

Opening Extractives

Presentation to Zambia Institute of Chartered Accountants (ZICA)

Pre-Annual general meeting Workshop

11 August 2022



**Opening
Extractives**

Unlocking the benefits
of ownership data

Jointly implemented by:



**Open
Ownership**

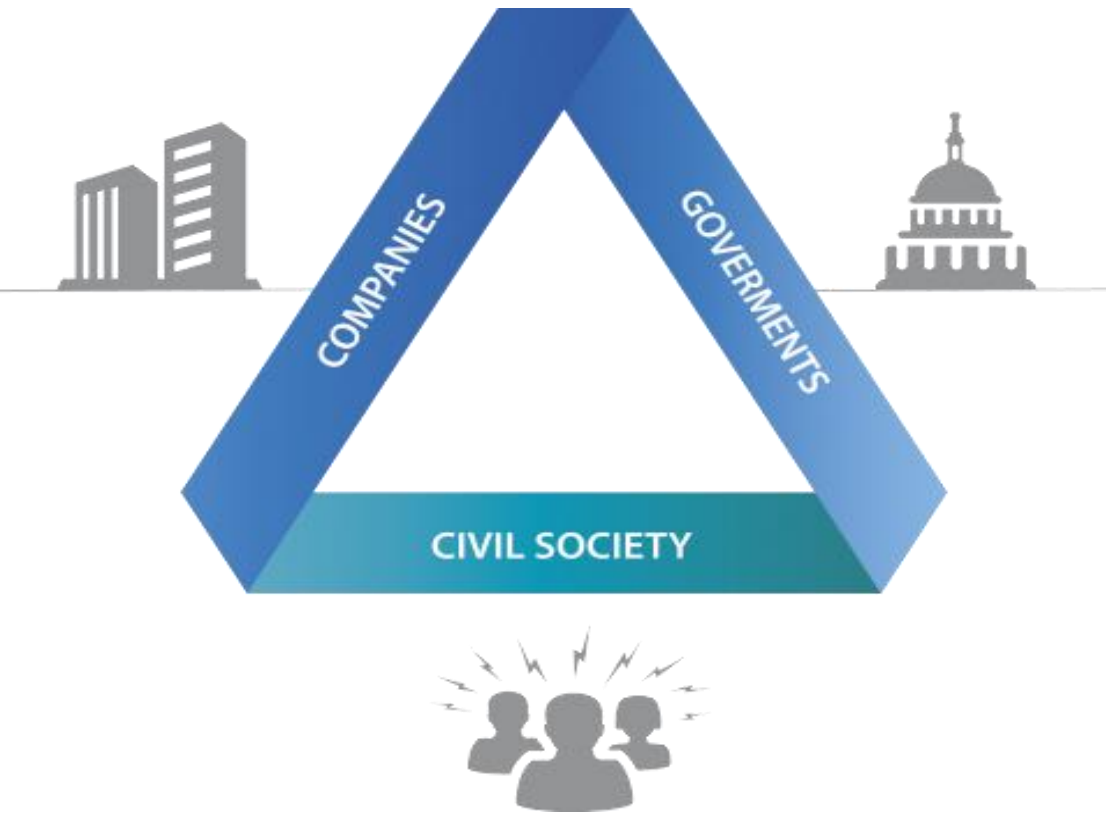


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WHAT IS EITI?



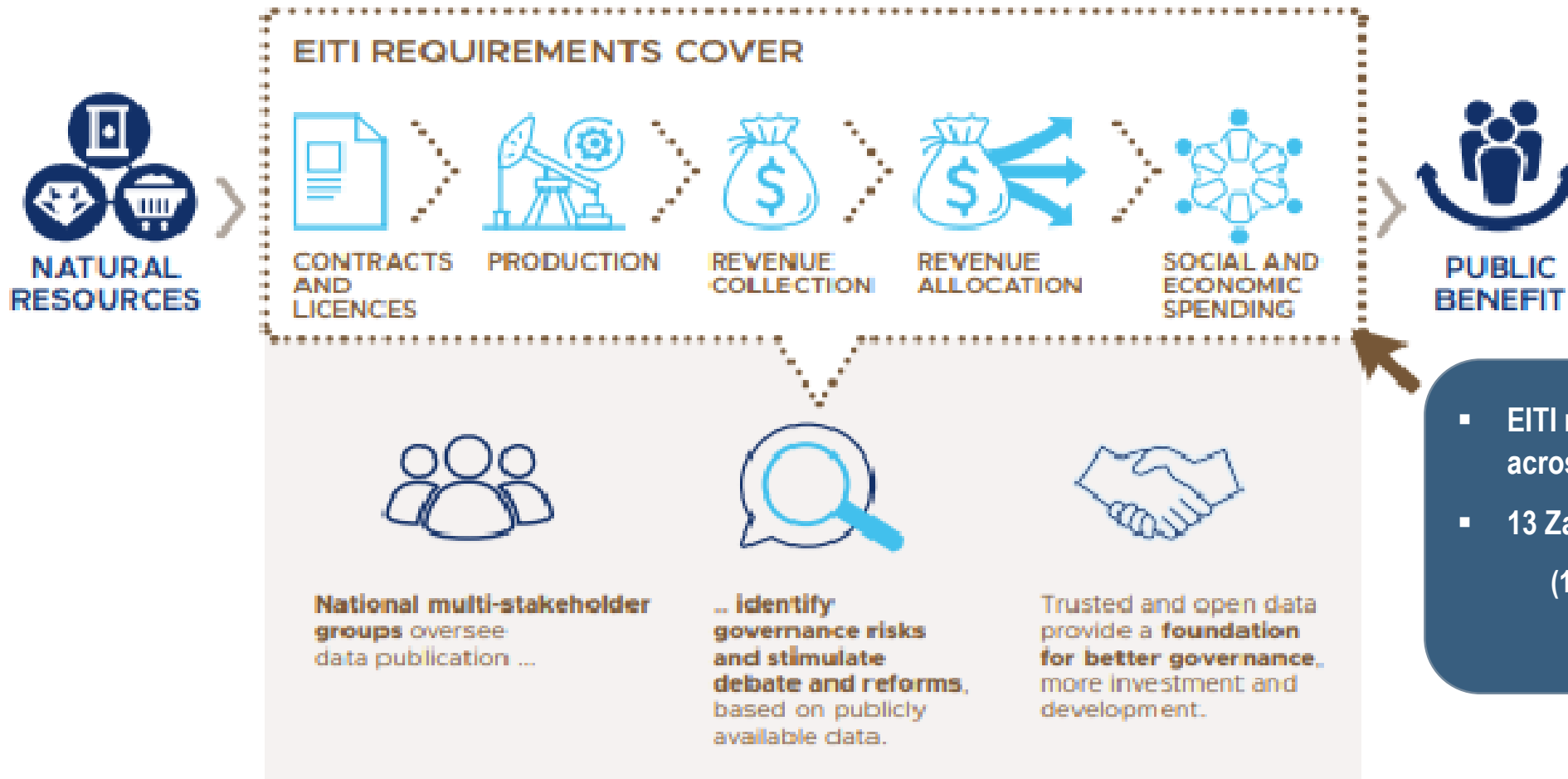
- Implementation of EITI is guided by the EITI Standard.

Extractive Industries Transparency Initiative(EITI) is a **voluntary** global coalition of Governments, Mining companies and Civil Society Organizations working together to improve transparency and accountability in the Extractive Sector. Launched in 2003

HOW ZAMBIA EITI WORKS

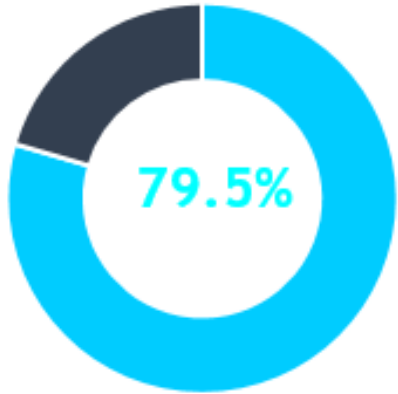


Systematic disclosure of EI Value Chain information

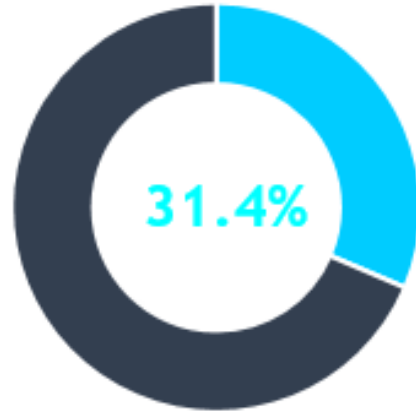


- EITI reporting disclose information across of EI Value Chain
- 13 Zambia EITI Reports produced (1 Jan 2008-31 Dec 2020).

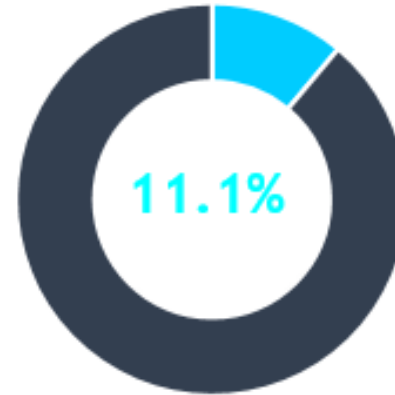
CONTRIBUTION OF EI SECTOR TO THE ECONOMY



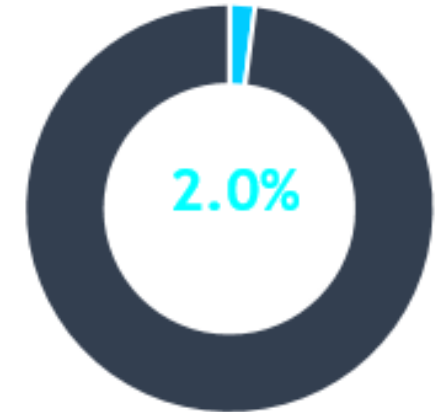
Contribution to Export



Contribution to Govt Revenue



Contribution to GDP



Contribution to Employment

	2020	2019	% Difference
GDP	11.1%	9.9%	1.2%
Exports	79.5%	77.0%	2.5%
Revenues	31.4%	27.8%	3.6%
Employment	2.0%	2.4%	-0.4%



Key Finding from Latest ZEITI Report

ZMW 25.85 Billion Paid by Mining Companies

In 2020

Key Finding from Latest ZEITI Report

Zambia Government Revenue from Extractive Sector

Extractive Revenues	2020 (ZMW million)	2019 (ZMW million)	Difference
Tax Revenue	19,860.73	13,182.19	6,678.54
<i>Import VAT (*)</i>	<i>1,567.22</i>	<i>2,002.92</i>	<i>-435.70</i>
<i>VAT (**)</i>	<i>8,471.64</i>	<i>3,022.40</i>	<i>5,449.24</i>
<i>Pay as You Earn</i>	<i>2,536.88</i>	<i>2,772.84</i>	<i>-235.92</i>
<i>Company Income Tax</i>	<i>5,137.40</i>	<i>3,203.09</i>	<i>1,934.31</i>
<i>Other taxes</i>	<i>2,147.59</i>	<i>2,180.95</i>	<i>-33.36</i>
Non-tax Revenue	5,316.13	4,308.47	1,007.66
<i>Fees and Charges</i>	<i>-</i>	<i>45.32</i>	<i>-</i>
<i>Of which revenues collected by MMMD</i>	<i>40.77</i>	<i>41.28</i>	<i>-0.51</i>
<i>Of which revenues collected by Petroleum Unit</i>	<i>4.88</i>	<i>3.05</i>	<i>1.83</i>
<i>Of which collected by MOL</i>	<i>0.59</i>	<i>0.98</i>	<i>-0.39</i>
<i>Dividends (collected by MoF)</i>	<i>9.11</i>	<i>16.83</i>	<i>-7.72</i>
<i>Mineral Royalty (collected by ZRA)</i>	<i>5,260.78</i>	<i>4,201.01</i>	<i>1,059.77</i>
Total Domestic Revenue	25,176.86	17,490.66	7,686.20

Source: 2020 Zambia EITI Report

Key Finding from Latest ZEITI Report

Payments made by Extractive Companies and ZCCM-IH

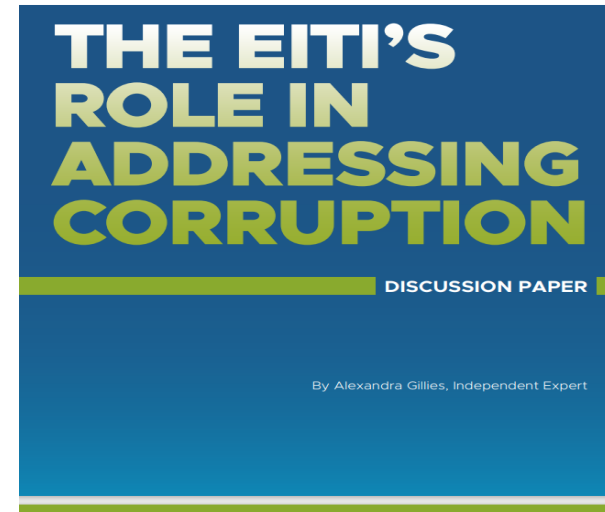
Payments	2020 (ZMW million)	2019 (ZMW million)	Variance (ZMW Million)
Payments to Government Agencies	25,167.75	17,428.52	7,739.23
<i>Taxes paid to ZRA (including Mineral Royalty)</i>	<i>25,121.51</i>	<i>17,383.20</i>	<i>7,738.31</i>
<i>Royalties, fees and charges paid to MMMD</i>	<i>40.77</i>	<i>41.28</i>	<i>-0.51</i>
<i>Payments to Petroleum Unit</i>	<i>4.88</i>	<i>3.05</i>	<i>1.83</i>
<i>Ground Rents and other payments to MoL</i>	<i>0.59</i>	<i>98.00%</i>	<i>-0.39</i>
Dividends paid to ZCCM-IH	128.95	343.77	-214.82
<i>Price Participation Fees paid by KCM</i>	<i>86.88</i>	<i>146.42</i>	<i>-59.54</i>
<i>Dividends paid by KMP</i>	<i>42.07</i>	<i>197.35</i>	<i>-155.28</i>
Dividends paid by ZCCM-IH	40.76	75.96	-35.20
<i>Dividends paid to IDC</i>	<i>31.65</i>	<i>59.13</i>	<i>-27.48</i>
<i>Dividends paid to MoF</i>	<i>9.11</i>	<i>16.83</i>	<i>-7.72</i>
Social payments	251.74	357.86	-106.12
Fees and levies paid to Local Councils	214.03	141.60	72.43
Payments to EPF	50.63	16.40	34.23
Total	25,853.86	18,348.94	7,504.92

Reconciliation Results by Company

No	Company	Extractive Companies (ZMW Million)	Government (ZMW Million)	Difference (ZMW Million)
1	KANSANSHI MINING PLC	7,990.74	7,988.89	1.85
2	KONKOLA COPPER MINES PLC	652.20	614.65	37.54
3	LUMWANA MINING COMPANY LIMITED	1,016.13	839.62	176.51
4	MOPANI COPPER MINES PLC	1,749.20	2,061.97	(312.77)
5	KALUMBILA MINERALS LIMITED	3,238.92	3,425.38	(186.45)
6	FIRST QUANTUM MINING AND OPERATIONS LTD BM M S	1,586.41	1,434.99	151.42
7	CHAMBISHI COPPER SMELTER LIMITED	3,216.48	3,344.65	(128.17)
8	ZCCM INVESTMENTS HOLDINGS PLC	24.29	73.60	(49.30)
9	MAAMBA COLLIERIES LIMITED	514.70	646.44	(131.74)
10	NFC AFRICA MINING PLC	1,023.33	954.68	68.66
11	LUBAMBE COPPER MINE LTD	437.53	437.89	(0.37)
12	KAGEM MINING LTD	135.87	168.86	(33.00)
13	LAFARGE CEMENT ZAMBIA PLC	320.78	120.87	199.91
14	CNMC LUANSHYA COPPER MINES PLC	1,311.07	1,350.54	(39.47)
Total		23,217.65	23,463.02	(245.37)

How EITI Reporting Help Address IFF/Corruption Risks

- Exposing practices in natural resource governance that are vulnerable to abuse.
- Provides anti-corruption actors with valuable contextual information.
- Exposing suspicious deals and transactions
- Supporting citizens' discussion, monitoring and advocacy.
- Advancing global norms and policies related to anti-corruption
- Deterring corrupt behavior through transparency



- 3 exporting companies undervalued their mineral exports.
- 9 exploration right holder exported minerals before obtaining a license.

(2018 ZEITI Report, P .43 and P. 70)

TOWARDS BENEFICIAL OWNERSHIP TRANSPARENCY IN THE EI SECTOR

70%


**of corruption cases
involve anonymously-owned
companies**

(The World Bank)

ZAMBIA CONTEXT

- In 2021, 55 accounts held by 8 banks were frozen, involving: US\$30.3million & ZMW292.9million on suspicion of theft, tax evasion, money laundering & corrupt activities
- Between 2017 & 2021, Zambia potentially lost the following to various money laundering schemes & financial crimes, especially due to tax evasion & corruption:
 - ZMW4.5 billion (USD 450 million) in 2017
 - ZMW6.1 billion (or about USD 520 million) in 2018
 - ZMW984 million in 2019
 - ZMW2.2 billion in 2020
 - ZMW3.98billion 2021 (corruption, money laundering & Tax evasion only)

Source: FIC Trends reports



*"The lack of tax transparency in Zambia has negatively affected Zambia's **domestic resource mobilization** efforts. The absence of tax transparency masks tax crimes & other practices such as tax evasion."* FIC 2021

WHAT IS BENEFICIAL OWNERSHIP

- The 2019 EITI Standard defines a beneficial owner in respect of a company as “the **natural person**(s) who directly or indirectly ultimately owns or controls the corporate entity” (Requirement 2.5.).
- Info should include the identity of the beneficial owner, including **name, nationality and country of residence**, and whether the owner is **politically exposed**. Could also include **date of birth, national ID# & residence address**.
- Countries recommended to maintain a **public register** of beneficial owners & information at least published in EITI Report.

What is Beneficial Ownership

“ beneficial owner ” means a natural person who—

- (a) directly or indirectly, through any contract, arrangement, understanding, relationship or any other means **ultimately owns, controls, exercises substantial interest** in, or **receives substantial economic benefit** from a corporate; or
- (b) exercises ultimate and effective control over a legal person or legal arrangement.

(Companies Act No. 10 of 2017)

What is Beneficial Ownership

Concept of *effective shareholder* is applied in the Income Tax Act (especially in relation to *Loans to Effective Shareholder*), further clarifying relations of relevance e.g. a nominee shareholder, a spouse or child of an effective shareholder.

Section 95 of Cap 323 of the Laws of Zambia

What is Beneficial Ownership

“beneficial owner” means an individual –

- (a) Who **owns or effectively controls** a client of a reporting entity, including the individual **on whose behalf** a transaction is conducted; or
- (b) Who exercises effective control over a legal person or trust.

Financial Intelligent Centre (Amendment) Act No. 4 of 2016

What is Beneficial Ownership

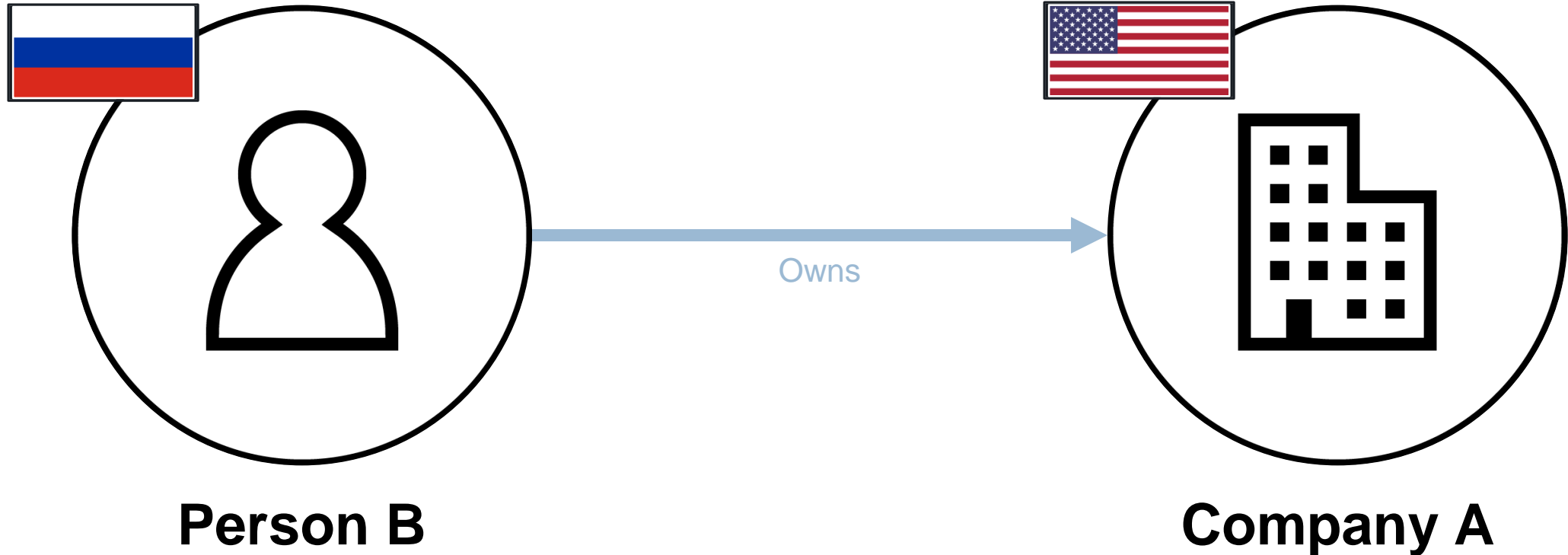
“politically-exposed person” means—

- (a) an individual who holds, or has held, public office, and includes—
 - (i) a Head of State or Government;
 - (ii) a Minister;
 - (iii) a Deputy Minister;
 - (iv) a politician;
 - (v) a political party official;
 - (vi) a judicial official or other senior official of a quasi-judicial body;
 - (vii) a military official;
 - (viii) a member of an administrative, management or supervisory body of a State owned enterprise;
- (b) an individual who is, or has been, entrusted with a public function by a State, public body or a local or international organisation;
- (c) an immediate family member of a person referred to in paragraph (a); or
- (d) a close associate of a person referred to in paragraph (a);

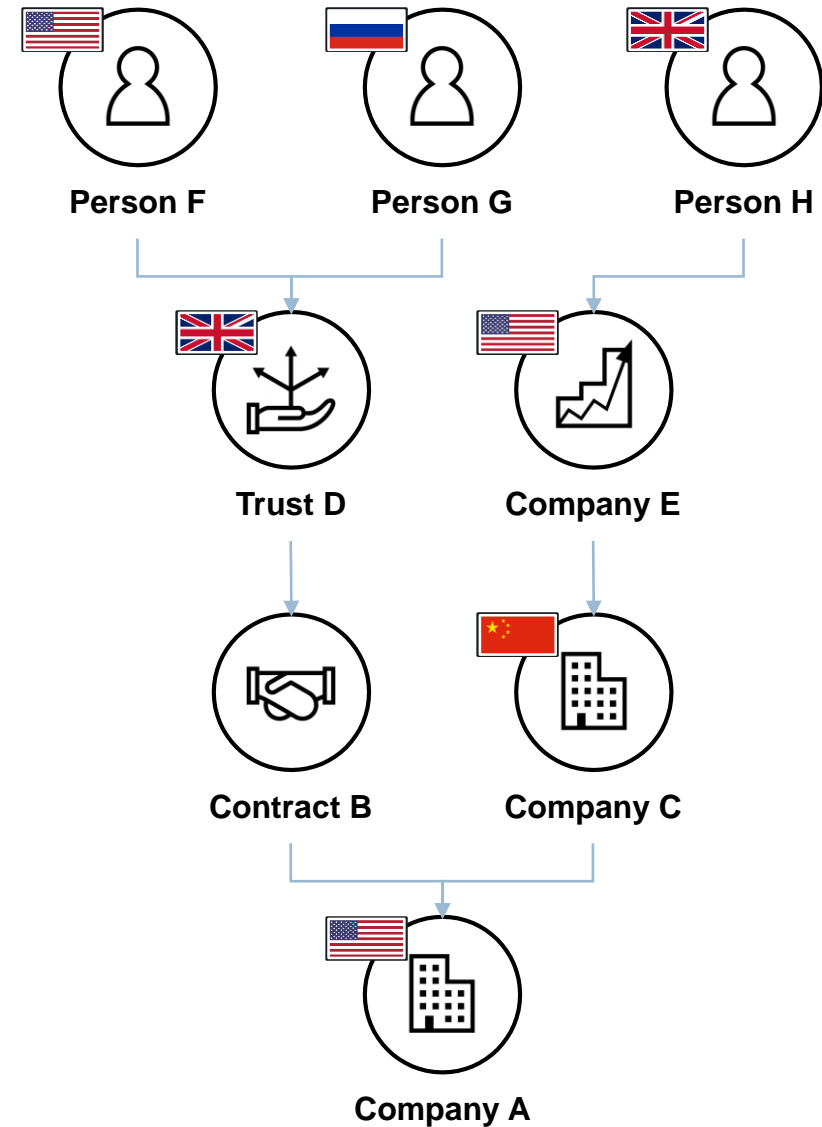
FIC Act No. 4 of 2016 (Amendment to Section 2)

WHY BOT IS IMPORTANT

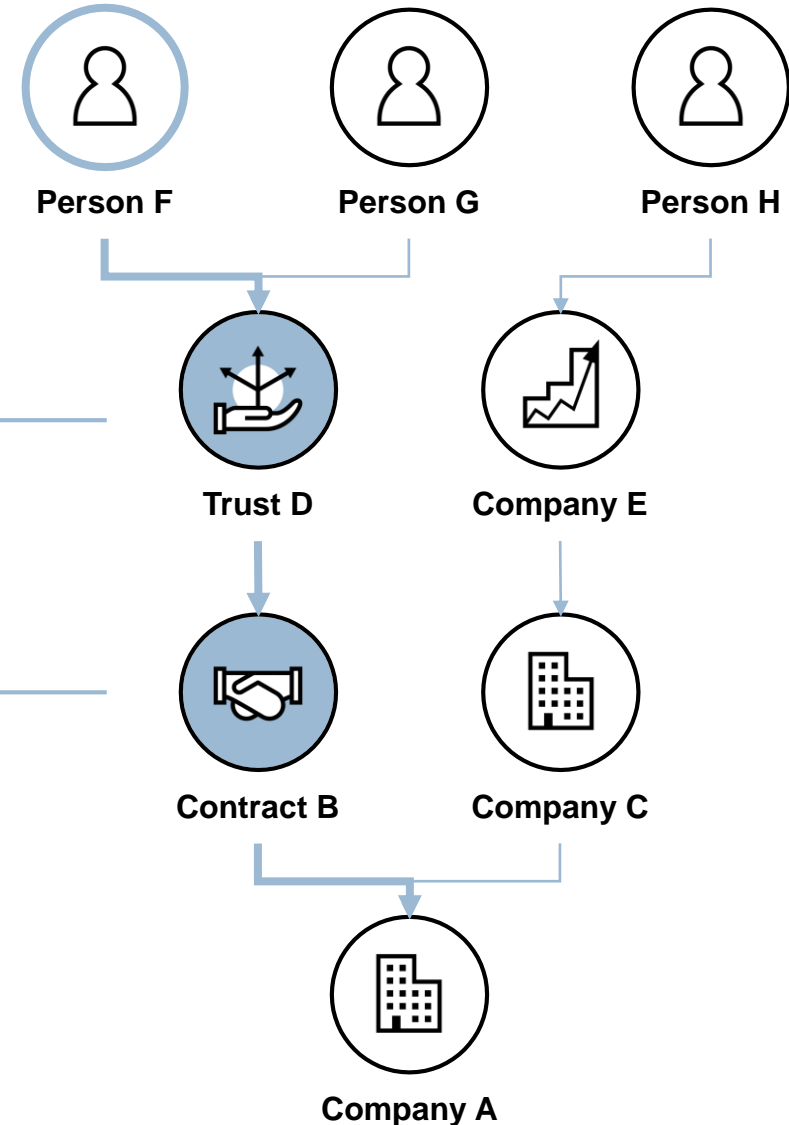
Simple Ownership Structure



Complex Ownership Structure

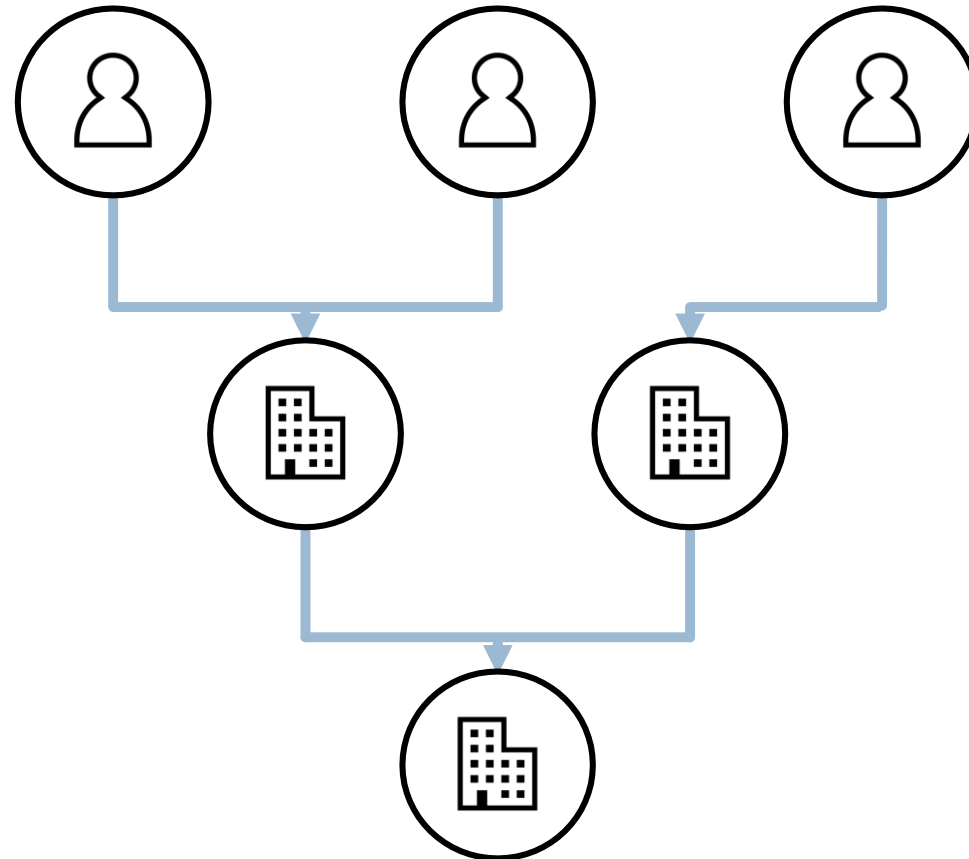


Arrangements
Legal instruments
e.g.
trusts,
contracts,
& subsidiaries
can obscure
interests

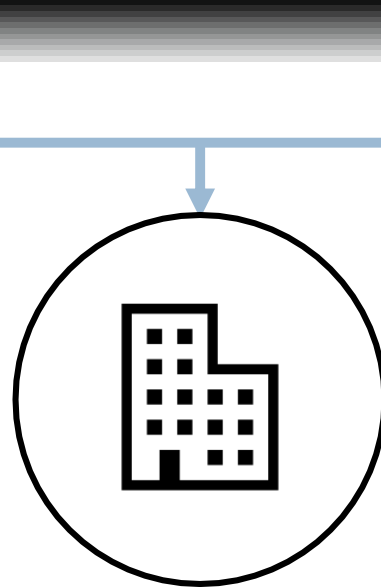


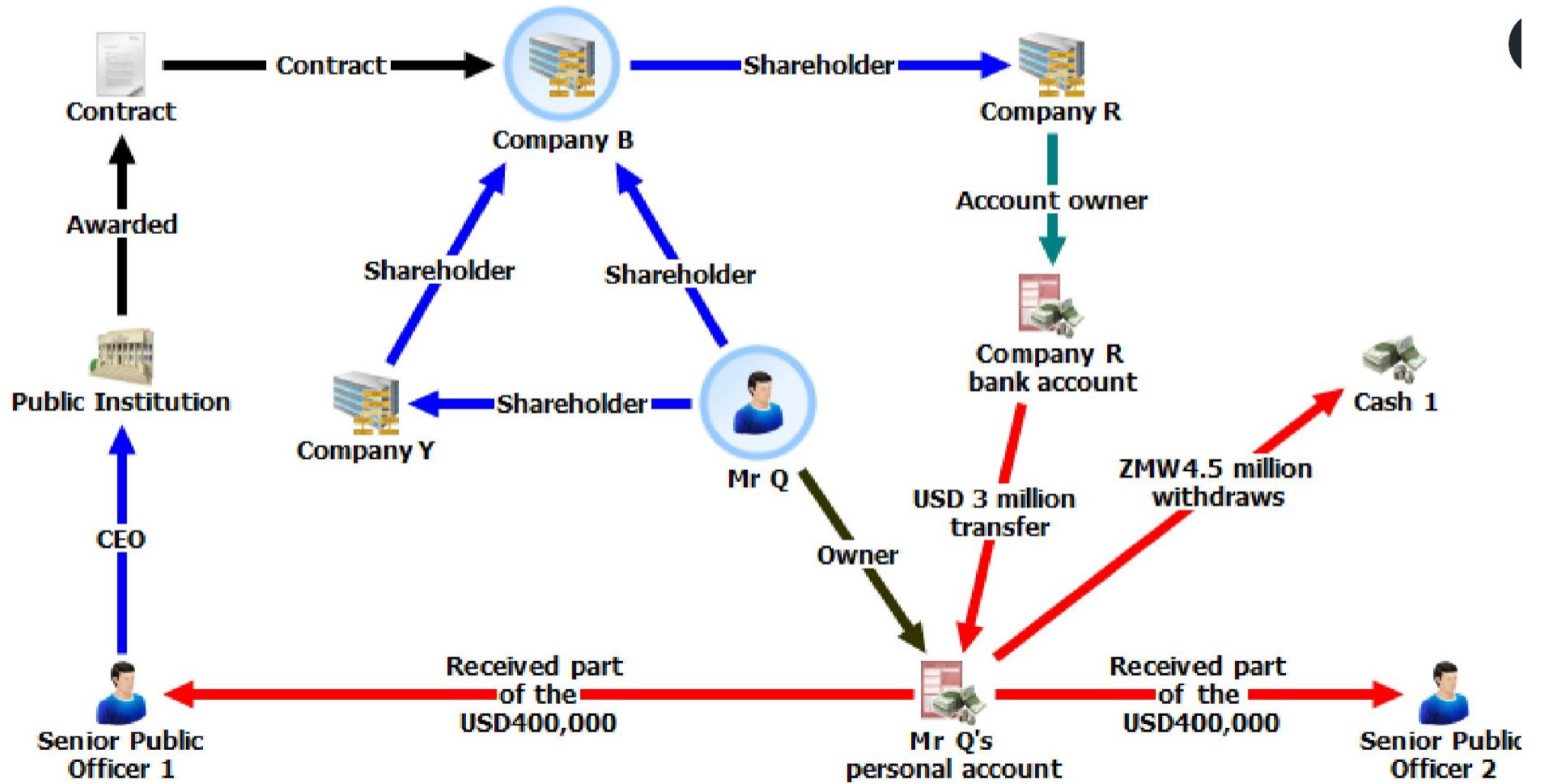
The people at the top are the beneficial owners

These are the people who ultimately own or control a company



When beneficial owners are obscured,
corruption is enabled





Source: FIC 2022

Relevance of BOT to Accountancy

Sector/Services	Number of reports received by year		
	2021	2020	2019
Banks	2,522	2,185	713
MVTS Providers	42	41	23
Microfinance	13	31	10
DNFBPs*	0	0	1
Insurance	0	4	0
Bureau de Change	0	5	1
Capital markets	0	0	0
VASPs**	0	0	0
Total	2,577	2,266	748

* DNFBPs comprises; law firms, accounting firms, dealers in precious stones and metals, casinos, real estate agents and trust and company service providers (TCSPs)

Relevance of BOT to Accountancy

- In June 2022, a meeting to promote BOT was held between EITI, Open Ownership, B Team, BHP & KPMG, Deloitte, PwC, EY, BDO.
- Discussions included:
 - Exploring where BOT should be placed i.e. financial crimes, supply chain/contracting, ESG or other options
 - Entry points for BOT agenda & approaches (which may differ according to sector)
- Firms achieved the following:
 - Agreed on concept of joint "principles" on integrity & transparency to propose to the GPPC.
 - Outlined six areas for further discussion which included:
 - Putting the "G" in ESG
 - Addressing the knowledge gap, assisting smaller entities
 - Addressing BOT by sectors.

Relevance of BOT to Accountancy

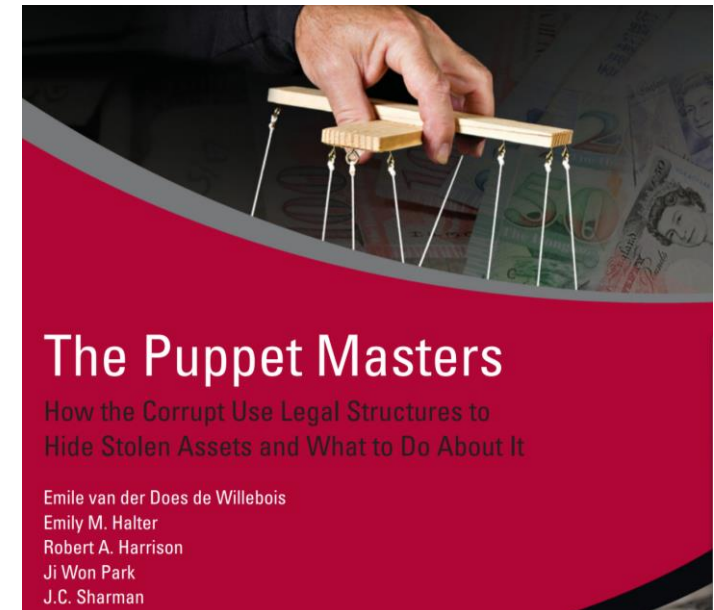
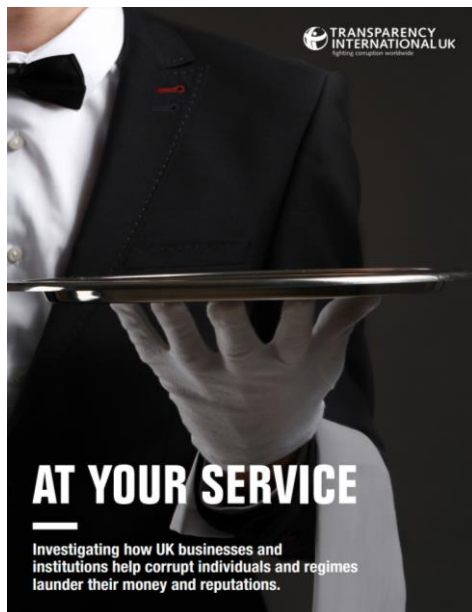
In 2019:

- FIC observed a trend in which the *'Gatekeepers' services were exploited for illegal activities.
- In the case of some identified accountants, it included use of falsified financial statements to place funds in offshore centers & to tender for public procurement projects.
- Bank accounts for some identified law firms & their clients are used to launder proceeds of crime.

***Gatekeepers:** Professionals such as lawyers, notaries, accountants, investment advisors, and trust and company service providers who assist in transactions involving the movement of money, and are deemed to have a particular role in identifying, preventing and reporting money laundering.

Relevance of BOT to Accountancy

Research, evidence points to central role of DNFBPs



<file:///C:/Users/Eneya%20Maseko/Documents/Assignments/BOT/Resourceful%20Reading/puppetmastersv1.pdf>
https://www.transparency.org.uk/sites/default/files/pdf/publications/TIUK_AtYourService_WEB.pdf

Why BOT is important

- Minerals are owned by the people - they have a right to know who exploits & benefits from them.
- Promotes **citizens' economic benefit** from natural resources, especially in communities hosting extractives activities.
- Promotes **citizen's monitoring extractive activities**, thereby improving governance & accountability.
- Enormous amounts of financial resources diverted due to hidden ownership of mining assets instead of contributing to **govt revenue & dev.**
- Promotes **citizens' participation in mining** through targeted incentives & local content
- Instrumental in **stolen assets recovery**.
- Improves Zambia's standing as an **attractive investment destination**.

Why BOT is important

The G7, G20, the Financial Action Task Force (FATF), World Bank, IMF & the UN have come out in support of BOT.



110+

countries have committed to beneficial ownership transparency



30+

countries have published some beneficial ownership data

Why BOT is important

For mining industry operators:

- **Written commitments** to BOT been made by leading industry players such as BHP, AngloAmerican, Rio Tinto, Glencore, Newmont & Repsol.
- Creates a **cleaner, fairer operating & investment climate** (e.g. in relation to credible licensing & public procurement processes).
- Enhances a company's ability to conduct **due diligence** on suppliers & other prospective business partners.
- An integral part of **risk management**.
- Protects & promotes **brand** by doing business with credible entities & being associated with global norms of transparent business practices.

Industry Recognition of Importance of BO



BHP

GLENCORE



RioTinto

<https://eiti.org/document/statement-by-companies-on-beneficial-ownership-transparency>

Example of National Mechanism Advancing BOT-NRA

[Nigeria Data Disclosure/Publishing](#)

<https://search.cac.gov.ng/home> (CAC)

https://bo.neiti.gov.ng/sm_search (NEITI BO Portal)

Example Search:

<https://search.cac.gov.ng/list>

<https://search.cac.gov.ng/psc>

Example of National Mechanism Advancing BOT-ZAM

PACRA

Individuals

Present forenames and surnames	Nationality	Identity Type	Identity Number	Director / Partner	Secretary	Shareholder / Member	Amount	Share Class
NI XUEHUI	CHINA	Diplomatic Passport	EG1565742	Yes	Yes	Yes	7,500.00	Ordinary
LIU MIAOSEN	CHINA	Diplomatic Passport	E66093824	Yes		Yes	7,500.00	Ordinary

Business Entities

Individual Beneficial Owners

* - Information in this report can change any time.

Printed By: PACRA Printed On:

Beneficiary	Nationality	Identity Number	Beneficial Owner	Shareholder	Beneficial Ownership Nature	Amount	Share Class
LIU MIAOSEN - E66093824	CHINA	E66093824	Yes			15,000.00	Ordinary

Artificial Beneficial Owners

COMMON CHALLENGES IN BO IMPLEMENTATION

Policy

1. Balancing between privacy (e.g. section 53 of Data Protection Act of No.3 of 2021) & company sensitivity & public interest through wider access to BO data.
2. Balancing between investment promotion & transparency.
3. Inter-agency collaboration, data sharing & harmonisation of mandate.
4. Low disclosure compliance.

Technical

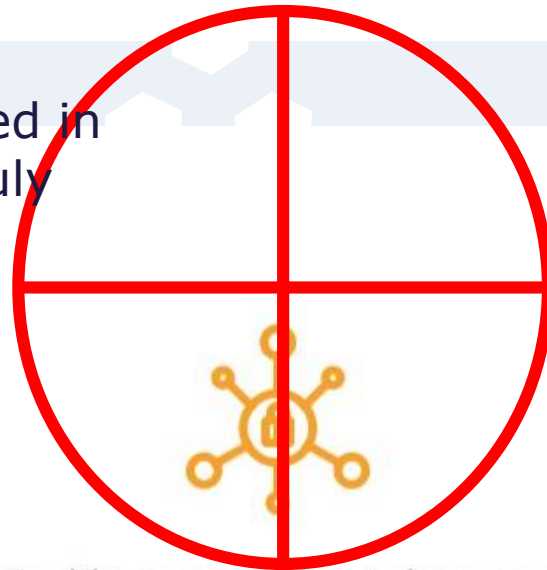
1. Complexity of ownership structures.
2. Verification.
3. Data quality.
4. Institutional capacity.
5. Sanctions & rules – how far enough is enough to deter non-compliance?
6. PEPs /PIPs
7. SOEs i.e. interests & control.
8. Listed companies (PLCs) & foreign owned MNCs.
9. Shell companies, tax shelters & SPVs.
10. Trusts, Foundations & related entities.
11. Private equities.
12. Digital companies.

The OE Program

- **Implementing partners:** EITI and Open Ownership
- **Goal:** Advance on disclosure, use and sharing of beneficial ownership information
- **Implementation Status:** MoU established between GRZ-EITI&OO; Program launched in Zambia in 2021; Road map adopted in July 2022



Ensure government, industry and civil society have greater access to comprehensive and reliable information on the ultimate owners of extractive industry companies.



Enable government, industry and civil society to more easily identify and address corruption and mismanagement risks related to hidden ownership.



Advance beneficial ownership transparency in the extractive industries and beyond by documenting and communicating the impact and outcomes of greater transparency.

Thank you



**Opening
Extractives**

Unlocking the benefits
of ownership data

For more information, please get in touch:

Zambia EITI Secretariat

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