international policy centre for inclusive growth

The International Policy Centre for Inclusive Growth is jointly supported by the United Nations Development Programme and the Government of Brazil.

ONE PAGER 475

July 2021 ISSN 2318-9118

Mining revenue, fiscal space and social policies: the case of Zambia

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Zambia is a landlocked country in central southern Africa, with a vast territory and a dispersed population (18,6 million in 2020). Its annual demographic growth has been approximately 3 per cent in recent years, one of the highest in sub-Saharan Africa. Zambia's Human Development Index has risen from 0.398 in 1990 to 0.584 in 2019 and is slightly above the average for sub-Saharan Africa of 0.547. Health and education indicators have improved since the turn of the century, but Zambia did not reach the Millenium Development Goal (MDG) 2015 targets in areas such as maternal and child mortality or access to drinking water.

Facilitated by mining expansion, the country experienced substantial macro-economic growth (annual average gross domestic product—GDP—growth of 6.2 per cent between 2006 and 2015), but this growth was far from being inclusive. Even though poverty reduction is officially proclaimed as a major priority in Zambian national policies, the proportion of people living in monetary poverty is still high: in 2015, 54.4 per cent of the population were living below the national poverty line. Zambia is among the African countries with the highest food insecurity indexes. According to the World Food Programme, 48 per cent of its population are unable to meet their minimum calorie requirements.

Mining resources (mainly copper), whose extraction and export were initiated during colonial times, have played an important role in the economy of Zambia. The country faces serious development challenges. The question arises as to what extent the mining of natural resources has facilitated public action regarding these challenges or whether, on the contrary, mining has had a neutral or even counterproductive impact.

The paper this One Pager is based on (Unceta 2021) refers to what Hirschman (1981) called 'fiscal linkage'. Extractive industries (mining, oil) often operate as 'enclaves', with weak direct links to other productive domestic sectors ('production linkages'), particularly in developing countries. Therefore, the 'fiscal linkage' of these industries may become more important as a way of increasing their budgetary capacity. However, intermediation by national authorities is an indirect channel that requires two conditions to be effective: 1) there must be an adequate and sustainable capture of the rent generated by extractive resources, and 2) the resulting revenue must be managed well and transparently to serve the general interest and respond to the country's needs. Hirschman expressed these conditions as follows: "For the fiscal linkage to be an effective development mechanism, the ability to tax must be combined with the ability to invest productively". The challenge is to avoid the scenario of rent-seeking or public inefficiency also evoked by Hirschman and by the 'resource curse' theory.

The mentioned two requisites are examined for Zambia in Unceta (2021). First, considering the evolution of financial flows from mining activities and their impact on global fiscal capacity. Then, assessing the budgetary and policy choices regarding key developmental needs, focusing especially on social sectors. The temporal coverage includes both the commodities 'boom' that started in 2008 and the period since 2012, when metal markets experienced a downward trend.

The legal and fiscal framework applicable to mining private activities still represents a major national issue for the Zambian government and public opinion. As in other developing countries, it is expected that these activities, extracting national natural resources, yield a benefit to the country and its population. One of the key potential benefits is their fiscal contribution. Even if this contribution has varied in Zambia in recent years, affected by fluctuations in the copper economy (production, prices) and by frequent changes in national mining regulations, taxes on the mining sector have had an overall non-negligible impact on national budgetary capacity. Over the last 10 years, total payments from the mining sector have fluctuated between 20 per cent and 35 per cent of the total public revenues.

However, beyond the adequate capture mining rents, the effective use and targeting of revenue involves critical political choices. One key question is how the government interprets and responds to national needs in a country such as Zambia, where poverty remains predominant and may increase because of the COVID-19 pandemic. Public spending rose significantly in the last decade, well above the additional revenue from mining, which forced the contraction of external and internal debts. Serving this debt has significantly constrained the fiscal space for key social spending. Insufficient funding and equity in the allocation of public spending has been observed in crucial areas (such as education, health and social protection). The COVID-19 pandemic has also drastically impacted the country's public finances.

The general conclusion is that development returns from mineral resources have been very modest in Zambia. Even though certain exogenous factors (such as the volatility of mining markets) may have influenced these mediocre results, domestic policy issues in different areas (such as fiscal soundness, budget spending priorities, insufficient equity criteria and public management capacities) have also played a significant role.

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