

# **‘Putting a gun to our head’: elections, political space and the role of the international financial institutions in Zambia**

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*The pervasive influence of the international financial institutions and the broad similarity between the main Zambian parties has traditionally meant that the populace has had little say over Zambia's economic policies. However, the most recent set of elections in 2006 represent a break from this pattern. The emergence of opposition party the Patriotic Front, combined with Zambia's completion of the World Bank IMF Highly Indebted Poor Countries Initiative, create the potential for Zambians to have more say over economic policies conducted in their name. This can be well illustrated in the case of the copper mining sector.*

Historically, Zambian elections have not resulted in the government – let alone the electorate – having control over key aspects of Zambia's economic policy. Instead, the policies of the governing party, the Movement for Multiparty Democracy (MMD), have been dominated by conditions and advice given by the international financial institutions. The tension between World Bank/IMF conditionality and the mood of the general public – and the Zambian government's shifting policies on how to square this circle – can be seen most clearly by taking a look at the treatment of Zambia's key resource, copper.

Copper is central to the Zambian economy, accounting for 75% of Zambia's foreign exchange earnings, and has a strong tradition of state ownership ever since independence. However, in the early 1990s the government started discussing the possibility of privatising copper mining, largely, but not exclusively, due to pressure from the IMF and the World Bank. Privatisation of the state-owned copper mining enterprise was a condition repeatedly attached to several loans from both these institutions and a pre-condition for Zambia to qualify for debt relief through the Highly Indebted Poor Countries (HIPC) Initiative.

According to the then finance minister Edith Nawakwi, the government was put under enormous pressure:

‘we were told by advisers, who included the International Monetary Fund and the World Bank, that not in my lifetime would the price of copper change. They [told us that] all the production models that could be employed were showing that, for the next 20 years, Zambian copper would not make a profit. [Conversely, if we privatised] we would be able to access debt relief, and this was a huge carrot in front of us – like waving medicine in front of a dying woman or putting a gun to our head. We had no option [but to go

ahead].<sup>1</sup>

So in 2000, the Zambian government privatised the industry and entered into a series of extremely unfair and restrictive contracts with the new multinational entrants, including both UK and Chinese companies. These contracts set rates of tax and mineral royalties at very low levels by international standards, gave the investors exemption from Zambia's environmental laws and contained a 20-year stability clause forbidding the government from changing any of the contracts during this period.

The electorate had little formal way of expressing discontent with this controversial policy. A key stimulus behind the original formulation of the MMD had been protest at World Bank-IMF induced neo-liberalism, but both the party and the Mineworkers Union were both in favour of privatisation; moreover, there were no real alternatives to vote for in what were a set of markedly unfree and unfair elections.

Eight years on and there have been signs of significant change. The 2006 elections – which were, this time, widely regarded as free and fair despite the existence of some irregularities – were won by the incumbent party, the MMD. Yet, equally significant in these elections was the sudden emergence of opposition party the Patriotic Front (PF) with its own distinctive policy platform.

Whilst the PF's platform did overlap with the MMD to some extent, a key plank of their campaign was challenging the MMD's call for 'business as usual' and articulating a set of populist policy demands designed to appeal to the urban vote, including a new approach to the copper mining industry. The success of this approach was vindicated when the PF won every urban parliamentary seat in Lusaka, the capital, and the Copperbelt region. Significantly, after his re-election, MMD leader and President Mwanawasa commented that 'whilst we have made important macroeconomic gains, admittedly the standard of living of the majority of Zambians remains poor... Zambians spoke clearly and loudly and we will reflect seriously on their

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<sup>1</sup> SCIAF, Christian Aid and ACTSA / Dymond, A. (2007) *Undermining Development: Copper mining in Zambia*. SCIAF, Christian Aid and ACTSA; Glasgow, London.

concerns.<sup>2</sup>

Again, the extent to which this has been translated into real economic choice can be seen by looking at copper mining policies. Whilst the MMD ‘campaigned on a platform of continuity with its existing economic policies’<sup>3</sup>, the PF challenged the role of foreign investors, in particular the Chinese, in the Zambian copper sector. They called for renegotiation of the contracts signed with copper mining companies as well as increased wages and improved environmental, health and safety standards – all of which are desperately needed if the benefits of copper are to be maximised in one of the world’s poorest countries.

Following the election, the MMD has started to address these issues. It has introduced a new tax regime for copper mining companies that increases the mineral royalty rate from 0.6% to at least 3%, increases the rate of corporate income tax, puts in place new ‘windfall’ mechanisms to ensure Zambia receives more benefits from high copper prices and closes many of the loopholes in the existing taxation system. Interestingly, these measures were not produced as a result of negotiation with the copper mining companies but were announced unilaterally during the 2007 budget speech (although the government claimed it had tried to enter into negotiations with mining companies prior to the announcement).

This is a significant victory for Zambian academics, civil society and faith groups who, alongside NGOs and academics in the UK and elsewhere, had long been pushing for such changes. When fully implemented, the budget announcement will result in additional revenues of US\$415 million in 2008 alone – a significant resource for one of the world’s 10 poorest countries and the equivalent of three times the health budget.<sup>4</sup>

To some extent, then, this could be seen as a significant step forward for the opening of some, limited democratic space in Zambia, although much more needs to be done. Yet, the fact remains

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<sup>2</sup> Fraser, A and Lungu, J (2006) *For Whom the Windfalls: Winners and losers in the privatisation of Zambia’s copper mines*; Christian Aid; London; Larmer, M and Fraser, A (2007) ‘Of King Cobra and cabbages: populist politics and Zambia’s 2006 elections’ *Journal of African Affairs* 106, 424.

<sup>3</sup> Larmer and Fraser

<sup>4</sup> SCIAF, Christian Aid and ACTSA / Dymond

support from the international community, including donors and the international financial institutions, played a key part in influencing the government's decision to implement the new tax regime.

Zambian newspaper reports indicate that two documents produced by the IMF's Fiscal Affairs Department recognised the existing agreements were unfair and advised the government to introduce a mineral royalty rate of 3% and windfall tax measures, albeit only through a process of negotiation with the companies in question. Sources close to the World Bank were also in favour of a new tax regime and donors were also supportive, to the extent that the UK's Department for International Development and other donors paid for technical advice to the Zambian government on the new tax measures that they should introduce. Once the new tax measures were introduced, they received a warm welcome from a broad spectrum of actors, including the World Bank, the IMF, the UK ambassador to Zambia, the UN and Zambian academics and civil society.

The lack of transparency makes it difficult to ascertain just how critical the intervention by the international financial institutions and donors was in shaping the government's policies. It is difficult to ascertain whether the Zambian government would have pursued this policy in the absence of such support, and the extent to which the international financial institutions and the international community shaped the taxation measures eventually adopted.

However, the taxation measures introduced are towards the less ambitious range of policy options. At 3%, Zambia's mineral taxation rate is still one of the lowest in the world. Despite advocating for Zambia to adopt mineral royalties of no more than 3%, the IMF has estimated that the average royalty rate in developing countries is between 5-10%, with some royalties as high as 30%. Moreover, the basket of taxation measures, when taken together, places Zambia firmly in the middle of the spectrum of taxation levels offered by other mineral-rich countries, even though Zambia's large, high-quality copper reserves may give it more leverage than most. In conclusion, the government will remain concerned about how to reconcile the demands of its populace and the electoral gains made by the PF with the policy interventions of the international financial institutions. Although the balance may be improving, the battle is far from over.