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THEME Taxation

Features

Freeway: Taxing & Spending

'Heads or tails?' we ask when tossing a coin. Heads for the ruler, the tax collector; tails, one might say, was for the people, the taxpayers. Equally, there are two sides to taxation, the money paid and the money spent.

Zambia, alas, no longer has coins, only notes. That is due to inflation, which itself is a form of unacknowledged taxation through the printing of money. But even notes have two sides, one, we could say, for taxation and the other for spending.

The money paid to the government in tax is money which would otherwise be spent by taxpayers. And most people spend their own money more wisely and carefully than they spend 'public' money entrusted to them. That is a strong reason for curtailing taxes. Most governments want more and more money for 'development'. But by far the best development comes from people spending their own money for their own purposes.

It is commonly assumed that higher tax rates bring in higher tax revenues. But an article in this issue, 'The tax conundrum', by Jasson Urbach, shows this to be a delusion. Governments can often collect more tax by lowering tax rates. This also attracts foreign investment.

The tax authorities can score another plus by treating law-abiding tax payers with consideration. In many countries the tax authorities charge interest on delayed tax payments, but pay interest on delayed refunds of tax. Why not also in Zambia?

A major consideration is how tax revenues are spent. Are they well spent or misspent? Governments which regularly misspend tax revenue, and then fail to punish offenders, forfeit the support of taxpayers.

We in Zambia need to give serious consideration to improving our tax system. This requires new thinking and eagerness to learn from other countries, not just studying our own navel. It is surely not too late to introduce some positive reforms in the 2008 Budget. Then, just watch the effects!

Taxation of Zambia's Mining Sector

Frederick Bantubonse

With the price of copper being at a very high level, people in Zambia are concerned with what benefits the country is getting from privatised mining companies. Public perception is that mining companies are exempted from paying taxes for 20 years from the dates they signed their Development Agreements. However, such statements are very far from the truth. This article is an attempt to correct some of the wrong views currently held.

From the time commercial copper was first produced, at Kansanshi (Solwezi) in 1908, and from Roan Antelope (Luanshya) in 1911, private companies owned mining assets, until they were nationalized in 1972. Later, in 1982, all mining activities were vested into one conglomerate - the Zambia Consolidated Copper Mines Limited (ZCCM).

Unfortunately copper production dropped from levels as high as 750,000 tonnes in 1973 to as low as 257,000 tonnes in the year 2000, due mainly to lack of re-investment, but also to various other reasons, some local and others international. This decline in production, compounded by a drastic drop in global prices, had a serious effect on Zambian economic performance. This led to mining assets deteriorating and requiring substantial capital re-investment to recover productive capacity. As a result of this trend and the decline in general living standards, the government made a decision, about 1989, to get back to a market economy, and it set the process of privatisation in motion. Privatisation of the mining industry was completed in March 2000.

The state and conditions of the mining assets, and the investment climate prevailing in the country prior to privatisation, made it difficult to attract much needed Foreign Direct Investment (FDI). In these circumstances the investors requested special conditions to allow them to obtain good returns on their investments. They also required stability periods, during which taxes would remain unchanged. The stability periods negotiated in 2000 with Mopani and KCM were for 20 years. Later agreements with Kansanshi, First Quantum, Lumwana and Abidon, were for shorter periods, down to as little as 5 years. Those requests seemed prudent and reasonable, since mining operations are always long term. At present Africa attracts only 3% of the world's FDI and Zambia gets less than 1% of Africa's FDI. This underscores the fact that the investment climate in Zambia, which is an important consideration for investors, is still not very favourable.

These special conditions and other business safeguards were grafted into agreements called "Development Agreements" that were negotiated at great cost, both to the new investors and to the Zambian Government, in terms of finance and the time spent to complete negotiations. The process of preparing these documents was meticulous and involved world-class lawyers. Their purpose was to protect both the people of the Republic of Zambia and the incoming investors by ensuring, for a specific period, that each party met its commitments, including stability in legislation under which operations would be sustained.

Under the Development Agreements, Investors have undertaken to:

a) Rehabilitate production plants, equipment and the environment;
b) Optimise future mineral resources by investing in exploration drilling, in research and develop ment, and in new technologies;
c) Encourage, promote and support local busi nesses and suppliers of goods and services;
d) Adopt a responsible position in the community with regard to the environment, both physical and social;
e) Invest in plant expansion, new processing plants And new mines that will make significant contributions to the Zambian economy.

Subsequently the new investors brought fresh funds into the industry, and from 2000 to the end of 2006 total investment exceeded US $ 2.1 billion. These investments have boosted copper production from 257,000 tonnes in 2000 to 515,000 tonnes in 2006, and projections for 2009 are as high as 1,200,000 tonnes (See Fig. 1 below).

Regarding taxation, the general belief is that wholesale concessions were given and that the new mining companies were exempted from paying taxes for twenty years. In reality, however, the only significant concessions were:

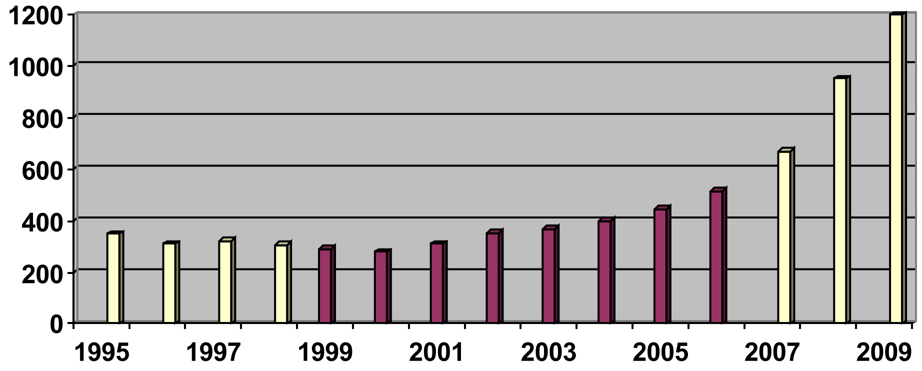


Figure 1: Actual and Projected Copper Production '000 tonnes.

1) Provision for stability periods.
2) Reduction of mineral royalty from 2% to 0.6%.
3) Reduction in company tax from 30% to 25%.
4) Four-year (declining) duty exemption on a specific value of imports.

With regard to mineral royalty, it should be mentioned that ZCCM had for some years prior to 2000 been paying no royalty at all.

Like any other company operating in Zambia, mining companies are by law allowed to carry over tax losses, and since up to the end of 2004 the industry posted very heavy losses, these have to be liquidated before the companies start to pay tax. Again, mining companies are allowed capital allowances and therefore, due to the high investment level of over US $2 billion, this has delayed the payment of company tax. However the new investors have been paying property rates to local councils, which ZCCM was exempted from paying. These rate payments totalled US $2.5 million in 2005, followed by $2.7 million in 2006.

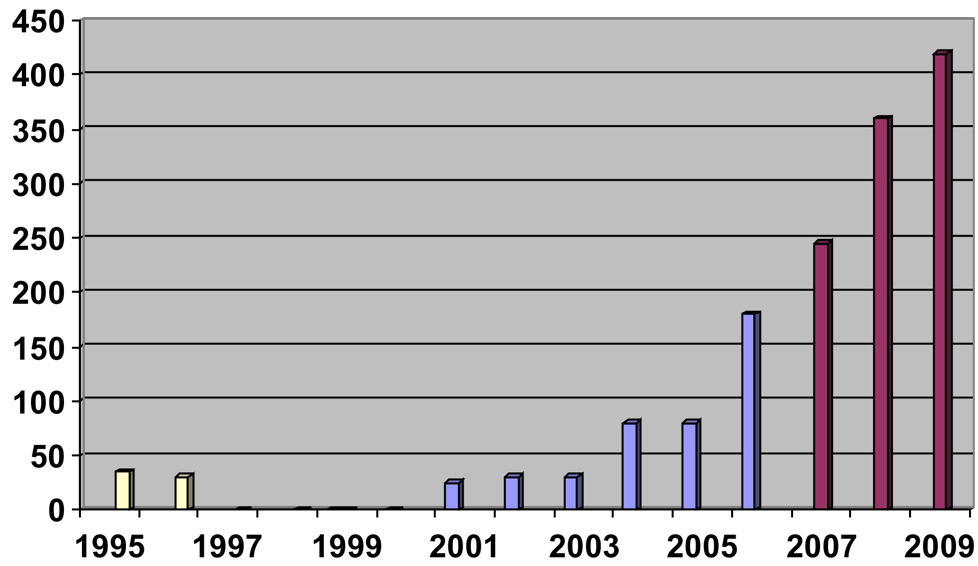
In addition, employees' earnings are much higher than they were under ZCCM, so 'Pay As You Earn' (PAYE) tax has greatly increased, having reached US $36 million in 2005 and $60 million in 2006. This is due to a combination of factors - more employees (up from 22,000 under ZCCM to 48,000 today), higher earnings and the abolition of tax free benefits.

One huge benefit arising out of privatisation is the government stopping to subsidize a declining industry. Government spent a massive K2 trillion to sustain operations of ZCCM between 1991 and 2003 (as reported to Parliament on the 7th August 2007 by Finance & National Planning Deputy Minister, Jonas Shakafuswa Source: Times of Zambia, 9th August 2007).

Another point to note is that GRZ enjoys “Free Carry” (unpaid for shares) in the privatised companies of up to 20% in some cases.

Fig. 2 below shows a very steep rise in contributions to the GRZ Treasury as carry over losses and capital allowances are liquidated.

Figure 2:
Actual and Projected Contributions to GRZ in US$ Million.



It was inevitable that the great and unexpected increase in copper prices since privatisation should have led to strong demands for the above concessions to be renegotiated. Despite this, GRZ has accepted that the Development Agreements are legally binding and cannot be changed unilaterally. However, the mining companies are conscious of the general feeling that their treatment has been too favourable, and they are open to an element of renegotiation.

With the expected commencement of operations by Lumwana Mining Company Ltd. and Albidon Zambia Ltd., and the very large investments still being embarked on by the established mining companies, it is inevitable that the mining sector will continue to be a significant contributor to the government treasury for many years to come.

The Author: Frederick Bantubonse, General Manager, The Chamber of Mines of Zambia

Tax Reforms in Zambia

Michael Phiri

Tax reforms in Zambia have been aimed at strengthening the arm of government that collects taxes (Zambia Revenue Authority) to enable it broaden the tax base, with particular emphasis on the informal sector. This paper discusses some of the measures that the government has introduced to broaden the tax base. Pay As You Earn (PAYE) has for many years been the major contributor to Direct Taxes in Zambia, as illustrated in the table below;

Year	2003	2004	2005	2006	2007
Gross Direct Taxes (DT) Revenue	1,472.1	2,044.3	2,171.68	2,898.5	3,440.1
Pay As You Earn (PAYE) Contribution	954.4	1,428.7	1,726.81	2,030.0	2,088.3
Company Tax Contribution	293.3	382.6	444.87	492.1	935.1
PAYE % of Gross DT Revenue	65%	70%	80%	70%	61%
Company Tax % of Gross DT Revenue	20%	19%	20%	17%	27%

Measures to Broaden Tax Base

Basic Tax

For a long time, authorities depended on a basic tax as a means of broadening the tax base so as to provide relief to employees. The tax was introduced at K50,000 per annum, and has remained unchanged. This measure was effective in bringing persons running business in rural Zambia into the tax net. But urban areas remained untapped, on the ground that it was not cost effective to collect the tax from an informal sector that had no fixed place of trading.

Presumptive Tax

In heavily populated areas along the line of rail the informal sector was growing by the day, but government was not collecting revenues from it. In 2003, at the peak of calls for broadening the tax base, the then Finance Minister, Emmanuel G Kasonde, introduced a presumptive tax on any individual or partnership operating a public service vehicle for the carriage of persons.

The Zambia Revenue Authority (ZRA) was empowered to issue standard assessments, based on seating capacity, for individuals and partnerships dealing in passenger transport. Such assessments have remained the major source of this presumptive tax. However, due to various complications, its contribution has remained largely insignificant.

Turnover Tax

On February 6, 2004, Finance Minister Ng'andu Magande introduced turnover tax at three percent for all traders with turnover of less than two hundred million kwacha. Such traders do not need to submit annual returns and accounts, but are expected to declare their turnover each month and pay three percent on it to the ZRA. Some employees took advantage of the legislation and changed from contracts of employment to contracts for provision of consultancy services, so as to escape payment of high levels of PAYE. Employees who successfully changed their contracts only paid three percent turnover tax. In 2005, the law was amended to exclude consultancy fees from turnover tax. In the same year, government departments and other business houses were required to demand a tax clearance certificate from all traders. The persons most affected by this measure were the small scale subsistence farmers, whose outcry led to revised rules for implementation.

Turnover tax has become popular with individuals in employment who also have business ventures. Though this measure has largely been successful, its contribution to tax revenues has yet to be quantified.

Import Tax

In the 2007 budget, the Government introduced Import Tax for all persons importing goods into Zambia who lack a Tax Payer Identification Number (TPIN).

All the major ports of entry are deducting three percent import tax on importation of goods by persons who lack a TPIN. However, despite this exemption, even persons who hold a valid TPIN are being made to pay turnover tax because the information has not been loaded on the Asycuda system which the Customs Department uses.

The Mining Industry

The past two years have seen copper prices hit record levels. The benefit of the high copper price has not yet trickled down to the ordinary Zambian. Consequently there has been an outcry for government to collect more taxes from the mining sector.

Tax payments by the three copper and cobalt mining companies that are contributing towards company tax have had the effect of raising the contribution of company tax from an average of 19% of Direct Taxes over the last four years to 27% in 2007. This in turn has led to a reduction in the proportion of PAYE contribution from 80 percent in 2005 to 61% in 2007.

Conclusion

The challenge is for the government to renegotiate development agreements that have prescribed what taxes should be paid by mining companies, and to further reduce the tax burden on employees.

Author: Michael Phiri is Tax Consultant, KPMG Zambia

The Tax Conundrum-
Governments Collect More Tax at Lower Rates

Jasson Urbach

South Africa’s 2007 budget speech was arguably not particularly encouraging for the majority of tax-paying citizens. In the build-up to his speech the Minister of Finance mentioned a number of recommendations and opinions sent to him directly by the public through the ingenious mail service known as 'tips for Trevor'. The tips generally cover a broad spectrum of tax recommendations from the public advising Mr Manuel on how to deal with certain tax issues. The majority of taxpayers hoped for same thing less tax. The budget contained the usual accommodations for bracket creep but the tax burden in SA remains high.

The treasury faces the task of improving the system to maximise revenues and reduce costs. Numerous proposals and recommendations have been made as to how to make the tax system more efficient but what has generally been overlooked, whether intentionally or not, is the simple solution to tax a proportional rate or flat tax system. Milton Friedman proposed the flat tax system in the early 1960's. The appeal to Friedman of the flat tax was based on the idea that individuals respond to incentives and that they take steps to further their interests. Friedman argued that highly progressive taxes induce taxpayers to find and exploit tax loopholes, so that legally, and at times illegally, taxpayers reduce their tax payments by hiding income or converting income into other forms.

The flat tax allows governments to gather maximum tax revenue at tax rates that avoid negative behaviour by providing taxpayers with what they judge to be an acceptable reward for their extra effort and risk-taking. Higher tax rates reduce the incentives of entrepreneurs to risk their capital and sacrifice their time and energy to earn higher incomes. They interfere with the ability of individuals to pursue their goals and result in lower after-tax incomes for workers and therefore smaller disposable incomes. Less disposable income means less saving; less saving means less capital formation; less capital formation means lower labour productivity, and lower labour productivity means lower real wages.

A proportional or flat tax, as opposed to a progressive tax system, is one in which the ratio of tax to taxable income is the same at all levels of income. It replaces the various tax bands that feature in a progressive tax regime with a single rate. A 'true' flat tax makes no allowances for deductions and provides no special dispensation for low-income earners. However, for both compassionate and practical reasons there is no merit whatsoever in taxing the poor. The compassionate reasons are obvious while the practical reason is that below a certain level of income the costs of collecting taxes from the poor will exceed the amount collected. Low-income earners should therefore be exempt from paying tax on personal income.

South Africa, at 40%, has one of the highest marginal tax rates of all middle-income countries. By comparison, other middle-income countries have relatively low top marginal rates. Consider the following examples: Botswana (25%), Brazil (28%), Malaysia (28%), Mauritius (25%), Namibia (35%) and Uruguay (0%). A decade ago there were 10 different tax brackets in South Africa, which has since been rationalised to six, so we could argue that we have been moving towards a flat rate system. Indeed, the major impetus behind the rationalisation is that it is easier to administer fewer brackets. One bracket would obviously be the simplest of all.

Higher tax compliance and the expansion of economic activity contribute to a broadening of the tax base. This explains one of the most paradoxical features of flat tax: the fact that it rapidly brings in more revenue at a lower rate because the lower rate is charged on more income. At a low tax rate higher-income taxpayers may pay not only more tax but also a higher proportion of the total. When the UK cut its tax rates in the 1980s, the top 10% of earners, who had contributed 32% of income tax before the cuts, contributed 45% afterwards.

Recognising the apparent paradox, a number of countries have recently introduced a flat tax in order to stimulate economic growth. They include Estonia, Iceland, Lithuania, Latvia, Russia, Serbia, Ukraine, Slovakia, Georgia, Romania and Macedonia. Average economic growth for these countries in 2004/2005 was 6.9% compared to South Africa's average growth rate of 4.7%. These countries also enjoyed higher rates of gross capital formation as a percentage of GDP with an average of 24% in 2004/2005 compared to SA's average of 17.5%.

The ANC government has already demonstrated that a reduction in the level and variation of tax rates achieves better returns. They have achieved this by collecting higher taxes through some rationalisation and by cutting the rates established by the previous regime. This helped to change a shrinking economy into a growing economy. Higher tax collections and higher economic growth rates could be achieved by doing more of the same.

Author: Jasson Urbach is an economist with the Free Market Foundation.

The Oil Revenue Policy

John Hudson OBE

Oil, like copper, has lately been fetching record prices, and it seems that Zambia may be blessed (or cursed?) with both of these scarce natural resources. For there are persistent rumours of the presence of oil and gas in the Kabompo and Zambezi districts. These seemed to be confirmed by the Ministry of Mines advertisements inviting applications for permits for oil exploration areas.

However, on 26 August it was announced by the Hon. Minister of Mines & Minerals Development, Dr. Mwansa, that "Government has suspended the bidding process for oil exploration in the North Western province until the Petroleum Act is reviewed to protect the resources from being exploited to the disadvantage of the nation….as it first wanted to put in place a law protecting the nation's interests while attracting investors", so as to protect the national interest and ensure that local people benefit from oil revenue.

This is clearly a wise decision. If significant hydrocarbon deposits are found, they could give an enormous boost to Zambia's economic progress, which is already gathering momentum. It is, however, essential to avoid the dangers of over-hasty exploitation. A recent article in 'Time' magazine (11 June 2007) poses the question: "With prices high and the Middle East in turmoil, Africa's reserves are more alluring than ever. Will its burgeoning wealth transform the region or merely fuel greater corruption, violence, and inequality?" It concludes, "if history is any guide, vast caches of oil can cause developing countries as many problems as they solve." The article reviews the history of oil production in three African countries: Nigeria, Angola and Gabon. Some disturbing facts and figures are revealed.

In Nigeria, the government's own anti-corruption commission estimates that between independence in 1960 and 1999, the country's rulers stole $400 billion in oil revenues, equal to all foreign aid to Africa during that period. Meanwhile, 2/3 of the people of Nigeria remain in poverty, 1/3 of them are illiterate, and 40% have no safe water supply. More than 1.5 million tonnes of oil have been spilled, and the Niger delta is one of the most polluted places on earth.

Angola's oil production is increasing at 25% a year, and it is now the second largest producer in sub-Saharan Africa. However, it is following a path that is painfully familiar among African oil states. Well connected businessmen and unscrupulous government officials grow enormously rich, and the ruling elite use oil wealth to consolidate their own power. Much of this money is funneled into banks and assets abroad, while the majority of the population stagnates or even grows poorer. The government collected $10 billion in oil revenues in 2005 alone. Yet 70% of Angolans still live in abject poverty. A 2005 Human rights Watch report claimed that $4.22 billion in oil revenues went missing between 1997 and 2002.

Gabon is nearing the end of its life as an oil producer. Without new finds, output is expected to halve in the next 20 years and to end in 30. According to a local economist, "The lack of standards shown by Gabon's leadership has generated a complete immorality in the country. That's the curse of oil". A tiny minority in Gabon now holds 80% of the nation's wealth.

Zambia is not Nigeria, Angola or Gabon. Thankfully we have a democratic government with integrity and concern for the people who elected it. Dr. Mwansa's announcement is an example of this. However, in case substantial deposits of oil and/or gas are found, consideration should now be given to policies that can safeguard revenues, so that the tragic West African experiences are avoided.

An excellent example of how to do this is provided by the Extractive Industries Transparency Initiative (EITI), an international body set up in 2003. The EITI supports improved governance in resource-rich countries through the verification and full publication of company payments and government revenues from oil, gas and mining. Transparency is the most effective prevention against corrupt practices. EITI already has 16 African member countries. They do not yet include Zambia, which should seriously consider joining.

If Zambia is lucky, oil revenue could well fill the budgetary gap between revenue and expenditure, enabling this country to do without foreign charity. After this, any surplus could be used to reduce personal taxation by raising its threshold; but this would not help the very poor, who are not taxpayers. They would benefit more from improved health, education, and roads - which are particularly needed in the North Western Province.

There could be another prudent use for extra revenue. Instead of spending all the revenue derived from oil, some of it could be set aside either to reduce external and internal debt or for productive investments, such as interest-bearing bonds, so that revenue continues to accrue to the state after the oil is finished. It is understood that both Norway and Alaska do this.

Taxation of oil company profits needs careful consideration. The experience of other countries should be examined. Relevant expertise should be identified and policies suitable for local conditions agreed in principle. There should also be provision for fluctuations in world market prices.

Speculation on the use of future oil revenues may seem to be 'counting chickens before they are hatched', but debate and preparation now could save time and avoid regrets later, if oil revenues become a reality.

Author: John Hudson is a former Chief Executive of the Zambia National Farmers Union

Quotations of the Month

Invest in Macedonia, new business haven in Europe. 10% corporation tax, 10% personal tax, 0% tax on reinvested profit.

-Advertisement in 'The Economist' 8 September 2007

The inflation tax is the most covert and obscure form of taxation. It is a breach of trust. It is inconsistent with the fundamental democratic

principle that taxes should be voted in parliament. It redistributes money arbitrarily from creditors to borrowers, the old to the young, the financially ignorant to the adept, and from those who trust government to the suspicious of it. It destroys trust and destabilizes society. It is nothing short of grotesque to believe that good government, still more social democratic government, depends on it.
- Martin Wolf 'Why Globalization Works'

What the government gives it must first take away.
John S Coleman

Topical Article

The True Developmental State

Johan Biermann

At the recent African National Congress policy conference delegates expressed support for a "developmental state" that plays a more interventionist role in the economy than the state does at present by using state-owned enterprises to fast-track economic development. An interventionist state, in this view, is deemed necessary because supposedly the market alone cannot eradicate poverty, provide infrastructure, deliver housing, relieve skills shortages, and address underdevelopment.

If this were true, there should by now be no poverty in the world and recent history would have been much different: no tearing down of the Berlin Wall, no disbanding of the Soviet Union and no collapse of the socialist states of Eastern Europe. These former states were the ultimate form of the interventionist developmental state; their economies consisted entirely of state enterprises. But, instead of fast-tracking economic development and bringing prosperity to all, the interventionist developmental state paradigm impoverished every nation that adopted it.

Despite this lesson and the centuries-long struggle for liberty, the link between freedom and the improvement of the human condition remains largely unlearned. Frederic Bastiat, writing in the 19th century, made the following observation:

"On entering Paris where I came to visit, I said to myself Here are a million human beings who would all die in a short time if provisions of every kind ceased to flow toward this great metropolis. Imagination is baffled when it tries to appreciate the vast multiplicity of commodities, which must enter tomorrow through the barriers in order to preserve the inhabitants from falling prey to the convulsions of famine, rebellion, and pillage… What is the ingenious and secret power which presides over the astonishing regularity of such complicated movements, a regularity in which we all have so implicit, though thoughtless, a faith; on which our comfort, our very existence depends?"

Bastiat's observation is as valid now as it was a hundred and fifty years ago. Today many cities count their populations in the millions. But, in free countries, no state enterprises are required to produce and deliver food to the entire population, yet, at grocery stores, the shelves are filled with things to buy. Think about the complexity that is involved in the delivery of these products to the food stores: there are literally thousands of different food products, some perishable, some long-life, consumed by millions of people with different needs and tastes. There are so many variables that no single mind or committee, staffed with experts using the latest computer technology, could ever calculate what, for whom, where, and how much food production and delivery should occur. Yet, when you go to the grocery store the food is on the shelves.

There are, of course, countries where governments attempted to manage the production of food, with terrible consequences, ranging from interminable food queues and rationing to famine and death. For example, between 1959 and 1961 the combination of collective farm production and bad weather caused food production in China to fall so drastically that an estimated 30 million people died of starvation during the worst famine in human history.

Bastiat's "ingenious and secret power" is freedom. Freedom allows human ingenuity to flourish. As a result, Paris gets fed, and today in South Africa, we get fed, and no one calls for the establishment of state enterprises devoted to food production and government food stores. In free societies there are no state enterprises producing shoes, cars, computers, windowpanes, clothes, and the myriad other products available in the marketplace. Yet there are no shortages of these commodities. In supplying our needs, private producers are guided by the profit motive and price system, which guides them to develop and provide goods and services to meet the needs of citizens. At the same time, profits and prices act to economise the use of scarce resources.

Economic development requires the prior creation of wealth, production and exchange, which is maximised under freedom. Bastiat's insight of long ago is today confirmed by independent studies showing that people living in countries with high levels of economic freedom also have the benefit of greater levels of “human development” as measured by the United Nations. People who live in countries with high levels of personal and economic freedom are wealthier, healthier, and live longer than people in countries with low levels of economic freedom.

More importantly, the poor in economically free countries are substantially better off than those who live in less-free countries. Wherever and whenever a government removes the shackles that hold back individual effort and trade, rapid economic growth and wealth creation follows. China is one of the world's latest examples.

Poverty remains the norm wherever economic freedom and the rule of law are absent. The world's remaining communist states and dictatorships, with Africa providing many examples, prove that authoritarian socialism leads to human misery. African countries that have increased their levels of economic freedom and become more democratic have also become more prosperous. Tragically, many governments continue to ignore the evidence and their citizens suffer the consequences.

State enterprises are monopolies protected by laws that prohibit or limit competition in their fields of activity. They deny consumers the comparison and choice that is always available from competitive private providers. Not only do state enterprises reduce the options available to consumers, they also effectively reduce the level of economic activity in the country. The more state enterprises there are, the lower the rate of economic growth. Often, state enterprises end up doing exactly the opposite of what was intended, such as subsidising the wealthy. South African Airways, for example, receives billions of rands of taxpayers' money to keep it in business and provide subsidised services to the wealthy.

The interventionist developmental state is an example of what Nobel laureate FA Hayek called "the fatal conceit", the idea that a government can do a better job than the private market to eradicate poverty, provide infrastructure, deliver housing, relieve skills shortages, and address underdevelopment.

The true developmental state is founded on liberty, which means secure property rights, freedom of exchange and production, and the rule of law.

Author: Johan Biermann, a consultant and researcher, is a Council Member of the Free Market Foundation.

Economics Without Tears with DISHI

How Crops Create Cars

International trade is a technology. This is how Steven Landsburg explained it in his 1993 book, The Armchair Economist.

“There are two technologies for producing automobiles in America. One is to manufacture them in Detroit, and the other is to grow them in Iowa. Everybody knows about the first technology; let me tell you about the second. First you plant seeds, which are the raw materials from which automobiles are constructed. You wait a few months until wheat appears. Then you harvest the wheat, load it onto ships and sail the ships westward into the Pacific Ocean. After a few months, the ships reappear with Toyotas on them.”

Are there lessons here for Zambia?

Letters

The articles in your journal on Land were informative and thought provoking. They brought out challenges faced in land administration in Zambia, such as bureaucracy in acquiring land, corruption, haphazard planning of land use, and underutilisation of land. However, some of them had either missed out important information about land administration or lacked accuracy. For example, it is not true to say that state land is only 6% of the country and that customary land covers 94%, as stated by the article on '*The Empty Country*' by John Hudson, and that on '*Management and Delivery of land in Zambia*' by Milton Mabuya. Unfortunately even official figures as indicated in the Draft Land Policy of 2006 quote the same statistics.

These figures were computed way back in the 1950s. Since then a lot of customary land has been converted to leasehold through creation of state and private commercial farms, private smallholdings, residential and industrial plots, etc. John Hudson himself states that large areas of customary land were turned into national parks, forest reserves or occupied by towns or mining developments.

As stated by Mabuya, national parks, forest reserves and game management areas (some of which are customary but in fact controlled by the state) cover about 39% of the country (Source: ECZ, *The State of the Environment, 2000*). If we add the amount of customary land that has been converted to leasehold from the 1950s to 2007, for purposes mentioned above, we find that customary land is far less than is currently estimated.

Besides much of customary land, as Hudson says, is hilly, rocky, sandy, swampy or otherwise infertile. The misconception here is that there is too much customary land (essentially inhabited by most poor people) and that the land should be converted to leasehold in order for them to get out of poverty. Customary land tenure has its own advantages, especially when we consider the high national poverty levels ranging from 60% to 80% of the population. Very little is said in the articles about the need to focus on how customary land administration should be improved in order to make it more secure and productive.

We as Land Alliance have persistently called for a national land audit to update these figures. Only then would we come up with a land policy that would help develop our country in an equitable manner because it would be based on correct statistics.

Henry Machina, Executive Director, Zambia Land Alliance

Disclaimer

The views expressed in this newsletter are those of the authors. They are not necessarily shared by members or by ZIPPA, which has no official view.

Notes

Public Meeting

Petroleum Supply and its Impact on the Mining Sector

A public meeting on the above subject was to have been held at 1700hrs on Friday 12th October at the Sherbourne Guest House, Kitwe. Unfortunately the Hon. Kenneth Konga, Minister of Energy, who was to have addressed it, was unable to travel. The meeting has been postponed to the same time and place on 23rd November. The Minister has assured ZIPPA that he will make every effort to attend. Tickets are K50,000 for the public, K25,000 for members of ZIPPA.

Next Theme

MIGRATION will be the theme of the 1st quarter, January - March 2008 Journal. Readers are encouraged to contribute articles & letters, which should be sent to:

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