LOCAL CONTENT POLICIES IN ZAMBIA'S COPPER SUB-SECTOR

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The post-millennium commodity boom and the associated investments in resource extraction in the Global South have revived the belief that investments in resources can lead to broad-based development. Linked hereto, multilateral organisations are now advocating for 'local content policies' (LCP) as a silver bullet for broad-based resource-led development in resource-rich African economies.

The Successful African Firms and Institutional Change (SAFIC) project has since 2012 explored major reasons for why some Zambian firms in agribusiness and among suppliers to the mines perform better than others. This policy brief summarizes the findings of the study regarding the role and importance of LCPs among the local suppliers to the mines.

Literature on LCPs informs us that these policies may lead to positive developmental outcomes. However, based on insights from the design and partial implementation of LCPs in Zambia this study shows us that *even if LCPs are well-designed, well-implemented and accepted by the main stakeholders, they fail to make a positive difference if they are offset by other policies at the macro-, meso- and micro level*. What is important, therefore, is the political economy of the policy climate more broadly – not the local content policies alone.

Natural resources and development

Natural resources have long been high on the development agenda in Africa – and for good reasons. First, natural resources were the backbone of many 'now-developed' economies' early take-off. Secondly, most African economies did not have an indigenous manufacturing sector at independence.

However, things did not turn out rosy in most resource-rich African economies. The result was that after three decades of resource-led economic development, resource abundant economies had performed worse than their resource-poor counterparts in terms of overall economic growth, savings rates and employment levels, and export diversification; as well as in terms of democratic and institutional development.

The SAFIC project has aimed to enhance our understanding of why some locally owned firms in Kenya, Tanzania and Zambia perform better than others. In particular, the project has examined how different institutions affect firm-level performance. In Zambia, the project mapped and surveyed firms in the food processing and suppliers to the mines subsectors from 2012-2014. Then it conducted a number of in-depth interviews with selected firms in the two sectors from 2014-2016. In addition to the primary firm-level data from suppliers to the mines in Zambia's Copperbelt and 'New Copperbelt' (North-Western) regions, this policy brief is based on interviews with private sector organisations and government entities in Zambia.

Local content policies as the panacea to development

Industrial expansion in major emerging markets has led to rising commodity prices, causing the economies of the resource-rich African countries to skyrocket for more than a decade. In addition, public-private initiatives have been set in motion to manage resource rents more efficiently, and voluntary norms and standards have been imposed to increase transparency and accountability. This has led to a renewed focus on the (potentially) positive developmental effects of resource extraction.

This new positive belief in resources and development is based on two key assumptions: 1) forward and backward linkages from extractive industries bring about developmental benefits; 2) linkages can be promoted via LCPs that are perceived to '*open a path to economic development through natural resources*'. However, most LCPs fail to define the 'local' in local content, i.e. '*the extent to which multinational corporations purchase inputs and services locally*'. Local here may refer to where local suppliers are located, i.e. to the proximity of the supplier to the mining company or to the nation; to the economic benefits to society such as employment, purchase of locally produced products/services, and value addition in locally purchased products/services; or to who really owns the supplier.

Recent works on LCP argue that *contextual factors* determine whether or not LCPs will succeed in bringing about forward and backward linkages and thus facilitate capability building, upgrading and eventually broad-based development. Contextual factors refer to *macro-level* (e.g. macro-economic stability, the exchange rate regime, overall skills development, and physical infrastructure), *meso-level* (specific support to the sector), and *micro-level* policies (e.g. firm-level upgrading, and direct support to leading firms to develop their supply chain strategies).

Contextual factors affecting the success of local content policies in Zambia

Like numerous other resource-rich African economies, Zambia is currently formulating a LCP. The Zambian version is based on the 'Zambia Mining Local Content Initiative' (ZMLCI) that aims to 'make mining work for Zambia'. It aims to enhance local content and the use of locally manufactured inputs in the mining industry.

Whether or not the ZMLCI results in linkage formation that leads to spill-overs depends on the design of the policy, supported and enforced by key political institutions, and the extent to which it is consistent with related policies affecting the mining sector in Zambia.

At the macro level, two historical acts stand out, namely the Privatisation Act of 1992 that paved the way for the privatisation and commercialisation of state-owned enterprises in Zambia; and the Mines and Minerals Acts of 1995. The latter Act skewed competition between mines and their suppliers by granting the firms that held mining rights VAT exemption on all inputs and eliminating customs and excise duties on all machinery and equipment. However, suppliers paid a customs duty ranging from 15 to 25 per cent for some goods plus VAT on all imports (see Table 1).

These Acts dissolved the linkages established between Zambia Consolidated Copper Mines (ZCCM) and its network of suppliers. The result was that the domestic suppliers, which had thrived in the protected Zambian environment but were internationally not competitive, either had to close down or down-scale dramatically.

Policy uncertainty characterised the tax regime – both with regard to the mining tax as well as VAT. Although the mining regime in the end continued almost unaffected, the lengthy process of mining regime amendments had major negative effects on the possibility of deepening local content in Zambia. First, what was perceived as a way to finance structural transformation processes did not materialise. Second, the heated discussions led to (increased) mistrust between the government and the mining companies that worked against the government-led local content initiatives, which required the mines' collaboration.

Table 1: Macro-level policies affecting linkage development

Main policies	Description	Effects on mines	Effects on domestic suppliers
Privatisa-tion 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

At the meso-level, the most important Act is the Citizens Economic Empowerment (CEE) Act that was originally intended to supersede all other commercial and industrial Acts in Zambia and thereby empowering Zambians to take active part in the Zambian economy (see Table 2). An important means to this end was the sector codes that were designed to induce all companies operating in Zambia to procure locally. However, neither the sector codes nor most of the other means in the CEE were implemented, and the CEE never succeeded in superseding all other commercial and industrial Acts in Zambia even though a lengthy process was set in motion to align all relevant laws and by-laws to the CEE.

The Mineral Resources Development Policy (2013), that seeks to compel transnational corporations to give preference to Zambian products, was aligned to the CEE in 2014 and now stipulates that 25% of purchases should go to citizen-owned companies. It is also linked to the amended mining regime and reserves a portion of the royalties for local business development. Thus, for the first time since the beginning of the commodity boom, policies at the meso level directly and indirectly address the link between TNCs and Zambian suppliers.

Table 2: 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

Notwithstanding all the hype that has surrounded the ZMLCI, it has had few tangible results. In fact, the only concrete initiative has been the October 2015 launch of an online database for SME suppliers enabling them to look up business opportunities (see Table 3).

Table 3: 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

The ZMLCI did not develop in a vacuum. Rather, the work undertaken by the World Bank built upon several programmes seeking to promote subcontracting and LCPs in the mining sector in Zambia. Common to all of these programmes is that they neither defined what a 'local' company is nor distinguished between 'participation by Zambians' and the extent of 'value addition in Zambia'.

Results

LCPs have only limited effect if they are not aligned to the broader legal practices in the sector. In fact, in Zambia the factors that really mattered in terms of linkage building between the mines and the domestic suppliers were macro-economic stability, the tax regime and the exchange rate regime (i.e. macro-level policies). The meso-level policies that were meant to empower Zambian-owned businesses were dysfunctional and never came to play an empowerment role. Finally, numerous micro-level policies in the mining sector have been implemented lately in Zambia. While it is too early to assess the most recent initiative, the ZMLCI, others have failed to define what local content is all about; they have been voluntary in nature; have only included a small percentage of the mines – and of the suppliers. More importantly, these LCPs have been vague in areas where vagueness negatively affects the local suppliers.

Hence, while LCPs are hyped as the panacea to resource-led development, the chance that they will really change anything is extremely slim. First and foremost, 'local content' aspects have been part and parcel of all major documents/laws regulating extractive activities in Zambia for the past two decades, including the Development Agreements, the Mines and Minerals Acts, and the CEE Act, without having any real effect on the use of local suppliers in the mining industry. In fact, what has happened is that locally-owned companies have become increasingly marginalized. Second, several 'local' local content initiatives have been set in motion in Zambia in the past but have not succeeded in changing the overall tendency towards ever-expanding room for transnational Original Equipment Manufacturers to operate. Finally, it seems that the effects of LCPs are offset by the other initiatives that the government is setting in motion.

Recommendations

- LCPs need to be clear and unambiguous. They need to define 'local' precisely and key Zambian institutions have to support and facilitate interaction between the multinational resource extractor and the local suppliers.
- Key Zambian institutions have to ensure that the level of absorptive capacity among the local suppliers is sufficiently high to benefit from the spillovers of the investments.
- LCPs need to target specific phases of the resource value chain. While there is hardly any potential for local manufacturing content in the exploration phase, the potential is much higher in the site design and construction phase, which is characterised by a more labour intensive process, and is relatively high in the actual operation phase.

Source

Kragelund, P. (2017). 'The making of local content policies in Zambia's copper sector: Institutional impediments to resource-led development'. *Resources Policy*, 51, 57-66.