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THE 2023 NATIONAL BUDGET: A DEEP REFLECTION ON THE MINING SECTOR

1.0 Introduction

The 2023 budget has made serious pronouncements on the mining sector covering a wide spectrum of issues. The pronouncements have seen key changes in mineral royalty, and Property Transfer Tax (PTT). The budget speech also touches on other issues including Artisanal and Small-scale Mining (ASM), geological mapping, the Kalumbila multi-facility economic zone, manufacturing of car batteries, challenges of Konkola Copper Mines (KCM) and Mopani Copper Mines (MCM), setting up of a mining commission, and participation of the government in the mining sector through the purchase of golden shares. The subsequent section analyses some of these key pronouncements. The last section makes recommendations based on the analysis.

2.0 Analysis of key pronouncements

The analysis has been segmented into fiscal regime changes, three million tonnes target ambition, geological information, setting up of a mining commission and equity participation, ASM, gold as a strategic reserve, and manufacturing of electric car batteries.

2.1 Fiscal regime changes

The theme of the 2023 national budget is centered on stimulating economic growth for improved livelihoods. Based on this theme, the budget makes major changes to the mining fiscal regime. The first is a change in the mineral royalty scheme. The mineral royalty has been restructured to apply at the incremental value in each price band when the price value passes a certain threshold as opposed to being levied on the aggregate value. Additionally, the lowest marginal rate of the mineral royalty was reduced from 5.5% to 4%. The government has further gone to reduce the PTT on exploration rights from 10% to 7.5%. The mineral royalty change will result in a total

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loss of K2.8 billion. In last year's budget, a change was made to the mineral royalty regime where the fiscal instrument was reintroduced as a deductible expense for computing Corporate Income Tax (CIT). Last and this year's change will result in a projected total loss of K6 billion. According to the Minister's budget speech, this will help reclaim our position as Africa's top producer of copper which the Democratic Republic of the Congo (DRC) is currently enjoying. We must be quick to mention, that other salient factors make the DRC a top producer one of them being the rich mineralization of its deposits. Whilst fiscal policy has a role to play in attracting mining investment, companies have other factors that they look at such as the geological quality of mineral deposits, political stability, susceptibility of the jurisdiction to tax avoidance, social and legal factors.

There is generally a concern about why the government has continued to offer incentives to the large-scale mining sector. Whilst this can unlock the potential of the sector, we should be quick to point out that it is already enjoying incentives offered in the 2022 National budget which led to losses of K3.2 billion. We worry that this loss is being incurred at a time the country is deeply stressed with the US $ 31 billion public debt. it remains our considered view that the estimated revenue loss would have gone a long way in helping the country pay back its debt obligation or better still invest in geological mapping and exploration.

Government must maintain stability in the application of the mining fiscal regime. This should be irrespective of whether the changes are adverse or positive to the mining investor. Although the changes in the mineral royalty and PTT are positive for the mining investor, this still propagates a narrative that we are still not consistent with the way we apply our fiscal regime.

One thing that remains unclear in the fiscal regime changes over time is why mining houses are obsessed with solely changing the mineral royalty scheme and not other fiscal instruments such CIT. This pushes a conception for one to think that mineral royalty is difficult to avoid when compared to other fiscal instruments such as CIT because it is solely based on production with a price referenced to the London Metal Exchange (LME). This is in opposition to profit-based taxes which are based on revenue and cost.

2.2 Three million tonnes copper production target

The budget speech mentions how the country needs to attain the three million metric tonnes target to support economic development. However, two issues here need critical assessment. Is this technically viable and should we be obsessed with increasing production at the current benefits take? We cannot see any exploration and Mine developmental projects that will lead to the three million metric tonnes. This is against the backdrop that we cannot attain the three million metric tonnes with the current producing projects only. Growing the sector to three million metric tonnes

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from the current level means that we must grow the sector by almost three-fold. In other words, we must have additional three identical mining operations for every current project. Additionally, mining takes a long time to reach the exploitation phase (i.e., in the best-case scenario 5 – 10 years). The second question that needs deep interrogation is that even with the 800,000 tonnes of production the country continues to face problems with illicit financial flows, transfer mispricing, lack of value addition, lack of backward linkages (local content), problems in major mines such as KCM and MCM. If we increase production what is the guarantee that these problems will be resolved to induce a surge in the benefits take.

2.3 Geological information

In the case of obtaining geological information, the budget speech mentions that the government is going to attract private sector capital to carry out aerial mapping of mineral resources to unlock the exploited mining potential. Our position as CTPD has been clear, the government needs to formulate a strategic plan concerning mapping and exploration. It needs to determine what percentage of Zambia needs to be mapped and explored to what completion date and detail. Based on this a total cost projection can be made which can be annualized to help budget allocations for this exercise. Being painfully aware that government cannot entirely finance the whole exploration and mapping budget there is a need to know how much financing will come through the private sector and Private-Public Partnerships (PPPs).

2.4 Setting up of a Minerals Commission and equity participation

The setting up of a mining commission to be in charge of regulation is a welcome move. There is a need to emulate what Ghana is doing and tailor it to the Zambian context. However, there is a need for wide stakeholder consultations during its setup. It shouldn't be a rushed process. The increase in government involvement in mining through the purchase of golden shares is a welcome move because this is an important sector for the country.

2.5 Artisanal and Small-scale Mining (ASM) sector

The budget speech in Section 228(c) proposes to replace the current Corporate Income Tax (CIT) with a presumptive tax for ASM. The presumptive tax will be based on the gross turnover less mineral royalty paid at the applicable turnover tax rate. Additionally, the budget speech proposes changes to the mineral royalty and PTT. Although the presumptive tax will lower the Average Effective Tax Rate (AETR) compared to the CIT. Its simplicity in terms of tax administration and compliance can be equally ranked with the CIT. Secondly, the proposed mineral royalty scheme is still complex and burdensome to the copper ASM sector. This means the large- and small-scale players are still getting the same tax treatment. Secondly, this change is centred on the copper sub-sector and neglects other strategic sectors such as gold, coal, etc. It must be stressed that overtaxing the ASM sector with complex fiscal instruments will hinder compliance and negate the formalization efforts.

2.6 Gold as a strategic reserve

The budget is silent on stocking gold as a strategic reserve. There is a need to have a clear road map on the gold issue. Stocking gold as a strategic reserve will translate into macroeconomic stability. Government should contemplate signing purchasing agreements with large-scale mining companies that produce gold (*if this is not in place*). Additionally, there is a need to reorganize the Artisanal and Small-scale Gold Mining (ASGM) sector through support initiatives and the creation of market centers.

2.7 Manufacturing of electric car batteries

In Part 98 of the speech, the Minister mentions government is promoting the manufacturing of car batteries on the Copperbelt. However, the government seems not to have a clear road map of how this is going to be done except for the MoU we have signed with DRC. It is important to be aware that Cobalt and Manganese are strategic minerals in this undertaking. However, Nchanga KCM is a major producer of Cobalt but is currently under financial and technical distress. Secondly, manganese comes from ASM players from Central, Luapula, and Northern Provinces. However, this sub-sector is still informal because systems have not been put in place to encourage formalization.

3.0 Recommendations

There is a need for the Government to:

1. Exercise stability in the application of the mineral fiscal regime irrespective of whether the changes are adverse or positive to the investors;
2. Spell out a strategic plan of how it is going to support the attainment of the three million copper production target;
3. Capacitate and transform the GSD into a state agency with its governing board;
4. Formulate a strategic plan for mineral exploration and geological mapping;
5. Create a sector-specific fiscal regime for the ASM sector that is simple and predictable;
6. Discard the newly introduced presumptive tax on ASM and implement a single-tier system based on a flat rate royalty regime to enhance tax administration; and
7. Quickly resolve problems at KCM and MCM.

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Editor’s Note

The Centre for Trade Policy and Development (CTPD) is a not- for –profit, membership based trade policy and development think tank. The organization was established in 1999 and existed as the civil society trade network (CSTNZ), until 2009 when it was rebranded as the Centre for Trade Policy and Development (CTPD).

The mandate of CTPD is to influence pro-poor trade and investment reforms at national, regional and multilateral levels as well as facilitate the participation of various stakeholders including member organizations in ensuring that trade is used as a tool for poverty eradication.

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