**Joint CSO Statement on the 2021 Zambia Extractive Industries Transparency Initiative (ZEITI) Report and Mining Governance**

*For release on Monday 28th August 2023*

Publish What You Pay (PWYP), which is a coalition of civil society organisation (CSO) working in extractives; coordinated over 10 Civil Society organisations (CSOs) in analyzing the 14th report Zambia Extractive Industries Transparency Initiative (ZEITI) report covering the financial year 2021.

Being a globally recognized initiative, the EITI promotes good governance in the management of natural resources such as oil, gas, and minerals. The EITI seeks to address governance bottlenecks and challenges in the extractive sector. Zambia, having agreed to the EITI, has been producing periodic extractive industry reports as is required for countries implementing the EITI Standard.

In analyzing the ZEITI report, as CSO’s, we sought to:

1. Increase public discussion and debate pertaining to the ZEITI report findings and other related governance issues in the mining sector.
2. Provide recommendations based on the ZEITI report findings which would contribute to the governance of the mining sector in Zambia.

In line with the analysis, CSO’s would therefore like to highlight to the public the key thematic observations and recommendations from our analysis of the 2021 ZEITI report regarding mining sector performance.

You may wish to note that the recommendations for the purpose of this meeting are not exhaustive but reflective of the salient issues observed.

1. ***Disclosure of Revenues and the sector’s contribution to the economy***

The ZEITI report shows an overall increase of revenues from the 14 companies, whose revenues comprise over 90% of the total revenues generated from mining companies in Zambia. Extractive revenues collected by the government in 2021 amounted to ZMW36,442 million. The report attributed improved compliance to tax payments to the increased gross revenue from the mining sector.

The report shows that the mining sector has continued to be the largest contributor to the country’s export earnings, contributing to 77% in 2021. The sector has also continued to be a critical source of government revenue accounting for 39% of total government revenue in 2021.

Despite these positive trends, we noted that the sector’s contribution to Gross Domestic Product (GDP) decreased by one per cent; from 11 % in 2020 to 10% per cent in 2021. Additionally, contributions to exports decreased by two percent, from 79% in 2020 to 77% in 2021. However, the report shows that the mining sector’s contribution to employment has stagnated at 2% which underscores the need for discussion and interventions on how the sector can contribute to employment creation both directly and indirectly.

We make the following recommendations pertaining to revenue disclosures and the mining sector’s contribution:

1. The Government of the Republic of Zambia must address dormant mines like Konkola Copper Mines (KCM) and Mopani Copper Mines (MCM) urgently, as their current status has a negative effect on mineral production.
2. The Ministry of Mines and Minerals Development (MMMD) should invest more in exploration and geological data to better the understanding of Zambia’s mineral reserves, aiding informed investor negotiations.
3. We recommend increasing the budget allocation to the MMMD by at least 1% in the 2024 national budget, given the sector's economic significance.
4. To enhance transparency, it is crucial that relevant information regarding investment portfolios and shareholding remittances for the Industrial Development Corporation (IDC) and Zambia Consolidated Copper Mines Investment Holdings (ZCCM-IH) are disclosed in subsequent reports.
5. To ensure effective revenue collection by local authorities, it is essential to have complete information on the amounts local authorities are collecting from mining companies compared against what local authorities should be collecting.
6. The Artisanal and Small-scale Mining (ASM) sub-sector monitoring mechanisms should be strengthened by leveraging information technology systems and recruitment of highly qualified personnel; particularly for regional bureaus - the proposed Minerals Regulation Commission would enhance operational efficiency. Additionally, the Mineral Value Chain Monitoring Project (MVCMP) should be reinforced and introduced in the ASM to improve monitoring and oversight.

***2. Disclosures on Gender***

CSOs commend the disclosure of gendered employment data of the 14 mining companies sampled which included: FQML Trident, Kagem Mining Limited, Lumwana Mining, Konkola Copper Mines PLC, and Lubambe Copper Mine Limited. Notwithstanding, it was noted that the employment data disclosed by gender was not complete for some mining companies. In some cases, no data was disclosed by companies namely, NFC Africa Mining PLC and Zambia Consolidated Copper Mines Investment Holdings (ZCCM Investments Holdings). Further, the data disclosed was not disaggregated by hierarchy or position in the company. This limited further analysis of the data disclosed.

Cognizant of the steps made in this regard, we recommend improved reporting specifically for gender data to be disaggregated by hierarchy or positions (entry/managerial) in the case of employment data so that gendered disclosed date is more useful.

***3. Disclosure of Licenses and Contracts***

As CSOs, we noted the increase in active mining licenses from 3570 in 2020 to 4303 in 2021. Markedly, Small Scale Exploration licences increased by 4138% seemingly as a result of formalization efforts of the ASM sector . It is also worth mentioning that the report disclosed nine petroleum exploration licenses, with seven reported as active, one under litigation and one pending renewing. The 2021 ZEITI report also shows that the State through ZCCM-IH has ownership rights in three of the active petroleum exploration licenses.

In light of the disclosed information, the report does not provide annexed detailed list of active mining licenses or mining rights. Also noteworthy is the absence of the letter of deviation from the licensing process considering the corruption allegations in mining license issuance that coincide with the report’s period.

We, therefore, propose that the MMMD makes strides in ensuring systematic disclosure of information on licenses including updating the online Mining Cadastre Portal to ensure that it is more user friendly to the public. Further, as the MMMD progresses towards systematic disclosures, ZEITI should provide comprehensive annexes for license disclosures as was done in previous reports such as the 2019 report.

***4. Disclosure of Beneficial Ownership Information***

CSOs acknowledge the progress made specifically by the Patents and Companies Registration Agency (PACRA) in the implementation of beneficial ownership reforms which are well highlighted in the report. However, the report does not disclose beneficial ownership information for the sampled mining companies, as was done in previous reports – specifically the 2019 report. Further, we are of the view that the report would be more useful if compliance of beneficial ownership disclosures by mining companies to PACRA could be reported by license type to assess general compliance levels of the sector against the prevailing EITI standard.

We therefore recommend that ZEITI and the Zambia EITI Council (ZEC) pursue a Memorandum of Understanding (MoU) with PACRA for the purposes of accessing beneficial ownership information at no charge for EITI reporting purposes. This collaboration will streamline the process and facilitate the provision of accurate and up-to-date information.

***5. Disclosures on State Participation***

Acknowledging the significance of the State’s participation in the sector in Zambia; the report provides valuable information on the current legal framework related to State Participation in Zambia, particularly through ZCCM-IH. It outlines ZCCM-IH's shareholding in mining and oil companies, indicating ownership in 23 such entities. The report also highlights significant developments, including the acquisition of a shareholding in Mopani Copper Mines, the Konkola Copper Mine Trafigura transaction, the Royalty agreement with Kansanshi Mining, and intergovernmental agreements with the Democratic Republic of Congo (DRC) and the USA concerning cobalt production and value addition.

However, we, CSOs note that ZCCM-IH has not disclosed its audited financial statements for the year ended 2021, while no annual reports for 2020 and 2021 have been published. It is important to consider critical contextual factors surrounding State Participation. These include the need for transparency, accountability, and sound management practices in state-owned entities like ZCCM-IH. Given that the success of state participation is closely linked to effective corporate governance, particularly in the case of ZCCM-IH, which has faced challenges in managing assets, such as its gold investments in the Zambia Gold Company. It is also worth mentioning that ZCCM-IH's suspension from the London Stock Exchange and EuroNex in 2023 has impacted its operations and perceptions about its corporate governance.

In this regard addressing the gaps in ZCCM-IH’s financial disclosure and publishing annual reports is essential for enhancing transparency and fostering confidence in state participation initiatives. Additionally, strengthening corporate governance practices within ZCCM-IH is crucial to effectively manage assets and maximize the benefits of state participation in the mining and oil sectors. Measures should be taken to address the reasons behind ZCCM-IH's suspension from the stock exchanges and ensure compliance with regulatory requirements.

As CSO’s We strongly recommend:

1. ZEITI should continue reporting comprehensively on State participation in the extractive industries, considering the pronouncements and policies aimed at increasing State involvement. This will provide valuable insights and promote transparency in this crucial area relating to state participation.
2. ZCCM-IH should prioritize the publication of annual reports for the years 2020 and 2021. These reports are essential for providing stakeholders with updated and comprehensive information on the activities, financial performance, and governance of ZCCM-IH.

***6. Disclosures of Social Payments and Investments***

There are currently no legal or contractual provisions for mandatory social payments in Zambia. However, voluntary social payments were included in the 2021 EITI scope through unilateral disclosure by mining companies. In this regard, there was an observably drastic reduction in social payments between 2020 and 2021 with firms such as Kalumbila, Kagem, and ZCCM-IH reporting to have not made any payments in the reporting period.

Acknowledging that Social Payments in the mining sector have provided communities with benefits through both in-kind and cash payments as part of corporate social responsibility (CSR) initiatives. We recommend the review of policies and legislation to effectively ensure mining companies invest in strategic areas of communities hosting mining projects. This would be significant in ensuring communities receive some compensation for the extraction activities taking place in their areas. Additionally, We recommend that social investment plans be aligned with district Integrated Development Plans (IDPs) to ensure that these investments significantly contribute to sustainable development.

***Disclosures on the Environmental Protection Fund***

In consideration that contributions to the Environmental protection Fund (EPF) are reliant on environmental audits conducted on mining firms to determine environmental liability caused by mining activities at each mine and enforced by the Director of Mine Safety. The 2021 ZEITI discloses that payments to the Environmental Protection Fund (EPF) by mining companies amounted to ZMW 0.3 million in 2021. However, this signifies a reduction to payments to the EPF from ZMK 51 million in 2020 to ZMK 0.3 million in 2021. In the absence of reason for the substantial decline; the reduction raises questions about whether all companies have made their required payments to the fund or if payments reflect environmental costs as per audits.

Therefore, to strengthen disclosure in this regard, We recommend that key information, such as the funds held in the EPF account, interest gained on the funds, expenses made using the fund, and details of companies in default of payment, should also be disclosed. These disclosures will align with the requirements of the new 2023 EITI Standard regarding environmental expenditure reporting.

In conclusion, CSOs acknowledge the efforts being made by government and other actors including through the EITI to enhance governance in the sector. We posit that the 2021 EITI report provides valuable contributions to the ongoing efforts to engender transparency and accountability in the sector. With these observations and recommendations, it is our desired intention that measures, and progress continues to be made in improving the governance of the extractive sector in Zambia.

National Coordinator, Publish What You Pay Zambia

Signed for and on behalf of the undersigned CSOs:

ActionAid Zambia

Caritas Zambia

Centre for Trade Policy and Development

Civil Society for Poverty Reduction

Council of Churches in Zambia

Development Education Community Project

Mineworkers Union of Zambia

Oxfam in Southern Africa

Southern African Resource watch

Transparency International Zambia

Zambia Institute of Environmental Education