

CASE STUDY

ZAMBIA: UPSTREAM LINKAGES

LIMITS TO THE EFFECTIVENESS IN GOVERNMENT SUPPLY-SIDE INTERVENTIONS

OVERVIEW

LEVEL OF OPERATION:

National

GOVERNMENT ROLE:

Regulator, program facilitator

FOR MORE INFORMATION:

See [Citizens Economic Empowerment Commission; Mineral Resources Development Policy \(2013\); IFC Copperbelt SME Suppliers Development Program](#)

KEY COMMODITIES:

Copper, cobalt, zinc¹

TOTAL NATURAL RESOURCE RENTS (AS % OF GDP) (2015):

14.4 per cent²

NATIONAL EXTRACTIVES COMPANY:

N/A

UNDP HUMAN DEVELOPMENT INDEX VALUE (2016):

0.579 (Global Rank 139)³

Zambia has put in place a combination of demand- and supply-side policy options, giving maximum preference to local suppliers. They also created a Citizens Economic Empowerment Commission, which promotes procurement of Zambian services, materials, and equipment (Mines and Minerals Development Act no 7, Art. 13(1) and Citizens Economic Empowerment Act, Part II, Art. 6). The Commission includes an emphasis on joint ventures and subcontracting to Zambian businesses.

¹ Central Intelligence Agency (CIA). (2017). *The world factbook*. Washington, DC: CIA. Retrieved from <https://www.cia.gov/library/publications/the-world-factbook/fields/2111.html>

² World Bank Group. (2017). *Total natural resource rents (% of GDP)*. Washington, DC. Retrieved from <https://data.worldbank.org/indicator/NY.GDPTOTL.RT.ZS>

³ United Nations Development Programme. (2016). *Human Development Reports: Zambia*. Geneva, Switzerland. Retrieved from <http://hdr.undp.org/en/countries/profiles/ZMB>



SUMMARY OF POLICY OPTIONS IN ZAMBIA

DEMAND-SIDE POLICY OPTIONS

- Provision that local goods and services will be given preferential treatment or purchased to the extent feasible

SUPPLY-SIDE POLICY OPTIONS

- Supplier development programs

DEFINING “LOCAL” PROCUREMENT

In the case of Zambia, “local” procurement from suppliers of goods and services uses the following definition, which focuses on local participation of Zambian citizens in these businesses:

- “Citizen” means a citizen of Zambia⁴ and, “in relation to a partnership, means a partnership which is composed exclusively of citizens.”⁵
- “Citizen-owned company” means “a company where at least 50.1 per cent of its equity is owned by citizens and in which the citizens have significant control of the management of the company.”⁶

There is no definition of what level of local content is required for a good to be considered Zambian.

Beyond the national level, the geographic definition of “local” is not more detailed.

While the Mines and Minerals Development Act of 2015 gives preference to “materials and products made in Zambia”, it does not define what level of value-added is necessary to merit the “made in Zambia” designation. This is an important omission, since it creates serious difficulties for compliance and enforcement.

DEMAND-SIDE POLICY OPTIONS

PROVISION THAT LOCAL GOODS AND SERVICES WILL BE GIVEN PREFERENTIAL TREATMENT

Zambia’s Mines and Minerals Development Act mandates that a holder of a mining or mineral processing licence should give preference to Zambian products, materials, contractors, suppliers and service agencies.⁷ Those that disregard the policy could face a fine: “pay a fine of five hundred thousand penalty units and an additional fine of twenty thousand penalty units for each day during which the default continues.”⁸

However, no specific targets or quotas are provided and, as noted above, there is no definition of what level of local content is

required for a good to be considered Zambian. This has made it difficult to enforce the regulations, a challenge some argue is exacerbated by the political power of the mining and importing interests relative to suppliers.⁹

⁴ Ibid.

⁵ The Mines and Minerals Development Act 2015, Article 2. Retrieved from <http://www.parliament.gov.zm/sites/default/files/documents/acts/The%20Mines%20and%20Minerals%20Act%2C%202015.pdf>

⁶ Government of Zambia. (2006). Citizens Economic Empowerment Act 2006, Art. 3. Retrieved from <https://www.zambialii.org/zm/legislation/act/2006/9/cea2006284.pdf>

⁷ Government of Zambia, Ministry of Mines and Minerals Development (2015). The Mines and Minerals Development Act, 20(1) (a) & (b), page 182. Retrieved from <http://www.parliament.gov.zm/node/4531>

⁸ Ibid., p. 183.

⁹ UNU-WIDER. (2016). *Can mining promote industrialization? A comparative analysis of policy frameworks in three Southern African countries*. Retrieved from <https://www.wider.unu.edu/sites/default/files/wp2016-83.pdf>



Preference for Zambian products, contractors and services and employment of citizens

20. (1) A holder of a mining right or mineral processing license shall, in the conduct of mining operations or mineral processing operations and in the purchase, construction, installation and decommissioning of facilities, give preference to the —

- (a) materials and products made in Zambia
- (b) contractors, suppliers and service agencies located in Zambia and owned by citizens or citizen-owned companies.

Figure 1. Preferential treatment article for mining local procurement of goods and services in Zambia¹⁰

SUPPLY-SIDE POLICY OPTIONS

SUPPLIER DEVELOPMENT PROGRAMS

While numerous provisions are focused on increasing local business capacity, a recent review of the mining policy environment in Zambia by the World Bank concluded that a national supplier development policy that covers local procurement in mining is missing.¹¹

While this is the case, there are still aspects of provisions focusing on supplier capacity. The country's Citizens Economic Empowerment (CEE) Act identifies that the Commission shall support the government in enhancing partnerships and joint ventures with local and foreign investors and shall do so by consulting and directing state institutions or companies.¹² The Act also identifies that it would be best practice for state institutions

to develop a set of criteria by which they would enter into partnerships and joint ventures with the private sector.¹³

The Mineral Resources Development Policy promotes Zambian economic empowerment within the mining sector by reserving a portion of the mineral royalties for the development of businesses within mining communities.¹⁴ As well, the government is required to enhance the national economy through the mining sector by increasing opportunities available to local businesses within the industry.¹⁵ To ensure public (domestic) involvement, the government is expected to spearhead promotional campaigns that will sensitize the public to the various business activities within the mining industry.¹⁶

Further, the Commercial, Trade and Industry Policy (2015) focuses on promotion of local products, providing procurement opportunities for domestic firms, and citizen empowerment. The promotion of local products focuses broadly on promoting local businesses, concentrating on branding and marketing.¹⁷ The section on procurement specifically identifies the mining sector as a priority and focuses on promoting fair competition between local and foreign suppliers, with an emphasis on fair and transparent procurement processes that avoid anti-competitive practices.¹⁸ In particular, the "i. [t]he Government will facilitate effective dialogue between various mine suppliers; and mine owners; ii. [t]he Government will continuously align relevant legislation to address concerns raised by the business community in the mine sector."¹⁹ The government will follow up on concerns voiced by potential and existing suppliers within the mining sector that believe a

¹⁰ Government of Zambia, Ministry of Mines and Minerals Development (2015), Id., note 7, 20(1) (a) & (b).

¹¹ World Bank Group (2016), Id. note 2, p. 27.

¹² Government of Zambia (2006), Id. note 6, pp. 11–12.

¹³ Government of Zambia (2006), Id. note 6, p. 22.

¹⁴ Ministry of Mines, Energy and Water Development (2013). Mineral Resources Development Policy, p. 9. Retrieved from <http://www.gzmecc.co.zm/downloads/acts/2013%20Mineral%20Resources%20Development%20Policy%20Zambia.pdf>

¹⁵ Ministry of Mines, Energy and Water Development. (2013), Id. note 15, p. 9 and 10.

¹⁶ Ibid.

¹⁷ Republic of Zambia, Ministry of Commerce, Trade and Industry. (2015). Commercial, Trade and Industrial Policy, p. 32. Retrieved from: http://www.mcti.gov.zm/index.php/policy-documents/doc_details/27-cti-policy

¹⁸ Ibid.

¹⁹ Ibid.



mining company may not be fully aligned with relevant legislations.²⁰

Lastly, the focus on citizen empowerment includes the following priorities: (1) adopt an empowerment policy, (2) promote broad-based empowerment in a variety of ways, such as procurement, (3) promote a supportive culture in both the public and private sectors, and (4) implement additional measures, as recommended by the Citizens Economic Empowerment Advisory Committee.²¹

To complement the various policies and acts relating to local procurement, Zambia has taken several initiatives to increase local procurement within the mining industry. Such initiatives include the Zambia Mining Local Content Initiative (ZMLCI) and the IFC Copperbelt SME Suppliers Development Program (CSSDP). The ZMLCI was launched in 2012 and aimed to create public-private initiatives that would enhance local content and the use of locally manufactured inputs within the mining industry; this initiative was meant to help facilitate industrialization.²² The CSSDP, 2007–2010, aimed to increase local Zambian small and medium-sized enterprise suppliers within the country's oil, gas and mining supply chains.²³ Specifically, the program offered the following services:

- “Business Diagnostics
- Business Plans/Financing proposals
- HR systems
- Sales & Marketing

- Management Information Systems
- Quality Management Systems
- Helping local SMEs to meet tender, financial and technical requirements through training and mentoring
- Facilitating Access to Finance for SMEs via dialogue with local banks and other Development Finance Institutions
- Training using the SME Toolkit, an innovative online business management training resource.”²⁴

The program supported SMEs to develop business plans that could be submitted to the Citizens Economic Empowerment Commission for financing.²⁵

Despite these efforts to encourage preference of local suppliers, recent figures suggest that “up to 95% of goods and services locally procured by the mining industry are imported”.

Despite these efforts to encourage preference of local suppliers, recent figures suggest that “up to 95% of goods and services locally procured by the mining industry are imported”.²⁶ In other words, the preferential treatment provisions do not seem to be leading to significant increases in the purchase of materials and products made in Zambia.

²⁰ Ibid., pp. 33–34.

²¹ Ibid., p. 38.

²² Zambia Country Management Unit Africa Region, International Finance Corporation Africa Region, and The Multilateral Investment Guarantee Agency. (2015). *International Development Association, International Finance Corporation, Multilateral Investment Guarantee Agency, Performance and Learning Review of the Country Partnership Strategy for the Republic of Zambia for the Period FY13-FY16* (Report No. 95986-ZM).

²³ International Finance Corporation. (n.d.). *The IFC Copperbelt SME Suppliers Development Program*, p. 1. Retrieved from https://www.commdev.org/userfiles/CSSDP_Factsheet.pdf

²⁴ Ibid., p. 1.

²⁵ Ibid., p. 2.

²⁶ World Bank Group (2016). *Zambia Mining Investment and Governance Review*, p. 1. Retrieved from <https://openknowledge.worldbank.org/bitstream/handle/10986/24317/Zambia0mining00eview000final0report.pdf?sequence=6&isAllowed=y>



KEY LESSONS

- The case study of Zambia illustrates the importance of properly defining local content. While the definition for service companies is explicit, the definition for goods is not. Under these circumstances, compliance and enforcement are difficult, and may be subject to evasion and corruption. Perhaps as a result, almost all of the services purchased by Zambian mining companies are obtained from local suppliers, while very few goods are procured locally.²⁷
- The case study also suggests that there are limits to the effectiveness of government supply-side interventions when there is little in the way of pressure on the demand side (given the lack of workable definitions in the demand-side requirements, and the challenges of enforcement). While there appears to be a multitude of activity on the supplier side (albeit still without a dedicated supplier development program for the mining sector), the results appear to be under-achieving in terms of increasing local procurement.

²⁷ Chamber of Mines of Zambia and ICMM. (2014). *Enhancing mining's contribution to the Zambian economy and society*. London: International Council on Mining & Metals. Retrieved from <https://www.icmm.com/website/publications/pdfs/mining-partnerships-for-development/7231.pdf>



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Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development (IGF). (2018). *Zambia: Upstream linkages—Limits to the effectiveness in government supply-side interventions (Case Study)*. IGF Guidance for Governments: Leveraging Local Content Decisions for Sustainable Development. Winnipeg: IISD.

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