

ZAMBIA
DAILY MAIL

New tidings on horizon for Zambia

THERE cannot be a better New Year present to citizens than the assurance by Government that the economic prospects are bright and inflation is projected to remain in the range of six to eight percent.

The Ministry of Finance has also assured that in 2019, macro-economic stability is projected to be sustained, aided by continued implementation of reforms and policies to support delivery of fiscal consolidation for sustainable and inclusive growth.

That is why President Edgar Lungu has urged Zambians to transit into this year with a positive mindset, renewed commitment and dedication to hard work to enhance national development.

Mr Lungu says patriotic citizens should seize every opportunity this year to engage in more rewarding, innovative and productive ventures to boost productivity at all levels.

He says despite the country having recorded some successes in 2018, a lot more still needs to be done to achieve prosperity for all.

Given the initial economic challenges the country faced before the appointment of Margaret Mwanakatwe as Minister of Finance in early 2018, there is need for Government to be hands-on where fiscal policy is concerned.

There still remains a huge expectation that Zambia is not yet out of potential distress on its external debts.

Zambia's creditors, particularly those who participated in the Eurobond, believe that without any significant debt restructuring, possibly in the form of refinancing, the 2022 obligations of the first bullet payment of the bond will continue to affect macro-economic stability in years before due date.

On one hand, our interest rate payments remain too high for effective fiscal consolidation because the treasury will still fall short of resources to finance domestic budgetary needs.

It is for this reason that the International Monetary Fund (IMF) programme remains the most feasible means of achieving budget targets and fiscal consolidation.

Government cannot guarantee fiscal discipline or effective implementation of austerity measures without the oversight of IMF.

With inflation anticipated to remain

at eight percent, certain variables will need to be managed seriously for the country to achieve targets if the IMF programme does not take off.

To achieve this, Government needs to place a lid on emoluments, meaning it should not entertain salary increments outside the rate of inflation.

Second, the Zambia Revenue Authority should collect taxes as planned, meaning any shortfall from the mining sector may spell a disaster.

There are good indicators though: the relative stability in interest rates although the headings posed by exchange rate may affect private sector growth.

Government should quickly improve the climate for portfolio investors to strengthen the Kwacha and this requires marginally increasing the monetary pilot rate.

We are very confident that we are now in that position where the economy is expected to start attracting investors as well as IMF for a programme, what with Moody having given Zambia a stable rating for the economy early in 2018.

In 2018, Government passed fiscal laws, a critical development which is a useful mechanism towards full application of the 2019 budget.

However, going forward, Government will need to fully stick to this commitment, follow its own laws and rely on parliament for most decisions affecting financial management and debt procurements.

Going forward into 2019, Government will need to manage three key risks that may create potential problems to the budget such as austerity commitment as mentioned by the Minister of Finance in the first half of fiscal performance review.

This would then assist Zambia on its path to fiscal fitness. A number of measures have been actualised and implemented and have resulted in huge cost savings.

Indeed, as the country enters the New Year, citizens should embrace President Lungu's counsel with hearts of gratitude to God, who has made it possible for us to witness this momentous occasion.

It should be every citizen's wish to be optimistic and continue building on the progress recorded in 2018.

Why govt mustn't succumb to economic blackmail

Mining conglomerates have constant battles with Zambia



DONOVAN GRAY

ZAMBIA is one of the few countries in the world that is endowed with rich mineral deposits. It also happens to be one of the world's top copper and cobalt producers. In addition, it is Africa's second-biggest copper producer.

At the start of Zambia's multi-party democracy, the new government under Fredrick Chiluba embarked on a massive privatization campaign which saw government assets being sold to the private sector. This new change in government policy was spearheaded by the IMF, which made claims that it would usher in economic prosperity as the people were told privatizing our assets would increase jobs and revenue to government through better management. Unfortunately for the people and country of Zambia, no such prosperity ever came to bear, and Zambia has had a constant battle with the mining conglomerates every time government tries to get its rightful share of their proceeds.

In theory, the privatization brought hope to every Zambian that our ailing economy would benefit from the sales of our most valuable assets. This hope was sold to the people of Zambia by saying that the Zambian government, through the ZCCM (Zambia Consolidated Copper Mines), mismanaged these assets, and therefore the private sector would do a better job at managing them, which would result in benefits to the country such as inflow of foreign exchange, direct revenue to government through corporate taxes and royalties, employee taxes from miners, infusion of technology through skills development that would in turn create regional development.

But, the harsh reality was anything but that. Zambia is notorious for earning very little from mining. A string of NGOs, media and academic reports in recent years have highlighted how mining companies, while producing a large amount of copper, have been paying few taxes to the government.

International experience has demonstrated that a properly structured and administered minerals industry has potential to generate substantial benefits to individual economies and regions. In understanding how Zambia is being ripped off, we attempt to explain in this article how these unscrupulous mining conglomerates do it. To understand this, we need to understand the difference between Tax Evasion vs Tax Avoidance.

TAX EVASION VS TAX AVOIDANCE
Distinguishing between tax evasion and tax avoidance is necessary in order to provide clarity and direction in addressing the problem.

• Tax evasion in general refers to illegal practices to escape from tax obligations as provided by the law. To this end, taxable income, profits liable to tax or other taxable activities are concealed, the amount and/or the source of income are misrepresented, or tax reducing factors such as deductions, exemptions or credits are deliberately overstated. Tax evasion can occur as an isolated incident within activities that are in other aspects legal. Furthermore, tax evasion occurs in the informal economy where the whole activity takes place out of reach of the tax net. This means the business is not only evading tax payments but is also not registered as a formal enterprise

at all.

• Tax avoidance, by contrast, takes place within the legal context of the tax system; that is, individuals or firms take advantage of the tax code and exploit loopholes, specifically engaging in activities that are legal but run counter to the purpose of the tax law. Usually, tax avoidance encompasses special activities with the sole purpose to reduce tax liabilities. An example of tax avoidance practice is strategic tax planning where financial affairs are arranged in order to minimise tax liabilities by using tax deductions and taking advantage of tax credits. In recent years, tax avoidance has become more topical than tax evasion. Avoidance negatively affects tax revenues because it circumvents government's intention when setting tax policy. In resource-rich countries, extracting companies often use contrived schemes in the production value chain to avoid paying tax. However, tax avoidance remains legal albeit disreputable. Because avoidance is barely legal, it does not attract the attention of law enforcement.

DEFINING THE TAX GAP

There is a portion of taxes that eludes the government's tax net each year. This is called the tax gap. The tax gap is the difference between actual tax revenue received and potential tax revenue assuming total compliance with both the letter and spirit of the tax code. The net tax gap is the standard measure of noncompliance. It is the portion of tax revenue that is totally lost through evasion, avoidance, contestation, non-payment, the hidden economy and other channels. In Zambia, the most likely contributors are evasion, avoidance and the hidden economy. Together, these account for the largest share of missing taxes in Zambia.

MINING TAX AVOIDANCE

In Zambia, companies are presented with a variety of ways to avoid paying tax, including over-reporting of costs and under-reporting of production. Allegations concerning tax avoidance have recently been made against a high-profile company: First Quantum Minerals. Companies such as First Quantum Minerals were avoiding paying tax by means of two methods:

1. The first is transfer pricing abuse. In light of the fact that the global mining industry is dominated by multinational companies trading between different operating units in different countries. Companies can reduce their overall tax payments by selling goods and services from an operating unit in a low tax jurisdiction to one in a higher tax jurisdiction at a relatively high price, transferring income away from the high tax jurisdiction.

2. The second is by under-reporting production values, whereby mines report to the tax authority that their production is less than its market value. Mines can under-report the volume of production or the grade of the mineral. A problem for the government is to check the quality and content of all production, which requires an understanding of the geology of the area being mined and of the processing technology, and thus requires close cooperation between the mine and the tax authority. The process is further complicated by the often-complex value chain involved in large-scale copper mining, where some refining and/or smelting is often carried out by separate or associated companies and elements of the potential tax base can be transferred.

3. A third corporate tax avoidance strategy relates to interest payments on debt, which can be deducted from profits when determining taxable income. This creates an incentive for a company to lend funds to a subsidiary at a high interest rate in order to reduce the subsidiary's taxable profits.

4. Fourth, mining companies, which face volatile prices for their products, can purchase derivative contracts (similar to futures and options) to guarantee a specific price for their output in the future. This 'hedging', which acts as an insurance against a fall in the copper price, is a legitimate business activity but can also be used to shift income out of high tax jurisdictions: firms can deliberately trade in order to lose money in a subsidiary facing a high tax rate and to gain in another subsidiary facing a

lower tax rate

The consequences of these tax avoidance schemes are tremendous when looked through the lens, spending on health and education. In 2013, it was estimated that the loss of \$3 billion was equivalent to nearly half of Zambia's entire annual government budget of ZK 32.2 billion (\$5.9 billion) for that year. It was also equivalent to nearly twice Zambia's combined spending on health and education (of ZK 9.26 billion, or \$1.69 billion).

Yet, every time the Zambian government has attempted to make the mines pay their fair share, so that the owners and intended beneficiaries of these mines - the people of Zambia - benefit, the foreign conglomerates running our mines threaten government with employee redundancies and some form of closure of the said mines.

This partnership between government and the foreign conglomerates that run these mines, has never benefited Zambia or her people. The only beneficiaries are the conglomerates that continue claiming losses, despite having been at the helm of these mines for what now seems like an eternity. Miraculously, they are always making losses and never make any profits. The claim by these conglomerates that they are constantly running at a loss is nothing but a fib! It is not possible for any private business to keep running at a loss year in year out.

It could not be more obvious that these mining conglomerates do not have the best interest of the people or country at heart; they are in this purely for their own benefit as this is evidenced in their behavior which is on public record for the entire world to see. It is time for our government to address this unethical abuse by these conglomerates so that the ones that truly deserve the spoils (People of Zambia) from the mines receive their fair share.

Making Zambian workers redundant to avoid paying taxes is plain blackmail, and to a large extent economic sabotage. Every time government proposes a change to the mining tax or royalty regime, the mines retaliate by threatening to lay off thousands of indigenous Zambian employees that make up 90 per cent of the staff at the mines, and not the expatriates that only make up 10 per cent of the workforce. Despite Zambians making up 90 per cent of the workforce, sources estimate that 60 per cent of all remuneration - at FQML - are given to the expatriates that account for less than 10 per cent of the expatriate members of staff. This is a major imbalance as the people that are actually meant to be the beneficiaries are treated like property and given peanuts at the employee level, whilst government is combed out of its revenue as a partner. The question that begs an answer is: why doesn't FQML start with the employment termination of the biggest wage cost - their expatriates? Most Zambian workers in these mines undertake the hardest of manual jobs, but are the lowest paid workers - working 14 hours per day and only being paid 100 dollars per month whilst the conglomerates rake in billions of dollars in profits?

KEY COSTS

All modern mines are highly mechanized with labour making up the smallest component of production costs which I estimate at 10 per cent. Even if we increase that figure generously to 15 per cent of total operating costs in a fiscal year, it would not justify the losses the mines claim they would make if government increased taxes or mining royalties, so there is absolutely no sense in firing any employees. This is further broken down into two tiers with the local workforce making up 90 per cent of the staff, whilst the highest paid expatriates only make up 10 per cent. The highest costs are fuel and electricity which have already been heavily subsidized through incentives given to the mines by government.

ABOUT TIME

The Zambian government should be commended for taking the first step in dealing with these unscrupulous mining investors. But, it should not end there, as the Zambian people have lost enough with this one-sided partnership, whilst our natural resources are permanently being depleted at the expense of the Zambian people. KCM was bought

for \$25 million when the asking price was over \$450 million. KCM owner Anil Agarwal later boasted in public of making a tidy profit of \$500 million during the first year of operation. Most analysts estimate that major mining companies make billions in turnover yet always claim to operate in the RED.

KAGEM is another one that claims to be making massive losses yet posts record-breaking profits online. There is a clear misrepresentation between what they declare to the Zambian government and what their own Chief Executive admits to. The 41 square kilometers in Lufwanyama contributes over 30 per cent of all the emeralds produced in the world. KAGEM is the largest emerald mine in the world but owns next to zero machinery with most of it hired from Triple SSS - a local trucking company. Speaking at the auction in Singapore, KAGEM Chief Executive Officer Mr. Ian Harebottle said and I quote: "The financial year has seen Gemfields consolidate its position as an industry leader. The company has achieved record operational progress which has translated into strong financial results for the group. Over the past five years, Gemfields revenue has increased 380 per cent and total revenue generated since the company's first auction in 2008 has reached \$717.6 million, an impressive achievement given the challenges faced by the mining and luxury goods industry."

Forbes reported in an article dated November 2, 2018, that KAGEM discovered a 5,655-carat emerald, one of the largest ever discovered. The exceptional crystal was named "Inkalamu" (or the "lion emerald," as the name is translated from the local Bemba language). In addition to that, whilst following a crystal-bearing vein, an even bigger discovery was made in 2010, an emerald weighing 6,225-carat heavy gemstone named "Insoli" or the elephant. These are only some of the reported discoveries. It's difficult to understand how the largest emerald mine in the world discovering such extraordinary emeralds can claim losses!

Our conclusion is that it is clear to us all that this partnership between the Zambian Government and the mining conglomerates, that deliberately avoid paying taxes through TAX AVOIDANCE or paying a pittance in ROYALTIES, does not benefit the Zambian people. There is clearly only one beneficiary in this partnership, and it is the mines.

Government's decision to change from VAT to Sales Tax is therefore a step in the right direction as the Zambian government's responsibility is to its citizens first, and not the mining conglomerates. The people of Zambia stand in solidarity with government, and we encourage our leadership to carry on down this new path that they have embarked on. We should not be deterred by malign threats of redundancies or veiled threats of Zambia being blacklisted on the international stage, as a bad investment destination simply for standing up for ourselves. We shall not be held hostage to conglomerates that are trying to intimidate our government into letting them deplete our only resources at the expense of all Zambians.

As Zambians, we appreciate the effort these conglomerates have made in trying to work our mines. We understand that they are making huge losses despite their efforts, so we should allow them to exit these partnerships to avoid incurring any further losses.

We resolutely support a position where government will seek alternative partners and allow these loss-making enterprises to exit in a smooth and non-acrimonious manner in which the government and people of Zambia shall have greater participation in the running of their mines, and our current loss-making strategic partners will have the yoke of debt and losses removed off their necks with a nominal remuneration to exit with, considering that these are loss-making enterprises to the conglomerates.

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Congratulations to Chanda, Kang'ombe

Dear editor,
I WISH to congratulate Luanshya Mayor Nathan Chanda, aged 33, on being elected as the Patriotic Front (PF) Copperbelt Province chairperson during the interparty elections last Saturday.

Mr Chanda garnered 343 votes against his closest rival, Mike Manda, who polled 218.

The elections were conducted in a democratic and transparent manner. The new chairperson will be deputised by his agemate and Kitwe Mayor Christopher Kang'ombe.

It is exciting that the youths have taken the mantle of leadership of the Copperbelt. The election of

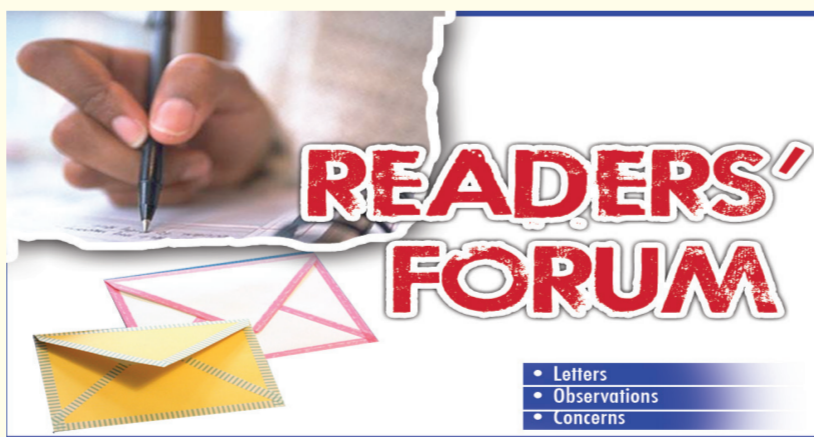
the two youthful leaders clearly demonstrates the confidence that the people of the province have in them.

President Edgar Lungu has been an advocate for the young people to take up any leadership role in the country in a bid to spur development.

It is my fervent wish and prayer that the two newly elected young people will perform to expectation by mobilising the party membership ahead of the 2021 general elections.

To Mr Chanda and Mr Kang'ombe, I wish them the best as they assume their new leadership roles.

ELEMIYA PHIRI
Lusaka



Is it correct for employers to use employee in more than one company?

Dear editor,
I WOULD like to know if it is in order for an employer to use an employee on two or more sister companies, while paying him or her from only one company, without any allowance from these other companies.

What does the International

Labour Organisation say about this? Is this not abuse of workers? Please help, some investors have more than one company but using same workers on both companies, especially office workers.

M KATONGO
Mufulira

Let's celebrate New Year responsibly

Dear editor,
AS THE new year has dawned, there is excitement in the air. People are justifiably excited to be part of those privileged to welcome a brand new year. It is a blessing and a privilege because many would have loved to be part

of 2019, but the cold hand of death snatched them.

There are so many people we started the 2018 journey together with, but are no more.

It is therefore by the grace of God that some of us are here today to welcome 2019. However, caution should

be taken on how people celebrate this festive season. History has taught us painful lessons that over excitement can be dangerous. We have heard of so many people who died during celebrations just before or just after crossing into the New Year. Others have to bear the pain

of living with disabilities as a result of car accidents during celebrations.

Just this Christmas, two men were injured by fireworks and others involved in road traffic accidents.

I therefore urge my fellow Zambians to stay safe as they celebrate the New Year.

The best is to go to church to thank God for his loving kindness and mercies, and later on spend time bonding with the family.

I wish you all a happy and prosperous 2019.

MAYBIN MUKUKA
Lusaka