

Local content policies in Zambia's copper sub-sector

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Peter Kragelund, Roskilde University

Resources and development: the need for Local Content Policies (LCPs)

- Resources the backbone of many now developed economies
- At independence, also the plan in many resource-rich African economies
 - But, resources led to:
 - Low growth rates / Low savings rates / Inequality / Conflict (duration / intensity)
 - Lack of structural transformation
- Post millennium commodity boom -> rejuvenation of resources for development thinking
 - Based on linkages -> knowledge transfer -> spillovers -> structural transformation
 - Facilitated by Local Content Policies (LCPs)

Local Content Policies in Zambia and the lack of linkage building

- Local content = the extent to which TNCs purchase inputs and services locally
- Local=
 - Location of suppliers? Proximity to mine? In Zambia?
 - Economic benefits? Employment? Value additions?
 - Ownership?
- Zambia Mining Local Content Initiative: public-private partnership facilitated by the WB and the IFC
 - Strategy Paper on the Promotion of Local Content
- LCPs are not aligned to other policies

Macro-level policies affecting linkage development

Main policies	Description	Effects on mines	Effects on domestic suppliers
Privatisation Act	Privatisation and commercialisation of state-owned enterprises in Zambia	ZCCM dissolved and new owners took over	Linkages to sprinter companies collapsed. New linkages to foreign suppliers
Mines and Minerals Acts	Established the incentives under which the mines were to be privatised	Duty and quota free imports for mines. Mining companies are expected to support local industry	Cost penalty on suppliers Establishes a preference for Zambian goods, but does not define local content
Mining Tax regime	Numerous amendments to tax regime ending in a 4–6% sliding royalty tax	Heated discussions with government	Potential source of finance for structural transformation did not materialise. Mines claim that they cannot afford to source locally

Meso-level policies affecting linkage development

Main policies	Description	Effects on mines	Effects on domestic suppliers
Citizen Economic Empowerment (CEE) Act (2006)	Affirmative action policy that seeks to empower Zambians to take part in economic development.	Voluntary and mandatory sector codes to induce foreign companies procure locally.	Delayed and only partially implemented. Preferential procurement only applies to public entities
Mineral Resources Development Policy (2013)	Makes provisions in law to compel MNCs to give preference to Zambian products	Mandatory codes to make mining firms procure locally	Reserves a portion of royalties for local business development

Micro-level policies affecting linkage development

Main policies	Description	Effects on mines	Effects on domestic suppliers
Zambia Mining Local Content Initiative	Collaborative public-private initiative to enhance local content	Encourages mining firms to develop participatory approaches to local involvement	Government must identify skills deficiencies and facilitate development of downstream processing capacities
The Copperbelt SME Suppliers Development Programme	3-year supply chain development programme aiming to assist five mining companies to make use of local SMEs	Boost market-based incentives to use local suppliers.	No definition of 'local'. Training, diversification of products, and access to finance.
UNIDO Subcontracting & Partnership exchange	Global programme that aims to help local firms face challenges of globalisation	No specific focus on mining companies	No definition of 'local'. Assessment of firm-level capacity

Conclusions

- LCPs have to be aligned to broader policy regime to work
- Linkage formation in Zambia affected by:
 - Macro-level policies: tax regime (mining tax & VAT) and exchange rate regime (SI 33/55)
 - Meso-level policies that have not empowered Zambian suppliers
 - Micro-level policies of voluntary nature, vaguely defined and enforced
- LCP offset by these policies -> LCPs not panacea to development

Recommendations

- Clear and unambiguous LCPs
 - Clear definition of 'local'
- Key institutions have to support interaction between Mines and local suppliers
 - Enhance absorptive capacity of local suppliers
- Target specific phases of copper value chain, i.e. focus on e.g. construction phase rather than exploration phase