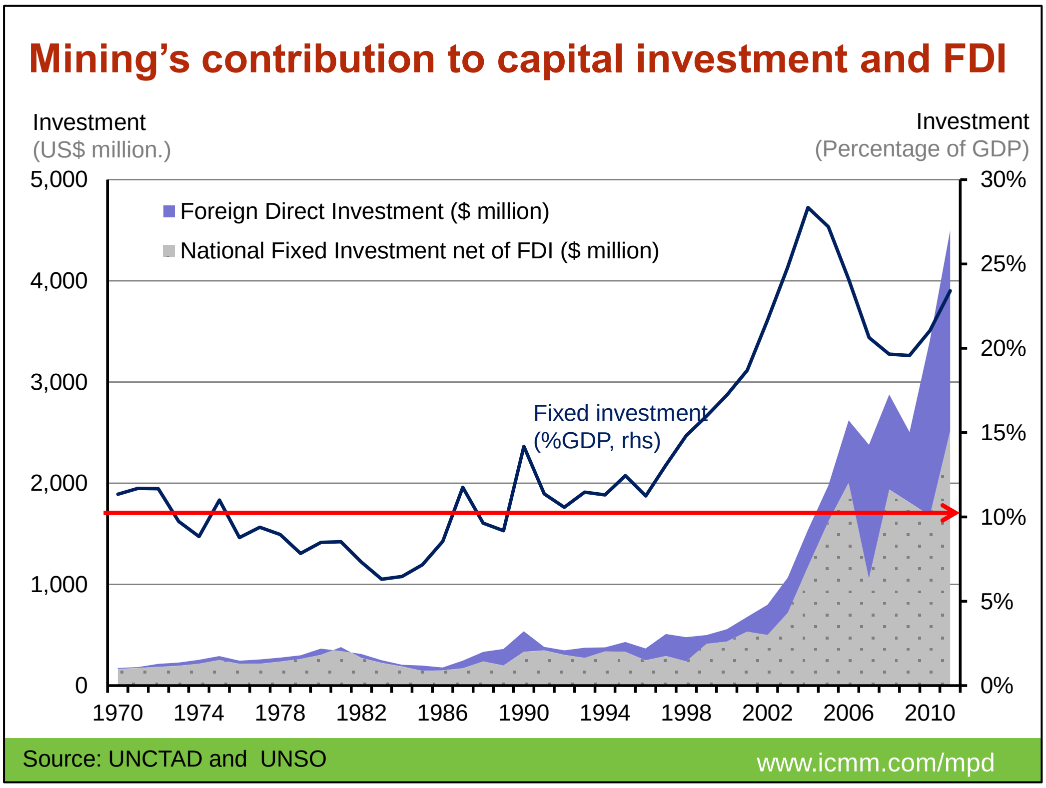
	Gross Domestic Product (GDP) Kw billion	Total taxes collected Kw billion	Mining taxes collected Kw billion	Mining taxes Percentage of GDP
2008	54,839	9,670	1,541	2.8%
2012	111,049	20,723	6,619	5.9%

Figures:

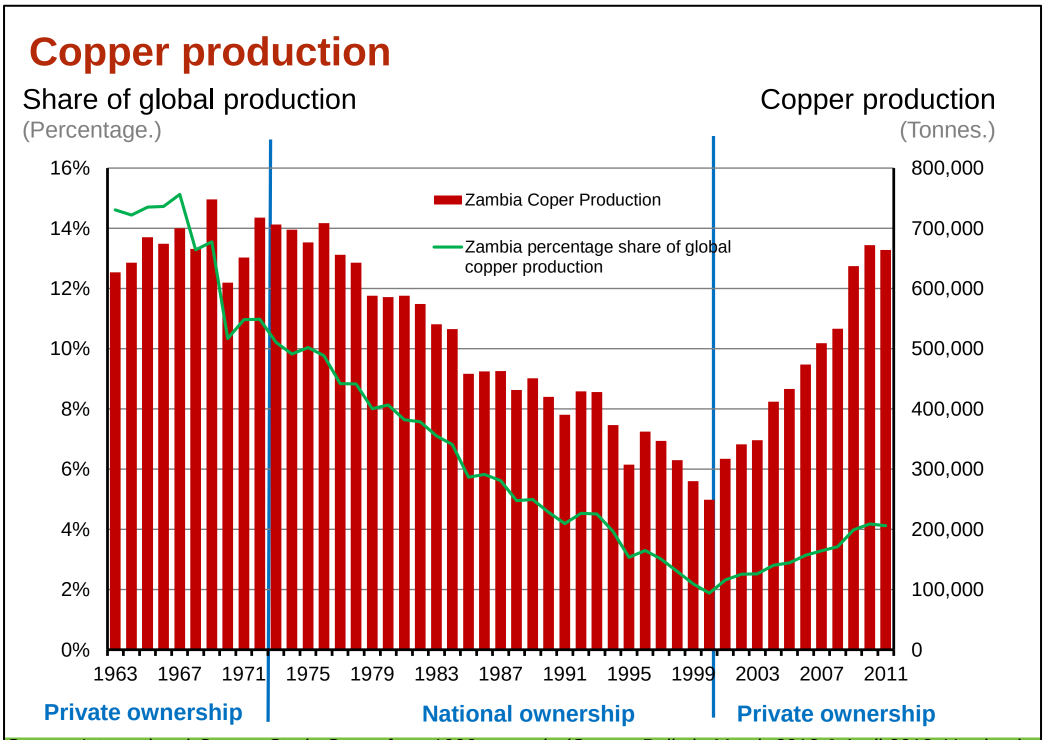
The period since 2000 has seen an unprecedented *sustained* growth of Zambia's GDP.



This is attributable in part to a much increased rate of total capital investment.

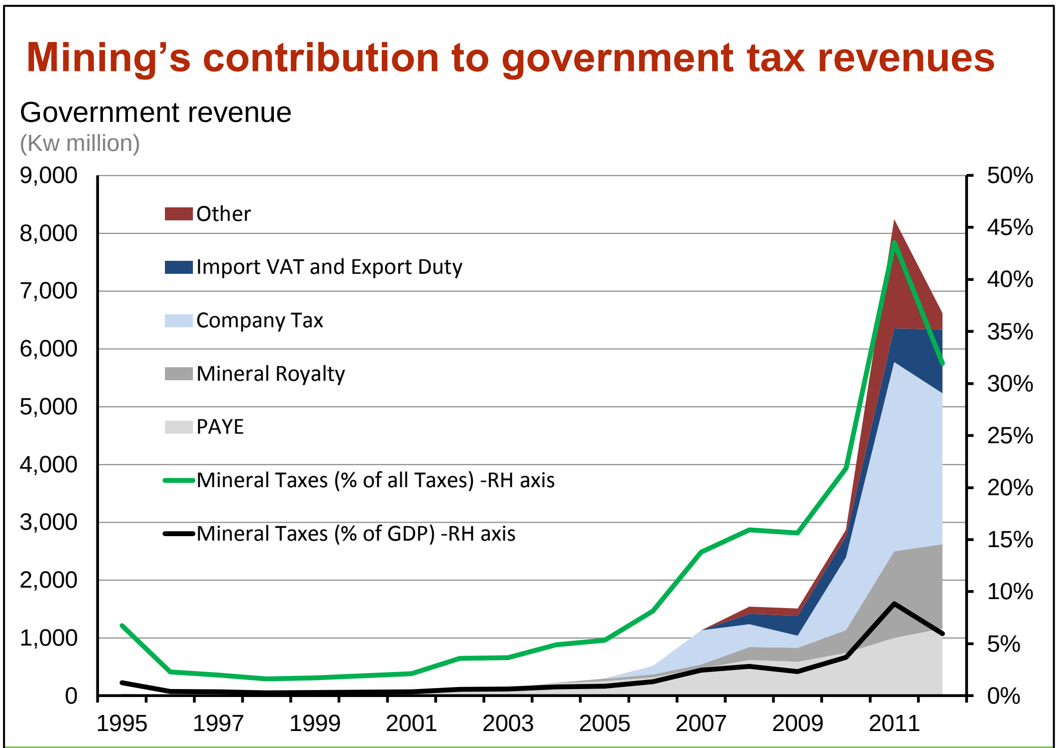


Total capital investment has generated an impressive recovery of total copper production most of which is exported.



Source: International Copper Study Group from 1996 onwards (Copper Bulletin March 2012 & April 2013; Yearbook 2006; Statistical Yearbook 2008), US Geological Survey Annual Mineral Reports 1963-1995

These production gains together with the reformed tax regime (2008) have led to very large increases in the Zambia Revenue Authority's tax and royalty revenues from mining.



Source: Zambia Revenue Authority
www.icmm.com/mpd