

AFRICA RISK CONSULTING**Zambia Monthly Briefing October 2019**

Zambia Summary 24 October 2019

Finance minister Bwalya Ng'andu says the government will scrap plans to replace its value-added tax (VAT) with a non-refundable sales tax in a concession to mining companies which opposed the proposed change. Ng'andu states in his budget speech that almost 10% of Zambia's total income in 2020 will be from undisclosed sources, which raises questions about the accuracy and sustainability of the government's spending plans. Information and broadcasting services permanent-secretary Chanda Kasola says the government is planning to introduce a tax on streaming services, such as United States-based Netflix, to prevent foreign content service providers from making money in Zambia without paying taxes.

Zambia scraps planned sales tax in concession to mining companies

Finance minister **Bwalya Ng'andu** said on 27 September that the government would scrap plans to replace its value-added tax (VAT) with a non-refundable sales tax in a concession to mining companies which opposed the proposed change.¹ Mining companies will welcome the continuation of VAT, but risks remain amidst the government's inability to pay VAT refunds and **Zambia's** growing debt. The government will need to find extra revenue in order to service the debt and stay operational.

President **Edgar Lungu** (2015-present) appointed Ng'andu as finance minister in July (see *ARC Briefing Zambia July 2019*). Ng'andu has worked to mend fences with the mining industry, which has taken issue with the proposed tax changes and the government's moves to expropriate **Konkola Copper Mines**, a subsidiary of **United Kingdom-based Vedanta Resources** (see *ARC Briefing Zambia May 2019*). The previous finance minister, **Margaret Mwanakatwe**, postponed the implementation of the new sales tax in June in order to study its implications. Ng'andu clearly agreed with the mining companies that the sales tax would hurt Zambia's economy. The tax would have imposed a 9% tax on local goods and services and a 16% tax on imported goods and services. The latter would hit most of Zambia's mining companies quite hard because VAT, currently at 16%, is refundable and not compoundable.² The proposed sales tax compounds with every purchase, so the total sales tax burden on a mining company could be as high as 37.5%, increasing the cost of production for the mine.³

Ng'andu made the comments during his presentation for the 2020 budget, in which he also stated he would limit the fiscal deficit to 5.5%, a 1% drop year-on-year, and would postpone or cancel undisbursed loans to slow down debt accumulation.⁴ In addition to scrapping the sales tax plans, the government also removed a tax on capital equipment and machinery for mining companies.⁵ While mining companies will surely applaud the minister for the changes, Ng'andu also limited VAT claims on electricity to 80%, down from a previous 100% VAT claim for mining companies.⁶ This was likely a move to help the government reduce the amount of VAT refunds it owes to the mining companies, which is the main reason for its desire to change to a non-refundable sales tax. According to Zambia-based professor, **Oliver Saasa**,

¹ Mining Weekly, 27 Sep 2019

² BDO.co.zm, Apr 2019

³ Mining Review, 3 Sep 2019

⁴ Mining Weekly, 27 Sep 2019

⁵ Mining Weekly, 27 Sep 2019

⁶ Mining Weekly, 27 Sep 2019

“...there's no economic reason whatsoever why we should migrate to Sales Tax.”⁷

The compounding effect of the proposed non-refundable sales tax would increase costs to mining companies and discourage investment, which would have a negative affect on Zambia's economy, despite the potential increase in revenue for the treasury.⁸ Although VAT also brings in revenue to the treasury, the government has to refund VAT to businesses, with the result that only the end consumer pays VAT and not the middle companies throughout the process. The government has run into trouble with this system because it does not ring-fence the funds needed for VAT refunds and is unable to pay them when they fall due. As mining companies are the largest taxpayers, they are also owed the most in terms of VAT refunds.⁹ Ng'andu said that the government owes mining companies roughly \$215m in tax refunds, though mining companies claim the amount is closer to \$380m.¹⁰ Ng'andu says mining companies have not presented evidence of these claims.¹¹

Ng'andu is a breath of fresh air from his predecessor, Margaret Mwanakatwe, and the scrapping of the sales tax brings much needed stability to the mining sector. However, Ng'andu has an uphill battle in raising revenue from a declining sector and balancing the budget against a government that continues to spend despite its growing debt.

FinMin refuses to disclose source of 10% of 2020 budget funding

Finance minister Ng'andu stated in his budget speech on 27 September that almost 10% of Zambia's total income in 2020 will be from undisclosed sources, raising concerns about the accuracy and sustainability of the government's spending plans.¹² The lack of information throws doubt on

	Amount (K)	Share of Budget	Share of GDP
TOTAL DOMESTIC REVENUES, GRANTS & FINANCING	106,007,612,236	100%	32.4%
Total Domestic Revenue and Domestic Financing	75,383,889,280	71.1%	23.1%
I. Total Domestic Revenues	71,927,020,280	67.9%	22.0%
Tax Revenue	53,768,675,819	50.7%	16.4%
Income Tax	25,612,515,638	24.2%	7.8%
Company Income Tax	7,903,927,230		
Personal Income Tax (incl PAYE)	12,331,422,697		
Withholding and Other	5,377,165,711		
Value Added Tax	18,942,811,154	17.9%	5.8%
Customs and Excise	9,213,349,027	8.7%	2.8%
Customs duty	4,210,537,662		
Excise duty	4,821,813,929		
Export Duties	180,997,436		
Other Revenues	449,226,938	0.4%	0.1%
Skills Development Levy	179,181,956		
Tourism Levy	17,021,011		
Motor Vehicle Fees	146,818,021		
Insurance Premium Levy	106,205,950		
Non-Tax Revenues	17,709,117,523	16.7%	5.4%
Fees and Fines	6,139,501,856		
Exceptional Revenue	6,750,000,000		

Source: Bloomberg, 3 Oct 2019

Ng'andu's budget and his ability to deliver on his economic promises. Ng'andu's budget contains \$515m of "exceptional revenue" for which there are no details of the source.¹³ Zambia's government debt stands at 91.6% of gross domestic product in 2019, up from 20% in 2009, and the **International Monetary Fund** warns that the country is at high risk of debt distress.¹⁴

A finance ministry spokesperson said the source of the funding will be announced "as soon as the process completion is attained", but gave no further information.¹⁵ Ng'andu's 2020 budget reflects a 22% year-on-year increase overall, but Ng'andu still aims to decrease the budget deficit to 5.5%, down from 6.5% in 2019. Much like the 10% in revenue, there are no concrete plans on how the government plans to meet this

⁷ Mining Review, 3 Sep 2019

⁸ Mining Review, 3 Sep 2019

⁹ Mining Review, 3 Sep 2019

¹⁰ MiningMX, 11 Oct 2019

¹¹ MiningMX, 11 Oct 2019

¹² Bloomberg, 3 Oct 2019

¹³ Bloomberg, 3 Oct 2019

¹⁴ Bloomberg, 3 Oct 2019

¹⁵ Bloomberg, 3 Oct 2019

target.

Plans to tax Netflix and other streaming sites to increase revenue

Information and broadcasting services permanent-secretary **Chanda Kasola** said on 3 October that the government is planning to introduce a tax on online streaming services, such as **United States-based Netflix**, to prevent foreign content service providers from making money in Zambia without paying taxes.¹⁶ The plan to tax Netflix and other streaming providers highlights the government's need to find alternative sources of revenue. While there is no indication that it will be able to tax Netflix users, the plan increases the risk for foreign-owned companies that the government will look to raise taxes wherever it can as it searches for revenue to plug its growing deficit.

Kasolo claimed the foreign content has a negative impact on children in Zambia and that the government is also looking to compel local stations to change their broadcasting schedules so that 60% is local content.¹⁷ Kasolo made the comments during the launch of **Diamond TV**, a locally-owned station which broadcasts 90% local content.¹⁸ Diamond TV is owned by ruling **Patriotic Front (PF)** member and former ambassador to **Italy, Frank Mutubila**, who applied for the position of director-general of the state-owned **Zambia National Broadcasting Corporation** in 2014.¹⁹

The government made plans to tax calls made on social media apps such as **Whatsapp** in 2018 but never implemented the tax.²⁰ If the streaming site tax were to be implemented, which is unlikely, the cost would affect Zambians by causing Netflix to charge higher rates, rather than the US-based company absorbing or willingly paying taxes in another country. It is also uncertain whether Zambia would have the administrative capacity to levy this tax, let alone collect it. Kasolo's comment was most likely a political statement to show that the PF supports Zambian local content, rather than a policy that will be implemented any time soon.

Planner

20 Nov 2019 **Lusaka (Zambia) Bank of Zambia** (central bank) Monetary Policy Committee media briefing;

2020 **(Zambia)** Construction scheduled to begin on **Batoka Gorge Power Plant**;

2021 **(Zambia)** Scheduled presidential elections;

Chronology

22 Oct 2019 **Lusaka (Zambia) Lusaka Times**. The **Bank of Zambia** (central bank) places **Zampost Micro Finance Ltd** into compulsory liquidation;

14 Oct 2019 **Lusaka (Zambia) Zambia News and Information Service**. Acting permanent secretary of the mines ministry **Chipilauka Mukofu** says the government is working to increase mine ownership transparency, which is a breeding group for illicit financial flows;

11 Oct 2019 **Lusaka (Zambia) MiningMX**. Finance minister **Bwalya Ng'andu** confirms that mining companies claim the government owes them \$380m in tax refunds, much higher than the \$215m Ng'andu claims is owed;

10 Oct 2019 **Lusaka (Zambia) Lusaka Times**. Finance minister **Bwalya Ng'andu** says the government owes mining companies \$215m in tax refunds as of 30 June;

¹⁶ Lusaka Times, 3 Oct 2019

¹⁷ Lusaka Times, 3 Oct 2019

¹⁸ Lusaka Times, 3 Oct 2019

¹⁹ AllAfrica, 31 Aug 2014

²⁰ Business Ghana, 7 Oct 2019

9 Oct 2019 **Lusaka (Zambia)** *IOL*. **Milingo Lungu**, the provisional liquidator of **Konkola Copper Mines**, which the government is attempting to liquidate from **United Kingdom**-based mining company **Vedanta Resources**, shuts down the smelter earlier than scheduled for annual maintenance;

8 Oct 2019 **Lusaka (Zambia)** *Water Power Magazine*. The **Rural Electrification Authority** announces the completion of an \$8.6m mini-hydropower station in **North West Province**;

4 Oct 2019 **Lusaka (Zambia)** *CGTN*. The government says it plans to tax television streaming service, **Netflix**;

2 Oct 2019 **Lusaka (Zambia)** *Bloomberg*. Finance minister **Bwalya Ng'andu** says that 10% of the 2020 budget will come from undisclosed sources, which raises concerns about the accuracy of the spending plans;

2 Oct 2019 **Lusaka (Zambia)** *The East African*. Agriculture minister **Michael Katambo** signs a deal to export 600,000 metric tonnes of maize to the **Democratic Republic of the Congo** in 2020;

27 Sep 2019 **Lusaka (Zambia)** *Lusaka Times*. **Zambia Information and Communications Technology Authority** cancels the licence for **Vodafone** local franchise holder, **Mobile Broadband Ltd** (t/a **Afrimax**), for lack of technical and financial capacity;

27 Sep 2019 **Lusaka (Zambia)** *Reuters*. Finance minister **Bwalya Ng'andu** scraps plans to replace the value-added tax system with a non-refundable sales tax in a concession to mining companies;

27 Sep 2019 **Lusaka (Zambia)** *Lusaka Times*. Finance minister **Bwalya Ng'andu** presents a 106 billion Zambian kwacha (\$8 billion) 2020 budget to parliament;

26 Sep 2019 **Lusaka (Zambia)** *Bloomberg*. Interim statistician-general **Mulenga Musepa** says inflation rose to 10.5% in September, the highest in three years;

25 Sep 2019 **Lusaka (Zambia)** *Lusaka Times*. The constitutional court dismisses the **Law Association of Zambia's** application for an injunction to stop parliament from hearing a bill that amends the constitution;

24 Sep 2019 **Lusaka (Zambia)** *Bloomberg*. State-owned electricity company **ZESCO** will import electricity from **South Africa's** state-owned **Eskom** and will increase tariffs 200% on 1 October;

23 Sep 2019 **Lusaka (Zambia)** *Reuters*. **Canada**-based mining company **First Quantum Minerals** says it is in talks with **China**-based mining company **Jiangxi Copper Co** to sell its **Zambian** copper assets;

19 Sep 2019 **Lusaka (Zambia)** *IT Web Africa*. Mobile telecommunications company **Mobile Broadband Ltd** (trading as **Vodafone Zambia**), announces it is selling the company after failure to recapitalise and due to stiff competition.

About Africa Risk Consulting:

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