



**REPUBLIC OF ZAMBIA**

**APPENDIX TO THE REPORT OF THE COMMITTEE ON PARASTATAL  
BODIES ON THE REPORT OF THE AUDITOR GENERAL ON THE ACCOUNTS  
OF PARASTATAL BODIES AND OTHER STATUTORY INSTITUTIONS FOR  
THE FINANCIAL YEAR ENDED 31<sup>ST</sup> DECEMBER, 2018**

**RECOMMENDATIONS OF THE COMMITTEE ON THE ACTION TAKEN  
REPORT ON THE REPORT OF THE COMMITTEE ON THE EXAMINATION  
OF THE ANNUAL REPORTS FOR THE TANZANIA ZAMBIA RAILWAY  
AUTHORITY FOR THE YEARS ENDED 2017 AND 2018  
FOR THE FOURTH SESSION OF THE TWELFTH NATIONAL ASSEMBLY**

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## **PART I**

### **1.0 Consideration of the Action Taken Report on the Examination of the Annual Reports for the Tanzania Zambia Railways Authority for the Years Ended 2017 and 2018**

#### **1.1 Restructuring of TAZARA, repeal and replacement of the TAZARA Act**

The Committee had strongly recommended that TAZARA should be restructured to enhance management performance and uphold the Authority's competitiveness in a dynamic global economy. The Committee further recommended that management should also formulate performance contracts for the employees. In addition, the Committee urged the Government to expedite the process to repeal and replace the *Tanzania-Zambia Railway Act, Chapter 454 of the Laws of Zambia* in order to enhance TAZARA's capacity to meet the prevailing challenges and opportunities.

#### **Executive's Response**

The Government responded that it had taken note of the Committee's recommendations. The Government also submitted that the company had begun the process of formulating performance contracts for its employees. Furthermore, the Board of Directors had approved the placement of TAZARA managers on fixed contracts and the process of implementing the same was on-going. Additionally the, process to amend the *Tanzania-Zambia Railway Act, Chapter 454 of the Laws of Zambia* was underway in order to include provisions that would enhance management's performance, commercialise the operations of TAZARA and uphold the competitiveness of the Authority in the prevailing dynamic global economy. The process was almost complete and the draft Bill was expected to be tabled in both Parliaments of Zambia and Tanzania during 2020 or 2021.

#### **Committee's Observations and Recommendations**

The Committee notes the response and resolves to await a progress report on the amendment of the *Tanzania-Zambia Railway Act, Chapter 454 of the Laws of Zambia* and on the process of placing managers on fixed performance contracts.

#### **1.2 Recapitalise TAZARA**

The Committee had strongly recommended that the two shareholding Governments should recapitalise TAZARA for the entity to be able to operate profitably, and to be weaned off the intermittent grant funding mechanism which it depended upon. The Committee also recommended that the two Governments should expedite the process of formulating a bankable rescue business plan, whose preliminary proposals indicated that TAZARA required US\$ 435.3 million for its revitalisation.

## Executive's Response

The Government responded that it had taken note of the Committee's recommendation and further submitted that the Government remained committed to the recapitalisation of TAZARA. To that end, the TAZARA business revitalisation plan had been completed by a team comprising officials from Ministry of Finance and Transport and Communications from the Tanzania and Zambian Government as well as officials from TAZARA. The plan was yet to be approved by the Board of Directors and the Council of Ministers.

## Committee's Observations and Recommendations

The Committee notes the Executive's response and resolves to await an update on the approval of the proposed business revitalisation plan.

### 1.3 Failure to Honour agreements timeously

Following the revelation that the Zambian Government had not honoured its obligation to pay US\$ 4.3million as counterpart contribution to the total sum of US\$ 9.577, million required to repair ten locomotives and procure traction motors and 100 wagons, the Committee had strongly recommended that the Government should fund the outstanding amount of US\$ 4.3 million which was agreed upon by the Council of Ministers in 2016. The Committee had further urged the Government not to treat TAZARA as a private entity which was capable of accessing its own funding, considering that its balance sheet was very unattractive.

## Executive's Response

The Executive responded that the Treasury had been releasing funds towards the recapitalisation of the Tanzania Zambia Railway Authority (TAZARA) despite the fiscal constraints the Treasury had been facing. Furthermore, the Executive submitted that from 2012 to 2018, the Zambian Government had contributed a total of US\$ 44,103,869.89 towards the recapitalisation of TAZARA and the Tanzanian Government contributed a total of US\$ 42,276,744.47, as per breakdown in the table below:

| <i>Year</i>  | <i>Zambian Government Funding (US\$)</i> | <i>Tanzanian Government Funding (US\$)</i> | <i>Totals (US\$)</i> |
|--------------|--|--|----------------------|
| 2013         | 14,856,937.75                            | 5,563,350.09                               | 20,420,287.84        |
| 2014         | 5,458,960.54                             | 6,255,659.36                               | 11,714,619.90        |
| 2015         | 5,142,252.92                             | 4,959,305.83                               | 10,101,558.75        |
| 2016         | 11,117,900.05                            | 7,818,396.05                               | 18,936,296.10        |
| 2017         | 3,914,085.84                             | 6,139,062.02                               | 10,053,147.86        |
| 2018         | 3,613,732.06                             | 11,540,971.13                              | 15,154,703.18        |
| <b>TOTAL</b> | <b>44,103,869.89</b>                     | <b>42,276,744.47</b>                       | <b>86,380,614.36</b> |

Additionally, the Executive added that it had included TAZARA in the fiscal budget for 2020 as part of the plan to fund the railway. In that regard, almost half of the US\$4.3 million required to

replace traction motors on TAZARA rolling stock had been released. This resulted in an improvement in the performance of TAZARA as the financials for 2019/2020 indicated. Government would endeavour to release the balance before the end of 2020.

### **Committee's Observations and Recommendations**

The Committee notes the response and is disappointed to note that the Government has not released the outstanding balance as indicated in its submission. The Committee calls upon the Government to expedite the release of these funds and resolves to await an update on the matter.

#### **1.4 Dismantle Historical Debt**

The Committee had observed that the balance sheet for TAZARA was unattractive and marred with historical debt. In that regard, the Committee had strongly urged the Government to put in place a realistic debt dismantling strategy to clean up TAZARA's books in the short to medium term, and set it on course to self-sustaining operations.

### **Executive's Response**

In response, the Executive reiterated its earlier submission that the two shareholding countries had developed a TAZARA revitalisation business plan that took into account the dismantling of the debt.

### **Committee's Observations and Recommendations**

The Committee notes the response and resolves to await a progress report on the dismantling of the historical debt through the TAZARA business revitalisation plan.

**1.4.1** The Committee had also recommended that the Chinese Government should be re-engaged with respect to the debt acquired through protocols during the construction of the rail line. The Committee also recommended that the Government should improve its negotiating and bargaining capacity when signing protocols so as to avoid signing protocols that would disadvantage the country in the long run.

### **Executive's Response**

The Executive responded that the two shareholding Governments had engaged the Government of the Republic of China on the dismantling of the legacy debt. The negotiations were on-going. With regard to improving the negotiating and bargaining skills, the Government had taken note of the need to improve negotiating and bargaining skills and would therefore, ensure that trainings were conducted.

### **Committee's Observations and Recommendations**

The Committee resolves to await a progress report on the on-going negotiations with China that are aimed at dismantling the debt acquired through the protocols entered into during the construction of the railway line in 1976. With respect to the recommendation on improving the

negotiating and bargaining skills, the Committee urges the Government to expedite the training and will await a progress report.

### **1.5 Ensure a good management system**

The Committee had observed that TAZARA lacked the right cadre of employees to improve the operations of the entity. In this regard, the Committee urged the Government to ensure that TAZARA recruited personnel with the requisite skills to help turn around the operations of company. The Committee further recommended that the Government should ensure that TAZARA was self-sustaining to pay the employee salaries and to clear outstanding statutory obligations.

#### **Executive's Response**

The Executive responded that a recruitment strategy would be developed in order to ensure that highly-qualified candidates were employed. Further, the two Governments shall ensure that the entity is able to honour its liabilities as and when they fell due.

#### **Committee's Observations and Recommendations**

The Committee takes note of the response and urges the Government to provide a time frame within which the recruitment strategy will be formulated and operationalised .The Committee resolves to await an update on the matter.

### **1.6 Unfair competition from the foreign transporters**

The Committee strongly urged the Government to engage counterpart governments, especially the Tanzanian Government, to harmonise the trade agreements and procedures, which should level the playing field for all countries. Further, a reduction in the number of trucks carrying heavy cargo would also help reduce the deterioration of the roads.

#### **Executive's Response**

The Executive responded that it had engaged the Tanzanian Government through diplomatic channels on the need to harmonise trade procedures. The discussions were on-going.

#### **Committee's Observations and Recommendations**

The Committee notes the response and resolves to await a progress report on the harmonisation of the trade procedures.

### **1.7 Delays at the Port of Dar es Salaam**

The Committee had observed with concern that turnaround time for TAZARA was negatively affected by the delays at the harbour to load Zambian exports due to the Tanzania's Port Authority regulatory requirements. In this regard, Committee strongly recommended that the Zambian Government should engage its Tanzanian counterpart to ensure that the delays were



expeditiously resolved and efficient systems were implemented in order for TAZARA to compete favourably and become a transporter of choice.

### **Executive's Response**

The Executive responded that it had engaged the Tanzanian Government on the need to harmonise trade procedures and the discussions were on-going.

### **Committee's Observations and Recommendations**

The Committee resolves to await a progress report on the matter.

### **1.8 Improve the Railway Infrastructure and sign Public Private Partnerships**

The Committee had observed with concern that TAZARA's rail line had deteriorated seriously and required immediate rehabilitation. In this regard, the Committee urged the Government to take advantage of the railway revitalisation initiatives that were being spearheaded by SADC with the possibility of having integrated railway operations, where resources would be pooled to allow for infrastructure maintenance. The Committee also urged the Government to expedite the process of separating operations from infrastructure, and allow for competitive access and funding of rail track maintenance. Additionally, the Committee recommended that the Government should allow public private partnerships where major railway users such as mining companies would be allowed to invest in railway locomotives and wagons to be used for transportation of their cargo. The investments could be offset through tariff discounts over an agreed period of time. This would in turn provide additional capacity for railways to serve the companies at a relatively cheaper cost.

### **Executive's Response**

The Executive responded that the Government remained committed to separating the mandate of operations and infrastructure development to enable the railway companies operate more efficiently. To this end, Government was in the process of undertaking a study on separation of operations and infrastructure development by expanding the mandates of already existing institutions. Government would update the Committee once the study was completed. Further, TAZARA was pursuing the open access operations and had so far allowed Calabash to operate on its railway line and planned to add more operators in future. Government was also in the process of repealing and replacing the Railways Act to, among other things, introduce open access on the Zambia Railways line.

Furthermore, the *Public Private Partnership Act, No. 14 of 2009* as amended by Act No. 9 of 2018 provided for facilitation of investment in infrastructure and delivery of social services in line with the national development agenda. This included transport infrastructure, such as railways. The public private partnerships (PPPs) were either done through solicited and unsolicited processes. As such, PPP frameworks provided for the private players in sectors such as mining to invest in railway locomotives and wagons by partnering with the relevant government agency or ministry. The Executive also submitted that there were currently two rail line projects, namely; the Livingstone-Kazungula-Sesheke and the Nseluka-Mpulungu Rail line

that were being considered as PPP arrangements. The projects would involve the development of new rail line and other supportive infrastructure and facilities.

### **Committee's Observations and Recommendations**

The Committee notes the response and resolves to await a progress report on the implementation public private partnerships on the railway infrastructure.

#### **1.9 Employee welfare and pension obligations**

The Committee had observed with concern that the two shareholding Governments had committed to pay employee salaries as the company was unable to meet its obligations due to under performance. The Committee had also noted that the Zambian Government had not been consistent in paying salaries to the employees as compared to the Tanzanian Government. In light of this, the Committee had recommended that the Government must expedite the process of revitalising the operations of TAZARA for it to operate as a business entity with very minimal dependence on Government grants. Furthermore, the Government should settle all employee obligations with respect to terminal benefits and other employee entitlements. The Committee further recommended that the Government should ensure that it harmonised the discrepancies with respect to the payment of salaries at respective prevailing exchange rates.

### **Executive's Response**

The Executive responded that in the quest for continued support towards the recapitalisation of TAZARA, the Treasury in 2020 had released K1, 250,000 per month. The Treasury would endeavour to continue providing recapitalisation support to parastatals, revenue permitting. Additionally, the Government had been paying some retiree's retirement benefits. At the same time, management was studying how to rationalise the salaries without basing it on the dollar exchange rate. However, it was impossible to implement it, as the company was unable to pay the salaries as they fell due at the old rate.

### **Committee's Observations and Recommendations**

The Committee notes the positive strides taken so far and resolves to await a progress report on the finalisation of the issue of employee salaries with respect to payment of salaries on the prevailing dollar exchange rates.

#### **1.10 Commuter train operations**

The Committee had observed that TAZARA had two inter-state passenger trains that operated between Dar es Salaam and the New Kapiri Mposhi as a public service obligation and not as a profit making venture. The Committee also noted that on the Zambian Region the commuter train did not operate as expected in terms of local freight in comparison to how Tanzania was benefitting from the commuter train, which translated into having fewer vehicles on their roads. The Committee had further observed that TAZARA only generated some meagre revenue on the commuter when it was on the Tanzania side, as Zambia did not have the numbers to generate revenue from the commuters. In light of this, the Committee had urged the Government to come

up with strategies that would ensure that Zambians living in the Northern corridor began to utilise the TAZARA commuter services, especially in transportation of farm produce, among others. Additionally, the Government should consider renegotiating the investment protocols with respect to the passenger train, as investment in the passenger train accrued very meagre benefits for Zambia, consequently putting a strain on the resources which could otherwise be used to invest in freight traffic.

### **Executive’s Response**

The Executive responded that TAZARA had planned to introduce a commuter passenger train in Zambia to operate between Mpika and Nakonde. This was enshrined in the TAZARA five – year Strategic Plan 2019/20-2023/24.

### **Committee’s Observations and Recommendations**

The Committee resolves to await a progress report on the actualisation of the plan to introduce a commuter train on the Zambian region.

## **PART II**

### **2.0 Consideration of the Action Taken Report on the Review of the Operations and Management of ZCCM-IH and ZAMTEL for the Third Session of the Twelfth National Assembly**

#### **2.1 Review of the Operations and Management of ZCCM-IH**

##### **2.1.1 Overlapping roles between IDC and ZCCM-IH**

With regard to the overlapping roles between IDC and ZCCM-IH, the Committee had noted the progress realised as IDC had directed ZCCM-IH to focus only on its core mandate by restricting itself only to mining and energy focused entities. The Committee had resolved to await a progress report on the actual hiving off of the non mining business subsidiaries.

### **Executive’s Response**

The Executive responded that in March 2020, the Board of ZCCM-IH approved the Group reorganisation and restructuring transaction between IDC and ZCCM-IH (“Group Restructuring” or “the Transaction”). The Group restructuring involved ZCCM-IH swapping its stake in Investrust Bank Plc and Mushe Milling Limited, non-mining assets with ZCCM-IH ownership, for IDC’s stake in Kagem Mining Limited. As ZCCM-IH was a listed entity on the Lusaka Securities Exchange, consummation of the Group restructuring was dependent on ZCCM-IH minority shareholder’s approval. A ZCCM-IH Extraordinary General Meeting in which ZCCM-IH minority shareholders would vote to approve the Group restructuring was expected to be held during the fourth quarter of 2020.

## **Committee’s Observations and Recommendations**

The Committee notes the response and resolves to await a progress report on the hiving off of the non-mining related business from ZCCM IH.

### **2.1.2 Creation of a Sovereign Wealth Fund (SWF) best model to manage ZCCM–IH**

Following the submission that the Government was committed to ensuring that the Sovereign Wealth Fund (SWF) was created, the Committee had resolved to await a progress report on the actual setting up and performance of the SWF

#### **Executive’s Response**

The Executive responded that government had not yet established the Sovereign Wealth Fund (SWF) because the prevailing macroeconomic environment, including the constrained fiscal position of Government, had not been conducive for its establishment. Furthermore, the constrained fiscal space called for Government to mobilise the maximum domestic resources possible to meet immediate national needs, which included funding for essential developmental projects and programmes, servicing of debt obligations, and procurement of essential commodities such as fuel and medicines for the hospitals. However, in spite of the challenges, the Government remained committed to the establishment of the Sovereign Wealth Fund, from which resources would be used to diversify the economy and mitigate negative externalities associated with mining operations. Government, in this regard would endeavour to establish the SWF once the macroeconomic environment had improved and adequate surpluses were accumulated.

## **Committee’s Observations and Recommendations**

The Committee resolves to await an update on the actual establishment of the SWF which is subject to improved fiscal performance.

### **2.1.3 Lack of capacity to monitor mining processes and declaration of taxes**

The Committee requested for an update on how the mechanisms and policies put in place under the Mineral Value Chain Monitoring Project (MVCMP) would help to ensure a fool proof monitoring framework. The Committee further reiterated its previous request for a progress report on the implementation of the Extractive Industries Transparency Initiative framework (EITI).

#### **Executive’s Response**

The Executive responded that the development and roll–out of the electronic platform called Mineral Output Statistical Evaluation System (MOSES) to all base and precious metal producers and traders had helped the Ministry of Mines and Mineral Development to strengthen the monitoring of the entire mineral value chain from production to the point of export.

This was because companies were now mandated to report their production and trade as well as apply for export permits using the System in a closed loop. By looking at the data submitted in the System, the Ministry was able to tell the following for each mining company:

- i. How much ore was mined per month.
- ii. How much Ore was processed and what products were produced during that month.
- iii. Who the mine traded with, which was also verified by counter-checking that company's trade partner report.
- iv. How much stock the mining company had.
- v. Approve export permits depending on the stock that the companies had reported in the System.

Since the MOSES was interfaced with the ASYCUDA at ZRA, the companies were now only able to export what had been approved on the export permit as there was a quota count-off and other compliance aspects embedded in the process.

Considering that accurate analysis of the minerals to was critical ascertain the correct value, XRF Analysers had been procured and deployed for quality verification at strategic mineral exit points to further enhance monitoring. These had also been interfaced with the ASYCUDA for automated sharing of mineral analysis data in an effort to ensure that the quality verification of the monitoring mechanism was foolproof and minimise possible revenue leakage through under-declaring of mineral content by some dealers intending to defraud the nation.

The implementation of EITI in Zambia was spearheaded by the Zambia EITI Council composed of eighteen members from the three stakeholders (Government, mining companies and civil society organisations). The Council was chaired by the Secretary to the Treasury. The Council had a secretariat which implemented its decisions. Currently, the implementation of EITI in Zambia was funded by the Government of the Republic of Zambia, and the multi-donor Trust Fund supervised by the World Bank (this World Bank grant closed on 31<sup>st</sup> March, 2020). At international level, the implementation of EITI was supervised by the EITI International Board supported by the EITI International Secretariat. The Board ensured that EITI standards and rules were adhered to by EITI fifty three member countries, which included Zambia.

The ZEITI had so far produced eleven reports, covering the period from 1<sup>st</sup> January, 2008 to 31<sup>st</sup> December, 2018. Currently, the ZEITI was producing the 2019 report which would also include highlights of the impact of the Covid - 19 Pandemic on the mining sector.

The latest ZEITI report indicated that Government received K16.5 billion in revenue from the mining sector in 2018 compared to K12.3 billion in 2017. According to the data collected from the Government agencies, the extractive companies and ZCCM-IH, the payments generated by the extractive sector totalled K17,978.12 million in 2018 against K13,217.32 million in 2017. The payments to Government agencies amounted to K16,551.87 million representing 92.07 per cent of the total payments made by the extractive companies and ZCCM-IH in 2018.

According to the data provided by the Government agencies and ZCCM-IH, the dividends and interest received by the state owned enterprises amounted to K812.79 million in 2018 while the transfers of tax and non-tax payments and dividends amounted to K127.65 million.

The contribution of the extractive sector overall increased compared to 2017 except for exports which recorded a decrease by 2 per cent.

During the quarter under review, the ZEITI commenced the drafting of the Transparency Bill. The transparency legislation would provide a legal framework for implementing the EITI in Zambia. The Transparency Bill would also enhance the implementation of the EITI Standard, especially EITI requirements that might require legal and technical reforms. A case in point was that of requirements related to contract transparency and project level reporting, among others. The Transparency legislation would support the current evolution of EITI implementation which placed mainstreaming at the centre.

The next steps would involve undertaking the Regulatory Impact Assessment (RIA) and the stakeholder consultative meetings. The Business Regulatory Review Agency (BRRA) under the Ministry of Commerce, Trade and Industry would provide the technical support to conduct the RIA. An implementation plan would be developed after the RIA process.

Zambia EITI finalised a study on Artisanal and Small-Scale Mining (ASM) in Zambia. The main objective of the study was to examine ASM activities in Zambia by highlighting how widespread the ASM activities were; the potential of ASM to contribute to economic diversification and job creation; its impact on the environment and issues of gender and child labour; and the challenges inhibiting growth of the sub-sector.

Zambia EITI also commenced the feasibility study on mainstreaming the EITI implementation in Zambia. The study would review the various disclosure platforms for government agencies and companies that disclosed information to the EITI reporting process. The study would document the gaps and recommend solutions to address the identified gaps. The gaps would be classified under either technical or legal gaps.

Finally, the study would provide a model resource mobilisation plan for the building of a disclosure portal in line with the mainstreaming requirements under the EITI Standard. Zambia EITI had been working with the Patents and Companies Registration Agency (PACRA) on the collection of beneficial ownership information. Currently, PACRA and the ZEITI were working on a pilot on enhancing skills of staff at PACRA on data screening and verification. The pilot would be supported by the Open Ownership (OO).

Further, Government through the Ministry of Finance tasked the Zambia Revenue Authority (ZRA) to spearhead the implementation of an inter-institutional project called the Mineral Value Chain Monitoring Project (MVCMP). The main objective of the Project was to implement an electronic mineral value chain monitoring mechanism that would provide verifiable information on mineral output in Zambia.

The initial Project budget was US\$10.2 million, which was provided by the Norwegian Government, the Consortium of Donors, a World Bank managed Fund through the Public Finance Management Reforms Programme (PFMRP) and counterpart funding from the Government of Zambia. The support from both cooperating partners had since come to an end and therefore, the Project was currently depending on Government funding for its operations.

### **2.1.3.1 Project Implementation:**

With regard to the major milestones of the Project, the Government submitted that the following had been achieved:

- i. The roll-out of an electronic platform for the submission of monthly mineral returns and for the processing of mineral export permits called the Mineral Output Statistical Evaluation System (MOSES);
- ii. Interface of the export permitting module of MOSES with the ASYCUDA World, for the control of mineral exports;
- iii. Procurement and deployment of XRF Analysers for mineral quality verification at strategic exit points;
- iv. To improve compliance levels for the small-scale miners, the Project had developed a mobile phone-based system called the USSD for reporting mineral returns;
- v. Developed interfaces between the MOSES and other relevant systems in other stakeholder institutions such as the Cadastre System for the mining rights and the Tax Online for the TPIN register; and
- vi. Installation and operationalisation of the Laboratory Information Management System (LIMS) at the three Labs, namely the Geological Survey Department (GSD) of the Ministry of Mines and Mineral Development; Zambia Bureau of Standards (ZABS) and Zambia Revenue Authority in Kitwe.

#### **b) Major Benefits Realised**

A number of benefits had been realised under the Project. Some of the benefits that the Project output had yielded included:

- i. Additional revenue of about K10 million through audits of some under-declarations conducted by Mineral Data Analysis Centre (MIDAC) and the ZRA Mining Audit Unit;
- ii. Besides the audits being conducted by the Audit and Business Risk (ABR) Unit of ZRA, various laboratory activities had yielded in excess of K4 million in additional revenues of export duties;
- iii. The electronic system had made it easy to access, verify and exchange data on mineral production and trade, and the submission of monthly mineral returns by the twelve major mining companies was now on time;
- iv. With the introduction of the USSD platform for mineral returns submission, compliance on the part of the small scale had started to increase; and
- iv. The general awareness that Government was closely monitoring the minerals had increased the general compliance across the sector.

#### **c) Pending critical areas to be addressed:**

- i. On the aspect of resolving the pending critical areas with regard to project implementation on the enhancement of capacity to monitor mined minerals the following were undertaken. Introduction of the gemstone and industrial mineral dealers onto the electronic platform.
- ii. E-payment platform for the mineral export permit process.

- iii. Enhancement of the Mineral Output Statistical Evaluation System to handle the conflict minerals monitoring in line with the International Conference on the Great Lakes Region (ICGLR) protocols.
- iv. More sensitisation of the small-scale mining sector players on the use of the USSD platform.
- v. Interfacing of the ASYCUDA World with the Road Development Agency system for the exchange of mineral quantity data; and
- vi. Finalisation of the laboratories.

Additionally, the Government submitted that the above outlined pending issues were not attended to due to fiscal challenges which had led to failure to pay for shared services and facilities that the Project had implemented, such as the hosting of the MOSES Servers with the Zambia National Data Centre, the monthly network fees for the connectivity to the regional Mining Bureau Offices, License Fees for the MOSES and Laboratory Information Management System (LIMS) annual fees.

#### **d) Proposed Way Forward:**

The Government submitted that in consultation with various stakeholders, the Project made a submission to the Steering Committee that the Government should consider establishing an independent authority (regulator) for the monitoring of the mining sector. To this end, the Ministry of Mines and Minerals Development (MMMD) had commenced the process of establishing a commission for the mining sector. As a result, the Project was, therefore, undergoing the closure process with the aim of handing over the system and other monitoring infrastructure to the Minerals Commission or the MMMD, by end of 2020.

#### **Committee's Observations and Recommendations**

The Committee resolves to await a progress report on the promulgation of the Transparency Bill which will enhance the implementation of the Extractive Industries Transparency Initiative Framework (EITI). Additionally, the Committee resolves to await a progress report on the implementation of the pending critical areas to be addressed when funds are available. The Committee further resolves to await a progress report on the implementation of the proposal to establish an independent authority as a regulator which will be responsible to supervise the mining sector.

##### **2.1.4 Shift from a Dividend Model to a Revenue Sharing Model**

Following the submission in the Action Taken Report that the proposal to shift from a dividend to a revenue sharing model needed thorough and detailed research, the Committee urged the Executive to expedite the process of undertaking the requisite research to determine the impact of the shift from a dividend to a revenue sharing and royalty model. The Committee resolved to await a progress report on the matter.



## **Executive's Response**

The Executive responded that ZCCM-IH had engaged its partners and expressed its intention to extract more value from its existing portfolio by adopting a royalty model through which ZCCM-IH would get a share of revenues of the mining operations where it held significant minority shareholdings. This was to ensure that there was predictability of income into ZCCM-IH which could then be utilised for new investments as envisaged in the Strategic Plan (2020 – 2026) as well as ensure that the cash flows supported consistent dividend pay-outs to ZCCM-IH shareholders.

Discussions had been initiated with several strategic partners and the expectations were that one agreement would be signed in 2020 that would serve as a template that would be rolled out across the whole portfolio. With continued support from the Government for this initiative, ZCCM-IH would be able to leverage its stronger balance sheet to drive development and value addition in the mining sector.

## **Committee's Observations and Recommendations**

The Committee resolves to await a progress report on the signing of the agreement with regard to the proposed shift from dividend to revenue sharing model.

### **2.1.5 Revamping of Ndola Lime**

Following the Executive's response that ZCCM-IH was in discussion with potential equity partners who had shown interest to invest in Ndola Lime Company and that, the discussions would progress once the High Court had decided on the matter regarding the business rescue proceedings which were brought against the company by two of its former employees, the Committee had resolved to await a progress report on the matter.

## **Executive's Response**

The Executive submitted in the Action Taken Report as outlined below.

### **Scheme of Arrangements**

ZCCM-IH applied to Court, and received approval through a Scheme of Arrangements to restructure Ndola Lime by way of:

- i. incorporation of a new company, called Limestone Resources Limited;
- ii. payment of all trade creditors in full, except for interest;
- iii. impairment of ZRA and ZCCM-IH obligations;
- iv. payment of NAPSA obligations as at 31<sup>st</sup> July, 2019;
- v. retrenchment and payment of workers and their re-engagement under revised conditions as Limestone Resources employees;
- vi. transfer of all assets and business of Ndola Lime to Limestone Resources;
- vii. recapitalisation of Limestone Resources through partnering with a Strategic Equity Partner; and

viii. liquidation of Ndola Lime

The key remaining critical path items of the arrangement as at 10<sup>th</sup> August 2020 were that:

- i. All trade creditors and employee terminal benefits had been paid, however, there were still fees outstanding for the Competition and Consumer Protection Commission (CCPC) and Zambia Revenue Authority. To this end, the assets and business of Ndola Lime could not be transferred to Limestone Resources until these fees were paid.
- ii. There was also an outstanding Environmental Fund obligation; of which the mining license could not be transferred to Limestone Resources without settlement of this obligation.
- iii. NAPSA did not support the scheme and voted against it. This entailed that the NAPSA obligations continued to accrue.

### **Strategic Equity Partner**

Requests for proposals were sent to six interested Parties. The closing date for proposals was 15<sup>th</sup> June, 2020. Evaluation of the preliminary proposals submitted was completed, and bidders notified on 13<sup>th</sup> July 2020; allowing for the five selected bidders to conduct a physical due diligence of the plant before submitting their final Financial and Technical Proposals.

The selection process and final proposal to the ZCCM-IH Investment Committee of the Board was expected to be completed in September, 2020.

A transition framework activity schedule for the activities required to transfer the assets from Ndola Lime to Limestone Resources had been completed.

### **Committee's Observations and Recommendations**

The Committee notes the response and resolves to await an update on the finalisation of the transfer process to a Limestone Resources Company and the engagement of the equity partner.

#### **2.1.6 Investigations through Interpol on the Procured Kiln**

The Committee had resolved to seek a progress report on the engagement of Interpol to pursue the matter in which over US\$ 7, 976,140 had to be accounted for and had urged the Executive to expedite the process as well as provide a time frame for completion of the inquiry.

### **Executive's Response**

The Executive responded that the matter was being pursued through Interpol. An update would be provided as the investigations progressed.

### **Committee's Observations and Recommendations**

The Committee is deeply concerned over the inordinate delay and apparent lack of commitment from the Executive in resolving this issue and calls for more concerted efforts by the relevant

Government agencies, so as to bring the culprits to book. The Committee resolves to await a progress report on the matter.

## **2.2 Review of the Operations and Management of ZAMTEL**

### **2.2.1 Partnering with a Strategic Equity Partner**

The Committee had noted the Executive's response that a number of options for reviving the fortunes of Zamtel had been developed, including invitation of a strategic equity partner and business re-engineering. The Committee had resolved to await a progress report on the specific option which was to be pursued and guided by the IDC Board of Directors. The Committee had also resolved to await an update on the ongoing restructuring of Zamtel which IDC was undertaking in an effort to make it a viable company.

#### **Executive's Response**

The Executive responded that it had taken note of the Committee's recommendation. Furthermore, government had expunged from Zamtel's balance sheet US\$280 million by way of debt to equity conversion and transferred assets with associated liabilities to Infratel. Additionally, the other debt, amounting to US\$149 million was transferred to Infratel with associated passive telecommunication assets and the balance plus accrued interest was converted into equity by debt to equity conversion.

The Executive further submitted that, prior to considering engaging a Strategic Partner, the shareholder sought to enhance the value of the company by further restructuring its balance sheet through conversion of the remaining part of Government guaranteed loans. Further, listing of Zamtel on the Lusaka Stock Exchange remained within Zamtel's long term financial strategy of raising capital for investments.

#### **Committee's Observations and Recommendations**

The Committee notes the strides made and resolves to await an update on the strategy to enhance the value of the company that would in turn aid in engaging a strategic partner.

### **3.0 Committee's Observations and Recommendations arising from the Local Tour undertaken during the Second Session of the Twelfth National Assembly**

Arising from its findings during the local tour and on the spot check of the infrastructure in selected parastatal institutions, the Committee made the observations and recommendations set out below.

#### **3.1 Tour of ZESCO–Kafue Gorge Lower Green field Project**

- i. The Committee had noted with concern that making ZESCO a regional hub for power generation had been impeded by the delay to conclude the Cost of Service Study. The Committee had urged the Government to expedite the process, and resolved to await a progress report on the matter following the submission that it was expected that by the

end of the year 2019, the consultant would be engaged and by early 2020 the report would be completed.

### **Executive's Response**

The Executive submitted that the Ministry through the Energy Regulation Board (ERB) entered into a contract with Energy Market and Regulatory Consultants (EMRC) on the 31<sup>st</sup> of October, 2019. The twelve months study was officially launched in December, 2019 and was expected to be completed by end of November, 2020. However, due to COVID-19 the study had been extended to be completed in March, 2021.

### **Committee's Observations and Recommendations**

The Committee notes the response and resolves to await an update on the finalisation of the Cost of Service Study by March, 2021.

### **3.2 Tour of Nitrogen Chemicals of Zambia (NCZ)**

- i. The Committee had resolved to await a progress report on the proposals from the technical specialists, which were yet to be considered by the Board of the IDC as per corporate governance requirement of the IDC. The Committee had noted the options, which included the following:
  - a. Tolling (arrangement whereby a firm used the NCZ plant to produce fertiliser at a fee);
  - b. Business re-engineering;
  - c. Strategic equity partner; and
  - d. Liquidation

### **Executive's Response**

The Executive submitted that the IDC was exploring the following strategies on NCZ:

- a. Tolling (arrangement whereby a firm used the NCZ plant to produce fertiliser at a fee);
- b. Fertilizer blending; and
- c. Strategic equity partner (in addition, IDC had received expressions of interest from prospective partners which were currently under review).

### **Committee's Observations and Recommendations**

The Committee notes the response and expresses concern over the inordinate delay to implement the identified strategies. The Committee urges the Executive to prevail upon IDC to ensure that these strategies are expeditiously implemented.

### **3.3 Zambia Railways Limited (ZRL)**

- i. The Committee had noted the response with concern that as opposed to separating the railway business with the railway infrastructure, the government resolved to expand the

mandates of RDA, NRFA and RTSA. The Committee was of the view that this would make these entities difficult to manage and would not achieve the intended goal of separating rail management and maintenance from the core business. In this regard, the Committee had urged the Government to reconsider its position, and had resolved to await an update on the matter.

### **Executive's Response**

The Executive submitted that in order to address the concern of creating entities that might be difficult to manage, the Government was undertaking a study to ascertain how feasible the operations of the road sector agencies would be if their mandates were expanded to include the railway and water transport sub sectors. The findings of this study would determine whether or not a stand-alone Authority would be established.

### **Committee's Observations and Recommendations**

The Committee is pleased with the response and resolves to await an update on the findings of the study, on how the recommendation to separate the railway business from the railway infrastructure will be implemented.

- i. The Committee had recommended that management of ZRL must, without fail, enforce the judgment which was passed in its favour by repossessing the land from the Luanshya Local Authority, and demolish any developed properties that were built within a 50 metre radius of the railway line. In addition, the Committee had recommended that the Ministry of Lands and Natural Resources and the local authorities should with immediate effect revoke all the certificates of title that were illegally issued in relation to land belonging to ZRL.

The Committee had noted the response with respect to the impasse regarding Zambia Railways Limited and the Local Authority (Luanshya Municipal Council) on the claim that Luanshya Municipal Council had encroached on the land belonging to ZRL land and allocated parts of the same to some members of the public who even proceeded to acquire title deeds from the Ministry of Lands and Natural Resources. The Committee had resolved to await an update on the matter considering that it was before the court.

### **Executive's Response**

The Executive submitted that the matter awaited hearing. Since the case remained active in Court, the process of revocation of all certificates of title issued with respect to farm 1392 and 1393 could still not progress. Similarly, progress on demolition of the illegal structures built on these pieces of land could not progress until the matter was determined.

### **Committee's Observations and Recommendations**

The Committee notes the response and resolves to await an update on the court process.

- i. The Committee was extremely disappointed with the pace at which the matter regarding BUK was being handled. The Committee urged IDC to intervene and find a lasting solution to the issue. The Committee resolved to await a progress report on the counter proposal to buy wagons as opposed to installing the redundant CTC equipment at Lusaka Station, following the discussion that was held between Bombardier and ZRL. However, the Committee called upon the IDC to be proactive and exert pressure on Bombardier for a response to the counter proposal or institute litigation for the recovery of the funds without further delay.

### **Executive's Response**

The Executive submitted that ZRL previously reported that Arbitration proceedings in the matter between ZRL and BUK Truck Parts Limited and African Grey Insurance Limited had not commenced. The parties had been mutually exploring an ex-curia settlement to avoid added costs associated with Arbitration, and alternatively, were pursuing the sending of the matter back to the High Court for determination. To that effect, as at 31<sup>st</sup> July, 2020, the parties exchanged various claims and were scheduled to sit down with their respective lawyers to resolve the matter. As regards the issue of the US\$3.60 million, ZRL expected to be paid back the US\$3.60 million in kind before the ZRL rehabilitation and modernisation project under Team Sweden Rail (TSR). Therefore, as conditions precedent to the commencement of the main project, the US\$3.60 million before the main agreement could be signed. The US\$3.6 million contract was expected to be signed in the 3<sup>rd</sup> quarter of 2020.

### **Committee's Observations and Recommendations**

The Committee is disappointed that the issue has not been conclusively resolved despite various engagements among the parties. In this regard, the Committee strongly urges the IDC to intervene and to request the shareholder to engage the Swedish Government on the issue, which seems to have no resolution year after year.

- i. The Committee had observed with concern the manner in which the issue of the flush-butt welding machine was being handled. The Committee was disappointed that colossal sums of money were spent and Diamond Motors Limited had still not honoured its contractual obligations. The Committee directed the IDC to engage the Ministry of Home Affairs for the release of the wrongly impounded mobile flash butt machine. The Committee further directed that the matter should be resolved without any further delay. The Committee resolved to await an update on the matter.

### **Executive's Response**

The Executive responded that the matter awaited commencement of Arbitration after payment by each party of the arbitration fee being 20 per cent of the total amount claimed. Similarly, the mobile flash butt machine was still in police custody and had not been delivered to ZRL. The IDC was pursuing the matter with the Ministry of Home Affairs to have the equipment released so that the supplier could fit the cab and conclude other pre-delivery processes and officially deliver to ZRL. In light of the above, ZRL would carry out technical inspection of the equipment and may accept or reject the equipment, based on the technical inspection. If ZRL accepted the

equipment, ZRL's claim of US\$1,035,058.00 would accordingly reduce. Notwithstanding all other processes being undertaken, ZRL would still proceed with arbitration parallel to this so as to secure its claims against the supplier. Should there be any partial or full agreement towards resolution of the matter between the parties the arbitration process would be revised accordingly and the claims amended accordingly.

### **Committee's Observations and Recommendations**

The Committee is extremely disappointed that the matter has not been resolved and observes with concern that the equipment is still in the custody of the police without any justification. The Committee resolves to await an update on the matter.

- i. The Committee had noted the response with disappointment that Bombardier had accepted to settle the outstanding US\$3.60 million in kind and that the Ministry of Finance and IDC had continued to engage Team Sweden Rail (TSR) on rehabilitating the railway track infrastructure, including the signalling system and the purchasing of rolling stock. The Committee was disappointed over the inordinate delay in concluding the matter and had requested IDC to ensure that a time frame be set within which the transaction should be finalised.

### **Executive's Response**

The Executive responded that ZRL expected to be paid back the USD3.6 million in kind before the ZRL rehabilitation and modernisation project under Team Sweden Rail (TSR). Therefore, the conditions precedent to the commencement of the main project, the USD3.60 million would be paid back to ZRL. Furthermore, there would be a separate contract for the USD3.6 million before the main agreement could be signed. The USD3.6 million contract was expected to be signed by 31<sup>st</sup> August, 2020.

### **Committee's Observation's and Recommendations**

The Committee is disappointed that the matter keeps is yet to b resolved despite various engagements among the concerned parties, including IDC and ZRL. The Committee recommends that the matter should expeditiously be resolved and will await a progress report.

The Committee had noted the Executive's response that GRZ (IDC, MoF and ZRL) had reached an advanced stage in concluding an EPC+F agreement with Team Sweden Railway (Bombardier Transportation Sweden AB, Yaporay and PT INKA), for the rehabilitation of rail (Livingstone and Kabwe) and procurement of wagons. The Committee also noted that the investment was backed up by the Kingdom of Sweden by a strong financial solution through the Swedish Credit Agency ("EKN") and the Swedish Credit Corporation ("SEK"), refereeing to Letter of Interest dated 14<sup>th</sup> May, 2019. The Kingdom of Sweden would also support and finance the completion of the Environmental Social Impact study as well as finance an independent consultancy for an assessment and feasibility of the suggested project. The Committee further noted that IDC was the counterparty of Swedfund and resolved to await an update on the actualisation of the project.

## **Executive's Response**

The Executive submitted as outlined below.

### **Feasibility Study**

The consultant undertaking the feasibility assessment of the investment proposals submitted the final report where they confirmed most of the proposed interventions by Team Sweden Rail.

### **Environmental Social Impact Assessment (ESIA)**

The consultant (Arup) undertaking the ESIA submitted an interim report indicating that a full ESIA report was required by Zambia Environmental Management Agency (ZEMA) as opposed to a Project Brief as originally envisaged. As a result, the ESIA would be carried out by Azurite, a local partner of Arup. Furthermore, the full scope of ESIA was expected to be submitted to ZEMA in August, 2020. In order to establish the level of environmental impact, a full track assessment would be undertaken by YapiRay within the month of August, 2020.

### **Procurement Evaluation**

Team Sweden Rail was awarded a contract by IDC for the recapitalisation of ZRL after obtaining a no objection from Zambia Public Procurement Agency (**ZPPA**). Further a draft contract was submitted to Zambia Railways by IDC for review and preparation for the negotiation process.

### **Contract Negotiation**

The contract negotiation had since commenced and was expected to conclude in September, 2020.

## **Committee's Observations and Recommendations**

The Committee notes the response and resolves to await a progress report on the matter.

### **Mukuba Hotel**

- i. The Committee had noted the response and expressed concern that there was no time frame indicated within which Mukuba Hotel's operations would be revamped. The Committee resolved to await an update on the matter.

## **Executive's Response**

The Executive responded that IDC, as a shareholder, was in the process of pumping in a shareholder loan that was expected to go towards rehabilitation of the hotel facilities. The contractors had indicated that it would take approximately one year to complete the works. Regarding the timeline, the IDC was projecting revamping the hotel towards the next Trade Fair in 2021.



## **Committee's Observations and Recommendations**

The Committee resolves to await an update on the matter.

- i. The Committee had noted the response that the IDC had engaged a turnaround manager for a period of six months and within that period the company had posted its first profit. At the end of the turnaround period, additional recommendations were made which were followed through by the Board of Mukuba Hotel. The Committee had resolved to await a progress report on the matter.

## **Executive's Response**

The Executive responded that IDC had elected to inject a shareholder loan into Mukuba Hotel to go towards rehabilitation of the hotel facilities and revamp its operations. The IDC allocated a K14 million facility to facilitate the works. In May, 2020, a tender for modern architectural designs was floated and subsequently awarded to a local architect to develop modern concepts of the hotel and provide a bill of quantities for the planned refurbishment works on the hotel.

## **Committee's Observations and Recommendations**

The Committee resolves to await an update on the actualisation of the rehabilitation of the hotel.

## **Mpulungu Harbour**

- i. The Committee had noted the response that the parties were in a dispute with respect to the actual amounts owed between them, since Mpulungu had raised a counterclaim. Consequently, they were still reconciling the figures and a position would be advised once reconciled. The Committee had resolved to await a progress report.

## **Executive's Response**

The Executive responded that Mpulungu Harbour Corporation Limited received a counter claim from Pendulum for K357, 347.00. The verification exercise for receipt books deemed to have been lost was carried out, with only three out of fifteen receipt books unaccounted for. The re-assessed position discounting the three unaccounted for receipt books was K982, 775.00 owed by Pendulum. Mpulungu Harbour Management needed to agree with this new position as well as payment plan with Pendulum.

## **Committee's Observations and Recommendations**

The Committee notes the response and resolves to await an update on the matter.