REPORT

OF THE

BUDGET COMMITTEE

FOR THE

THIRD SESSION OF THE TWELFTH NATIONAL ASSEMBLY

Printed by the National Assembly of Zambia

REPORT

OF THE

BUDGET COMMITTEE

FOR THE

THIRD SESSION OF THE TWELFTH NATIONAL ASSEMBLY

TABLE OF CONTENTS

REPORT OF THE BUDGET COMMITTEE FOR THE THIRD SESSION OF THE TWELFTH NATIONAL ASSEMBLY

1. Composition of the Committee

Mr M Simfukwe, MP (Chairperson); Ms M Subulwa, MP (Vice Chairperson); Mr L A Lufuma, MP; Mr S K Kakubo, MP; Mr P Phiri, MP; Mr F C Chaatila, MP; Mr D Mumba, MP; Mr M L Kafwaya, MP; Mr J Siwale, MP; and Mrs S S Mulyata, MP.
The composition of the Committee changed following the appointment of Mr M L Kafwaya, MP, to a ministerial position. He was subsequently replaced by Mr R Nakachinda, MP.

The Honourable Mr Speaker
National Assembly
Parliament Buildings
LUSAKA

Sir,

The Committee has the honour to present its Report for the Third Session of the Twelfth National Assembly.

2. Functions of the Committee

The functions of the Budget Committee are to:

i) examine Estimates of Revenue and Expenditure including the Supplementary Estimates of Revenue and Excess Expenditure;
ii) report on economics, improvement in organisation, efficiency for administration reform, consistent with the policy underlying the Estimates and examine whether the money is well laid out within the limits of policy implied in the Estimates;
iii) study, inquire into and report on matters related to coordination, control and monitoring of the National Budget;
iv) conduct Budget hearings;
v) review Estimates of Revenue and Expenditure and make recommendations to the House;
vi) examine the Medium Term Expenditure Framework and budget policy statements presented to the House;
vii) examine money bills, including Excess and Supplementary Appropriation bills;
viii) examine tax rates and estimates, economic and budgetary policies and programmes with direct budget outlays;
ix) examine public debt before it is contracted; and
x) exercise powers conferred in Article 203 of the Constitution.

3. Meetings of the Committee

The Committee held ten meetings during the year under review to consider the two topical issues.

4. Programme of Work

At the commencement of the Third Session of the Twelfth National Assembly, the Committee adopted its Programme of Work, a summary of which is outlined below.

a) Consideration of the Action-Taken Report on the Committee's Report for the Second Session of the Twelfth National Assembly.
b) Consideration of two topical issues, namely: *the effects of trade deficit and high debt stock on budget performance in Zambia; and Maximising Revenue collection from Mines in Zambia.*
c) Local and Foreign Tours.
d) Consideration and adoption of the Committee's draft report for the Third Session of the Twelfth National Assembly.

5. Arrangement of the Report

The Committee's Report is organised in two parts: Part I presents the findings from the Committee's deliberations and tours on the two topical issues. Part II deals with the Committee's consideration of Action-Taken Reports on the Reports of the previous Committee.

6. Procedure Adopted by the Committee

The Committee requested detailed memoranda on the topics under consideration from relevant stakeholders. In order to fully interrogate the topical issues under its consideration, the Committee invited stakeholders to provide oral submissions and clarifications on issues contained in their written memoranda. The Committee also undertook local tours during the year under review.

PART I

CONSIDERATION OF TOPICAL ISSUES

TOPIC 1: THE EFFECTS OF TRADE DEFICIT AND HIGH DEBT STOCK ON BUDGET PERFORMANCE IN ZAMBIA

7. Background

Zambia's trade balance in the recent past had been adverse averaging negative ZMK 55.21 million from 2003 until 2019, reaching an all time high of ZMK 1484 million in January of 2011 and a record low of negative ZMK2678 million in October of 2015. According to the Bank of Zambia, the country recorded a trade deficit in the first and second quarters of 2018. Data collected by the Central Statistical Office had also shown that Zambia had persistently recorded trade deficits during the four year period from 2015 to 2018. Inevitably, this had adverse effects on the performance of the Kwacha in relation to other convertible currencies. Because Zambia was an import dependent country, the fall in value of the Kwacha put pressure on the budget.

With regard to debt stock, most stakeholders argued that the rising debt in Zambia may lead to adverse effects if not controlled. According to the IMF-World Debt Sustainability Analysis (DSA), the present value (PV) of external debt-to-GDP ratio would breach its threshold for high risk of external debt distress of 40 per cent in 2019. ZIPAR in its study on "Reversing Zambia's High Debt Distress" also stated that gains made from the reduction in wages, salaries and subsidies as a percentage of domestic revenues were wiped out by an increase in spending on interest payments which accounted for 29.0 per cent of domestic revenue in the first half of 2018. The study further indicated that planned debt servicing for 2018 was estimated at K14.1 billion and Government had over spent by K2 billion above its planned expenditure by the end of June, 2018. Undoubtedly, debt servicing had been crowding out expenditure to other key sectors such as health, education and social protection, to mention a few.

In light of the above, the Committee resolved to study the effects of the deteriorating balance of trade and high debt stock on budget performance in Zambia. The objectives of the study are:

a. appreciate the effect of the trade deficit on budget performance;
b. appreciate the effect of high debt stock on budget performance;
c. appreciate measures in place to improve the trade balance ;
d. identify the major drivers of Zambia's trade deficit;
e. appreciate measures in place to curb the increasing debt in Zambia;
f. appreciate Zambia's challenges in improving the balance of trade; and
g. recommend the way forward.

SUMMARY OF SUBMISSIONS BY STAKEHOLDERS

8. Listed below are the stakeholders who made submissions on the topical issue under consideration.

a. Ministry of Finance
b. Zambia Revenue Authority
c. Economics Association of Zambia
d. Zambia Association of Chambers of Commerce and Industry
e. University of Zambia, Economics Department
f. Zambia Institute for Policy Analysis and Research
g. Bank of Zambia
h. Ministry of Commerce, Trade and Industry
i. Jesuit Centre for Theological Reflection
j. Civil Society for Poverty Reduction
k. Zambia Association of Manufacturers
l. Central Statistical Office
m. Zambia Institute of Chattered Accounts

The submissions by the stakeholders who appeared before the Committee are summarised below.

8.1 MAJOR DRIVERS OF TRADE DEFICITS IN ZAMBIA

The Committee heard that a trade deficit occurred when export volumes fell short of import volumes and indicated a net importer position. According to the World Bank, Zambian exporters had a low export survival rate, whereby, out of 100 exporters each year, 41 exited in the following year. Consequently firms could not consolidate their export position. Additionally, the World Bank report showed that although demand for mining-related goods and services increased in the last decade, only about 4 per cent of these goods and services were locally sourced. According to the stakeholders who appeared before the Committee, the major drivers that influenced the persistent trade deficit in Zambia are those set out below.

8.1.1 Underdeveloped manufacturing sector and high import demand

Stakeholders submitted that manufacturing as a share of GDP in Zambia had remained significantly lower than comparable countries, recording only 7.7 per cent in 2017 while South Africa and the Sub-Saharan Africa averages stood at 11.9 and 9.9 per cent. Further, compared to the Sub-Saharan Africa average and South Africa, Zambia's share of imports to GDP averaged 36.6 per cent over the last decade while Sub-Saharan Africa and South Africa recorded 31.7 and 30.9 per cent respectively. Cumulatively, the foregoing implied that Zambia had a relatively low manufacturing sector and correspondingly imported more

than regional and comparable countries. This was one of the major contributors to trade deficits.

8.1.2 Trade Openness

Stakeholders informed the Committee that Zambia's openness to trade and its proximity to industrialised economies appeared to negatively affect her trade balance. Specifically, proximity and openness to imports from countries such as South Africa continued to be detrimental. This competition had been seen to consistently choke the development of domestic industries, thereby preventing local production, further enhancing the dependency on imports for final consumption.

8.1.3 Constrained market access and technical barriers to trade

Stakeholders submitted that constrained market access and technical barriers to trade continued to hinder trade flows across borders. They argued for instance that Zimbabwean agro-products flooded the Zambian market but many of Zambia's domestic agro-products were unable to access the Zimbabwean market due to restrictions. Stakeholders further submitted that some neighbouring countries had put in place measures to protect their local industries through measures that discouraged importation of goods that were manufactured locally. They highlighted that countries like South Africa had put in place measures to curb importation of goods that could easily be manufactured locally through smart protectionism without violating any trade agreements.

The stakeholders further explained that Tanzania had enforced smart protectionism in their transport sector by disallowing entry of all trucks that were longer than a set length or standard. On that account, Zambian trucks were found to be longer and could not be allowed entry into Tanzania as they were deemed not to have met the Tanzanian required standards. Furthermore, they submitted that transport costs were also among the leading causes for the trade deficit as foreign truckers had become major transporters for most Zambian imports. In essence, this meant that the transport jobs were also being imported in that regard as Zambia allowed all the foreign trucks on its roads whilst her trucks were not allowed in certain countries on account of not having met the local standards for those countries.

8.1.4 Failure to diversify

Stakeholders informed the Committee that failure to diversify the economy was one of the major drivers of the trade deficit as the country still depended on copper exports, which accounted for over 80 per cent of Zambia's exports. They advised that the country needed to invest in agriculture and tourism. They contended that despite having the Vision 2030, Seventh National Development

Plan (7NDP) and Economic Stabilisation and Growth Programme as major documents whose central theme was economic diversification, there was nothing to show for it. They stated that successful implementation of the strategies contained in those documents was critical in ensuring sustainable economic diversification.

While noting that economic diversification was important in achieving a positive trade balance, stakeholders also observed that the implementation of the diversification strategies had not achieved the desired results from the First National Development Plan in the 1960's to the Seventh National Development Plan as they had only been relevant as a political slogan without or with limited implementation. In this regard, they submitted that the Government needed to implement the diversification strategies in the three stated key documents if Zambia was to realise its diversification aspirations.

8.1.5 Limited value addition to exports

The Committee was informed that Zambia's trade deficit could also be associated with lack of or limited value addition to exports. Stakeholders submitted that Zambia preferred to export raw materials to other countries as opposed to adding value by processing them into finished products for export. In that regard, they contended that Zambia was exporting employment opportunities to other countries at the expense of its own people, thereby contributing to the widening trade deficit in Zambia.

8.1.6 Mining sector related deficits

Stakeholders informed the Committee that mining companies in Zambia consumed significant levels of imported goods because of their large and capital-intensive operations. When the mines intended to increase production, they needed to increase imports of equipment and machinery as well as other intermediate goods. Mining-related imports had in recent years constituted a significant portion of industrial related imports (excluding petroleum products, vehicles, paper, plastic products, and food). They further submitted that industrial related imports were not bad in their own right as those imports were meant to increase export capacity in the long run by increasing the production of export goods. Mining sector imports accounted for more than 50 per cent of total imports, the highest proportion being the copper ores from the Democratic Republic of Congo.

Further, they submitted that the volatility in copper prices had been noted to cause fluctuations in the value of exports owing to the large proportion of copper in exports. As a driver of trade deficits, therefore, lower copper prices implied a lower value of exports with the same amount of output and thus were likely to lead to trade deficits. In addition, a decrease in copper prices implied a decrease in the inflow of foreign currency which was necessary for offsetting

the amount of imports the economy could demand on account of reduced foreign currency. In this regard, they observed that price movements and changes in investment in the mining sector always affected the current account, hence the need for diversification.

8.1.7 Policy inconsistency and unstable tax regimes

Stakeholders informed the Committee that policy inconsistency had the potential to derail or hinder new investments. In this regard, they submitted that it was important for the Government to ensure policy consistency and wide consultation of key players in the value chain during policy formulation to avoid unintended consequences.

8.1.8 Inadequate enforcement measures to curb illicit trade

Stakeholders informed the Committee that illicit trade in Zambia was on the rise and had created an uneven playing field for local manufacturers. They argued that this problem was purely due to lack of enforcement of necessary legislation, making the Government lose millions of kwacha at the expense of the legitimate players.

8.1.9 Low productivity Levels leading to import dependency

The Committee heard that due to unfavourable economic conditions, many firms faced low production levels, which left room for imports to flood the market. This had led to the decline and even closures of many firms, which had compounded Zambia's import dependency. For instance, the inability of the non-ferrous industry to access scrap from mining companies had limited their production capacity to less than 20 per cent of a potential 80 per cent capacity. Hence manufacturers and mining firms resorted to importation of such products. Furthermore, the skills gap and technological gaps had further limited productivity.

Stakeholders further submitted that the inability of manufacturers to break into sophisticated supply chains of foreign firms, had also led to the decline of productivity by manufacturers. This had contributed to the persistent trade deficit due to high import dependency on certain products. For example, the wood-processing sub-sector faced stiff barriers when accessing foreign owned retail stores, who continued to import wood products that could be sourced locally. In addition, many local organic products were also persistently rejected by retailers in favour of imports, which at times were genetically modified and potentially posed a health risk to the citizens.

8.1.10 Tedious export clearance procedures

The Committee heard from stakeholders that limited export skills, tedious clearance procedures and delays in cross-border activities discouraged many potential domestic exporters from accessing foreign export markets.

8.2 RAMIFICATIONS OF THE TRADE DEFICIT ON BUDGET PERFORMANCE

Stakeholders submitted that a widening trade deficit may have negative repercussions on the performance of the budget, such as those discussed below.

8.2.1 Reduced revenue from trade taxes

The Committee was informed that taxes on exports generated revenue for the Government. It, therefore, follows that higher exports yielded higher tax revenues and the contrary was also true. In this regard, the Committee was informed that a trade deficit resulting from lower exports could be associated with lower tax revenues and, therefore, could impact negatively on budget performance.

8.2.2 Higher Government expenditures

The Committee was informed that a trade deficit could lead to a depreciation of the Zambian Kwacha because of higher demand for foreign currency to pay for imports. The depreciation of the local currency made it more expensive for the country to pay for goods and services denominated in other convertible currencies. In that regard, high cost of goods and services increased Government expenditure on the goods and services imported, thus increasing the budget deficit and reducing the buying power parity of the local currency, which has the effect of further reducing the resources available to meet the public expenditure.

8.2.3 Constrained Economic Growth

The Committee heard that a positive trade balance boosted economic growth, which was critical in improving taxes, incomes, debt sustainability, and the ability of the economy to weather macroeconomic shocks. Conversely, a trade deficit had the opposite effect of constraining economic growth. This could lead to low budget performance or even an increase in debt accumulation in the quest to meet fiscal demands.

8.2.4 Negative impact on Employment

Stakeholders submitted that the other effect of a trade deficit was the creation of fewer jobs. When a country imported more than it exported, the result was fewer jobs or lower incomes for employees in domestic industries because of the competition from imports. They noted that Zambia had continued to import certain goods such as manufactured goods, rather than buying domestically, which in the long run could result in local companies running out of business. A reduction in employment creation reduced demand for goods and services at household level, which consequently reduced profitability of local manufacturers. This further affected the ability to pay corporate tax by manufacturers and pay as you earn at individual level, resulting in low tax earnings by the Government. The ultimate effect on the budget would be an underperformance budget due to limited resources as a result of the constrained domestic resource mobilisation.

8.3.0 MEASURES TO REDUCE THE TRADE DEFICIT

Stakeholders observed that the growing trade and current account deficits in Zambia should be of concern to policy makers because it made the country vulnerable to external shocks and more importantly, had a negative impact on employment creation and poverty reduction efforts.

Further, stakeholders observed that the trade deficit that currently existed in Zambia was fundamentally a structural issue. Not only was Zambia highly import dependent on both the goods and services sides, but also had a fairly narrow (undiversified, unsophisticated and minimal technology) export portfolio. In 2017, 75 per cent of Zambia's export value was in copper. Her import portfolio was made up of goods that could not be produced locally, and had no close substitutes. About 40 per cent of Zambia's goods imports in 2017 were made up of mineral fuels, machinery, and ores slag. Given the high commodity dependence, the economy was left vulnerable to external shocks such as global commodity price fluctuations and exchange rate shocks. In this regard, the stakeholders recommended the measures outlined below, which could help to reduce the trade balance deficit.

8.3.1 Manufacturing

Stakeholders submitted that according to a report by the United Nations Conference on Trade and Development (UNCTAD) (2014b), manufacturing had historically been the driver of economic growth and structural change. It opened opportunities for economies of scale, technological progress and learning. Further, stakeholders submitted that a World Bank report showed that the Zambian Manufacturing Share of GDP had reduced from 37.16 per cent of GDP in 1992 to about 8.08 per cent of GDP in 2017. They added that the constrained industrial base was one of the factors that had triggered

Zambia's propensity to import which also contributed to a trade deficit. Stakeholders, therefore, submitted that it was important for the Government to put in place an industrial policy and systems that would improve the productivity of major industries in the manufacturing sector.

8.3.2 Export promotion

Stakeholders submitted that with the right policies, Zambia could begin to revamp its non-traditional exports through policies that stimulated exports such as tax exemptions and subsidies. Further, the Committee heard that non traditional exports had sporadically improved over the last decade but generally remained constrained around $5 billion. Stakeholders informed the Committee that a 2012 International Growth Centre Study was commissioned to assess the potential for the diversification of Zambia's agricultural economy into non-traditional export markets by determining the prospects for growth, employment creation and, equitable wealth and income distribution in the sugar, cotton and coffee sub-sectors.

The study established that there was considerable potential for growth and employment creation in all the three sub-sectors through the expansion of agricultural production, as the country was well-endowed with natural resources that were well-suited for the competitive production of the three crops. Investigations into the export markets for sugar, coffee and cotton showed that there was a growing global demand for those commodities and that the current preferential trade arrangements governing those markets were important for ensuring market access for Zambian products and subsequently increased income potential for producers in those sub-sectors.

8.3.3 Develop adequate systems to support the industrial base

Stakeholders submitted that the country needed to invest in the development of productive capacities such as adequate infrastructure, in particular reliable water and electricity supply, access to an effective and efficient labour force and reliable transport system that would support the industrial base.

8.3.4 Need to Adopt and Implement Binding Fiscal Rules

Stakeholders submitted that in order to address the issue of expenditure-driven fiscal slippages and the resultant mounting debt overhang and escalation of debt service obligations, Zambia needed to adopt long-term binding fiscal rules that could operationalise the *Public Finance Management Act, No. 1 of 2018* more fully than the short and medium term policy instruments like the national budget, the Medium Term Expenditure Framework (MTEF) and the Medium Term Debt Strategy (MTDS). That would be important to ensure that legally binding numerical limits on fiscal spending, fiscal deficits and public debt contraction were set. Further, exceeding the set

limits should require Parliamentary approval and any breach of the limits should call for the highest sanctions at ministerial level. That would help promote fiscal discipline, budget credibility and specifically, over time, reduce the burden of debt service. In turn, it would also free up some resources for critical spending on social sectors, social protection and key infrastructure.

8.3.5 Deliberate policies to support value addition

Stakeholders informed the Committee that there was need for the Government to come up with deliberate policies to promote value addition to resources, as opposed to producing and exporting raw materials. They further submitted that value addition could be a means for employment creation and import substitution.

8.3.6 Support to micro, small and medium enterprises (MSMEs)

Stakeholders submitted that support to micro, small, and medium-sized enterprises was an essential source of job creation. In this regard, they submitted that ensuring that the MSMEs had access to affordable loans which should be a Government priority. The Government should ensure that policy instruments enticed banks to devote a share of their lending to MSMEs so as to increase their productive capacities. The Government should also ensure that it provided public guarantees for certain types of lending, as well as providing direct credit to MSMEs through public financial institutions such as the Development Bank of Zambia (DBZ) and the Citizens Economic Empowerment Commission (CEEC).

8.3.7 Promote consumption of local goods

Stakeholders submitted that promoting consumption of locally produced goods would reduce the demand for imports. If consumption of local goods went up, imports would drop, thereby reducing the demand for foreign exchange. In this regard, they submitted that the Government should take a lead in promoting the consumption and procurement of locally produced goods.

8.4 CHALLENGES IN ADDRESSING THE TRADE DEFICIT

Stakeholders identified the challenges set out below as constraining efforts to address the trade deficit.

i) continued dependency on copper production and export which faced price volatility, and affected budget performance negatively whenever the copper prices fell below certain prices;
ii) lower earnings from non-traditional export (NTEs) on account of low volumes and limited diversification;

iii) low domestic manufacturing of consumer and capital goods in the midst of high import demand generally weakened the Zambian Kwacha;
iv) persistent tax avoidance and evasion practices;
v) large tax exemptions on imports emanating from regional free trade areas; and
vi) volatility in macroeconomic fundamentals such as exchange rates, inflation and interest rates.

8.5 WAY FORWARD

Stakeholders submitted that in order to achieve a sustainable trade balance position, the country should accelerate its efforts to diversify and grow its NTEs portfolio. This would make the economy resilient to external shocks and increase the export earnings. Diversification would reduce the over-reliance on copper export earnings and as such minimise the impact of fluctuations in copper earnings on the trade deficit. They observed that after recording appreciable growth in NTEs in the early 2000s, progress had stalled in the recent past. It was, therefore, critical to continue striving to unlock the challenges that had made the share of NTEs to total exports on annual basis to remain low at around 20 per cent.

Further, the Government was implored to promote expenditure switching from foreign products to locally produced commodities. Some of the stakeholders were concerned that the Government had over the years outlined various strategies, but effective and consistent implementation had remained elusive. They advised that the Government should carefully balance short-term benefits with the medium to long term needs of the economy with regard to promoting growth and ultimately reducing poverty on a sustainable basis.

9.0 FACTORS INFLUENCING HIGH DEBT ACCUMULATION

Stakeholders observed that Zambia had set herself on an ambitious venture of attaining the status of a prosperous middle-income country by 2030. However, budget performance had been a big concern in the past four to five years, showing persistent deterioration in the economy's fiscal position, notably at the time when fiscal spending had grown and fiscal revenues had remained relatively low. Furthermore, the fiscal deficit and the debt stock had mounted, which meant that adding new debt service pressures on the already constrained public purse would impact the budget performance negatively. With the continued slowdown of Zambia's economic growth over the years, from a real GDP growth rate of 6.1 per cent per year on average over the period 2009-2014, to 3.8 per cent per year during the 2015-2018 period, restoring both robust economic growth and fiscal stability were the two biggest challenges the country was facing especially in the midst of high debt accumulation. Stakeholders identified the factors set out below as drivers of the high debt stock.

9. 1.0 Increased expenditure on developmental projects

The Committee was informed that the Government had continued to seek public spending on infrastructure development, such as roads. The Government had also continued to seek out investable funds which would help to support public spending. In that regard, foreign loans had become an attractive source in bridging the fiscal deficit.

9. 1.2 Declining foreign aid

Stakeholders submitted that cooperating partners had in the past helped to supplement resources that were available for developmental projects. However, resources from donors had declined over the years.

9.1. 3 Fiscal indiscipline and high interest rates from increased commercial loans

The Committee was informed that an uncurbed expansionary fiscal policy was one of the key causes of the current account deficit. Government spending had relied on commercial external borrowing which attracted high interest rates. Those funds were used to develop infrastructure by foreign owned firms that externalised their earnings, resulting in huge current account deficits.

9.1. 4 Non-Adherence to Austerity conditions

Stakeholders informed the Committee that non adherence to austerity measures increased expenditure and compounded the need to borrow. They further observed that the proposed 2019 budget already depicted misalignments with the 2018-2020 Medium-Term Expenditure Framework (MTEF) as some expenditures had exceeded the projected MTEF provisions.

9.2 RAMIFICATIONS OF HIGH DEBT STOCK ON BUDGET PERFORMANCE

Stakeholders observed that the fiscal instability that had persisted since around 2015 stemmed from the imbalance between persistently high fiscal spending and relatively flat fiscal revenue. The persistent fiscal deficits, which had been financed through increased borrowing, had contributed immensely to the increase in the total public debt from a low of 18.8 per cent of GPD in 2010 to 62.2 per cent of GDP in 2017. The negative ramifications of debt accumulation on budget performance were identified as set out below.

9.2. 1 Current Account Deficits

The Committee was informed that one of the causes of a current account deficit was the constant outflows of funds through debt serving and interest payments. These outflows consequently reduced domestic incomes, productivity and potential taxes, which further negatively affected budget performance.

9.2.2 Bulky debt Servicing and reduced expenditure on socio – economic activities

The Committee heard from stakeholders that the performance of the budget had been adversely affected by high foreign debt servicing. In that regard, they submitted that the burden of debt servicing diverted government public expenditure from needy areas or areas that supported economic activity. Further, they argued that Zambia's national debt had been on the rise at approximately 27 per cent of the 2019 budget, mainly to finance different developmental projects. The increase in debt had led to the deterioration of the country's current account position and hence a trade deficit.

Furthermore, the Committee was informed that Zambia spent US161.3 million on external debt servicing costs in the first half of 2018. With the Kwacha depreciating, trading between K10 and K12.50 in the latter part of 2018, that meant that more financial resources were required for public debt servicing.

Consequently, vital areas that required urgent attention would receive minimal attention. For instance, the total allocation to drugs had reduced from K1.2 billion in 2018 to K900 million in 2019. School infrastructure received K258 million in 2019, an amount not sufficient to address high challenges of insufficient infrastructure in most government schools.

9.2.3 Decreased ability to respond to problems

The Committee was informed that if Zambia's debt stayed at its current percentage of GDP or increased further, the Government would find it more difficult to respond to emergencies. They, therefore, submitted that, given the potentially devastating effects of various types of crises such as army worms and cholera to mention but a few, it would be important for Zambia to maintain the ability to respond to problems.

9.2.4 Tax Increments

Stakeholders submitted that the Government would need to increase taxes and levies from the already constrained tax base in the quest to raise resources to close the budget deficit arising from increased debt service. That would in turn inhibit industrial output owing to reduced profits for recapitalisation. They

added that this effect was already being felt as evidenced by the raising of fuel levy, electricity tariffs and mineral royalty tax.

9.3 SUMMARY OF CHALLENGES IN ADDRESSING HIGH DEBT STOCK

With regard to challenges in addressing the high debt stock, stakeholders identified those set out below.

a. non diversification of the economy was one of the contributing factors to the country's growing debt stock;
b. the seemingly uncontrolled government appetite to borrow was identified as the biggest challenge in addressing the growing debt stock;
c. weak parliamentary oversight over loan contraction by the Government was also a key challenge. Notably the Minister of Finance could single headedly contract loans on behalf of the country under the current constitution without the involvement of Parliament; and
d. lack of transparency and little accountability for the contracted funds. It was noted that the current constitution did not compel the Minister of Finance to give an account of how the contracted loans were expended.

10.0 COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS

After having carefully reviewed the submissions from various stakeholders, the Committee makes the observations and recommendations as listed hereunder.

10.1 Manufacturing Base

The Committee observes with concern that the Zambian manufacturing base as a share of the GDP has reduced from 37.16 per cent of GDP in 1992 to about 8.08 per cent of GDP in 2017 and projected just above 10 per cent in 2019 according to the 7NDP. Further, the Committee observes that the propensity to import is higher than it should ordinarily be.

i. The Committee, therefore, recommends that if Zambia's aspirations of enhancing the industrial base through accelerated growth of the manufacturing sector and increased efficiency in the utilisation of natural resources is to be achieved, the Government should promote growth of the industrial base by ensuring that all programmes under the National Industrial Policy are implemented

ii. In the quest to increase the industrial base, the Committee recommends that the Government propagates the "Buy Zambia" campaign whilst creating a conducive environment for business start-ups which will add to local production and ultimately reduce the trade deficit. At the same time, import substitution industrialisation campaigns should be scaled up in order to ensure that imported products that can be manufactured

locally are replaced with locally made products from the Zambian market. In that regard, the Committee recommends that the Zambian Government should take a lead in buying Zambian products by ensuring that Government departments and spending agencies give preference to local products in their procurement processes in line with the aspirations of the Citizens Economic Empowerment Act, 2006.

10.2 Membership to International Trade Groupings and Protectionism

The Committee observes that Zambia's membership to various trade groupings has not been without challenges. The Committee is cognisant of the fact that most of the trade agreements that Zambia has signed, have been with the view of opening up the foreign markets for Zambia's exports in other countries and vice versa. However, the Committee notes that Zambia's counterparts have taken precautions to protect their local industry through smart protectionism, which does not necessarily violet the trade agreements and does not attract trade retaliation. This has been observed to be one of the distortions to the spirit of trade agreements which Zambia has signed.

For instance, Zambia Metal Fabricators (ZAMEFA), a Zambian company that manufactures electrical cables and adds value to Zambian copper, faces a lot of competition from foreign imports which are cheaper and reduce the potential market for the Zambian company. At the same time, it faces a lot of impediments in exporting its products to countries which have trade agreements with Zambia.

i. Arising from its observations, the Committee recommends that Zambia takes stock of its membership to various regional groupings with a view to renegotiating some of those agreements that do not favour Zambia. Further, the Government should consult widely with different stakeholders especially local manufacturers when entering into future trade agreements. In that regard, the Committee also recommends that the Government considers implementing smart protectionism on selected products that can be manufactured locally with a higher comparative advantage whose industrial growth is currently hindered by the unhindered influx of foreign imports. The Committee strongly recommends that the Government should make deliberate efforts to take advantage of the provisions in these regional and international trade agreements, as other countries have done, to protect local industry.

10.3 Heavy Dependency on Copper and Untapped Opportunities in Agriculture

The Committee notes that the country is heavily dependent on copper production to the exclusion of other important sectors. As a result, when there

is a decline in the value of copper exports, there is a significant decline in the value of Zambia's export earnings, resulting in an increased trade deficit.

The Committee also notes that there are immense opportunities in the agriculture and textile industries if these industries are properly harnessed. Regrettably, the textile industry has collapsed despite Zambia being a big grower and consumer of cotton products because of cheap imports such as salaula (imported second hand clothes). The agriculture sector has its own challenges including but not limited to lack of a good market for the farm produce, low profits due to the high cost of production and sometimes unfavourable rain patterns, resulting in low yields as observed in the southern parts of Zambia in the 2018/2019 farming season, which ultimately discourages further investments in the agriculture sector.

The Committee, therefore, recommends as follows:

(i) That the Government in its quest to diversify the economy should not only create a conducive environment for agriculture production, but should also create domestic and regional marketing structures which are predictable and reliable. In promoting diversification through agriculture, the Government should also aim at creating value chains for the farmers in the down and up streams of the supply chains in the sector.

(ii) The Committee also urges the Government to slowly phase out the importation of second hand clothes in order to revive the Zambian clothing industry which has completely collapsed due to the alternative cheap second hand imports at the expense of creating local jobs for Zambians.

(iii) In addition, in an attempt to reduce consumer induced trade deficits, the Committee is of the strong view that the textiles industry is one of the sectors that should be looked at in terms of import substitution strategies, given that every citizen in Zambia is a consumer of textile products in one way or the other. In this regard, the Committee recommends that the Government should take a lead by stopping the importation of uniforms and ensuring that all uniformed public employees, including security wings in Zambia are dressed in Zambian made uniforms from Zambian grown cotton.

(iv) The Committee also urges the Government to ensure that sector specific constraints in agriculture and textiles are identified and appropriate time-bound measures are put in place to address such constraints.

10.4 Fiscal Indiscipline and Instability

The Committee observes that despite pronouncements regarding the implementation of austerity measures by the Executive aimed at cutting expenditure and generally avoiding unplanned expenditures, which in most cases have been the major drivers of the budget deficit, very little has been achieved.

(i) In this regard, the Committee recommends that the Government should strictly adhere to its own policy documents such as the MTEF and 7NDP, in pursuit of the goal of making Zambia a middle income country as enshrined in the Vision 2030 document. To this effect, the Government should strictly implement the proclaimed austerity measures in order to cut unnecessary expenditures.

(ii) The Committee also recommends that the Government should, as matter of urgency, start producing quarterly reports highlighting the funds saved from the austerity measures and the projects undertaken from the funds saved.

(iii) Further, the Committee recommends that the Government should, as a matter of urgency, present the long overdue Planning and Budgeting Bill to Parliament for enactment as it would enhance oversight through closer Parliamentary scrutiny as well as ensure increased transparency and accountability through citizen participation in the planning and budgeting process. This will ensure strict adherence to the approved estimates in fulfilment of the constitutional requirements.

10.5 Uncontrolled Contraction of Loans

The Committee notes that the Minister of Finance has the power to contract loans on behalf of the country without the involvement of the Legislature, which is mandated to provide oversight over Executive functions. The Committee also notes that lack of oversight in the contraction of loans has resulted in the uncontrolled non concessional borrowing by the Executive. In this regard, the Committee recommends as follows:

i. That the Government should present the long overdue Loans and Guarantees (Authorisation) Act for amendment to compel the Executive seek Parliamentary approval of loan contraction in fulfilment of the constitutional provision. This will, in part, assist check the uncontrollable appetite for expensive commercial debt which stood at 53 per cent of the country's foreign debt stock as at June, 2018; and

ii. The Committee also recommends the establishment of legally binding, long-term numerical fiscal rules on fiscal aggregates like expenditure, fiscal deficit and new debt contraction, to curb excessive spending and borrowing.

10.6 Support to Local Industry

The Committee observes that the country is in urgent need of strategies to reduce importation of goods that can be produced locally without creating artificial shortages on the supply side.

In view of the above, the Committee recommends that the Government, through the Ministry of Commerce, Trade and Industry, should come up with a list of goods that are currently being regularly imported which can be manufactured locally. Further, the Ministry of Commerce, Trade and Industry should create a platform to facilitate the manufacturing of the identified goods locally.

10.7 Exchange Rate Instability and Foreign Reserve Sustainability

The Committee observes that one of the factors adversely affecting interest payments on debt is the depreciation of the local currency. Further, the Committee notes that stable exchange rates are important as they impact positively on debt serving. This is because the adverse movement of the exchange rate increases the amount of money that has to be disbursed from the national budget in servicing foreign debt and interest.

Furthermore, the Committee notes that since foreign reserves are critical in smoothening out exchange rate movements through various instruments used by the Central Bank, the depletion of foreign reserves is worrisome.

The Committee, therefore, recommends that:

(i) The Government should create a conducive environment for the private sector investment to thrive, which will in the long run increase export earnings and ultimately improve foreign exchange inflows and contribute to stabilisation of foreign reserves position. Further, a stable economic environment would encourage international trade and investments as stable exchange rates have a positive effect of keeping down interest rates, thereby lowering the cost of financing businesses.

(ii) In mitigating the lack of adequate import cover and exchange rate through defensive Open Market Operations (OMO) by the Central Bank, the Committee recommends that the Central Bank considers the usage of gold bullions in its reserves alongside the dollar reserves using gold that is mined locally. Since gold bullion is a product of refined gold, the Committee is of the view that the Government could facilitate the opening of a gold

refinery through tax incentives to mining firms that would want to invest in gold refinery operations.

TOPIC TWO

11.0 MAXIMISING REVENUE COLLECTION FROM MINES IN ZAMBIA – A CASE OF MINERAL ROYALTY

11.1 Background

The simplicity, stability, predictability, and ultimately the attractiveness of a country's fiscal regime were vital in ensuring investor confidence. Mineral royalties were a standard part of the mining-tax regimes of many countries around the world. Payment of Mineral royalty was made to the owner of an asset by those who wished to make use of it to generate revenue. Governments were attracted to royalties because royalties generated an immediate stream of revenue once mining production started.

It had generally been acknowledged that Zambia's mining fiscal regime had not been robust. The contribution of Company Tax had been low because most of the mining companies had been declaring losses. Stakeholders, therefore, argued that Mineral Royalty was the only window available to the Government to maximise revenue from this sector. Regrettably, this had not been the case.

In light of the above, the Committee resolved to undertake a study on maximising revenue collection from mines in Zambia. The objectives of the study were to:

a. gain a deeper understanding of what mineral royalty is;
b. ascertain the contribution of mineral royalty to Zambia's domestic revenue;
c. compare the contribution of mineral royalty to national revenue with other tax types;
d. learn how Zambia's mineral royalty regime compares with that of other countries; and
e. recommend the way forward.

11.2 Summary of Submissions by Stakeholders

Listed below are the stakeholders who made submissions on the topic under consideration.

i) Ministry of Finance
ii) Zambia Institute of Chartered Accountants
iii) Zambia Revenue Authority
iv) Chamber of Mines in Zambia

v) ActionAid Zambia
vi) Zambia Institute for Policy Analysis and Research
vii) Policy Monitoring and Research Centre
viii) Copperbelt University

The submissions by the stakeholders are summarised below.

11.2.1 Mineral Royalty

The Committee was informed that a Mineral Royalty had historically and globally been applied as the most common method used by governments to gain revenues from the exploitation of the nation's mineral endowment. This tax constituted a compensation to the owner of the resource (government) in return for the extraction of minerals from the land. Royalties could be unit/volume based, value based (*ad valorem*) or profit based and the mostly applied type was value-based royalty. Further, the stakeholders submitted that in 2016, Zambia changed the fixed rates for value based mineral royalty to sliding scale type following the amendment to the Mines and Minerals Development Act (2015). The variable mineral royalty tax mitigated royalty regressiveness and improved stability.

In addition, stakeholders submitted that value based royalty, when compared to the profit-based type, did not involve complications for both the Government and companies to administer. This was so because there was minimal requirement to determine the various allowable costs such as capital, production and operational costs. However, Zambia still faced complications of valuing intermediate mineral products properly. Those included products such as concentrates and blister copper, which were exported at lower market value to vertically integrated affiliates of some mining companies. This had a negative impact on revenues collected from mineral royalty taxes.

11.2.2 Contribution of Mineral Royalty to Zambia's Domestic Revenue Collection

Stakeholders submitted that mineral royalty made a modest contribution to Zambia's domestic revenue. Between 1995 and 2017, its contribution to tax revenue averaged 3.4 per cent. A further analysis of the trend revealed that the performance of mineral royalty since 2010 had improved, at an average of 7.2 per cent contribution to revenue. The upward trend peaked in 2015 at 12.5 per cent but reduced to 9.8 per cent and 6.3 per cent in 2016 and 2017, respectively.

Further, the Committee was informed that the 2016 price-based royalty regime significantly relieved the burden of tax for mining companies by varying the royalty obligations depending on the copper prices in order to reduce their operational costs. The regime was sensible at the time, given the Government's

short term objective of keeping high-cost mines in operation and maintaining a steady revenue stream and jobs. However, in the long term, with copper prices close to US$7,000 per tonne in 2018, the share of benefits to the Government was much lower under the current regime. Clearly, there was still need to rethink mining taxation in order to devise a system that would benefit both Government and mining companies.

11.2.3 Comparison of Mineral Royalty Contribution to the Treasury with other Tax Types

The Committee was informed that relative to other tax types, mineral royalty contribution to total tax revenue was fairly low. Whereas Pay-As-You Earn, Withholding and Income Taxes had contributed respective averages of 25.8 per cent, 11.2 per cent and 5.3 per cent to tax revenue since 1995, the average contribution of mineral royalty to tax revenue had been 3.4 per cent. In the period between 2010 and 2017, the only major tax type to have contributed less than mineral royalty was the withholding tax income at 6.2 per cent when mineral royalty posted 7.2 per cent.

11.2.4 Mineral Royalty Contribution as a Proportion of the Total Mining Tax

The Committee was informed that mineral royalty tax and corporate income tax (CIT) had been the major contributors to mineral revenues in Zambia. For the period 2017, mineral royalty accounted for 69.4 per cent of the total mining taxes. Corporate Income Tax was at 30.4 per cent whilst export duty on mineral ores and concentrates was at 0.2 per cent. Mineral Royalty posted collections of 29.0 per cent to total mining tax above the targeted collection of 2017 only lower than VAT which was also above its anticipated target by 47 per cent.

11.2.5 Non-deductibility of Mineral Royalty Tax

Stakeholders submitted that the Government had proposed changes to the mining fiscal regime. The changes were necessitated because of a widely held view that the mining sector had not been contributing its fair share to Government revenue. The most notable change was making mineral royalty non deductable for all categories of minerals. Non deductibility of the levy implied that mining companies would not be allowed to deduct the cost of the royalty from their taxable income.

While the non-deductibility of mineral royalty in principle implied an assured way of raising revenue for the Government, it also translated into loss of income for the mining companies. Furthermore, stakeholders submitted that depending on the significance of mining losses, the mining companies could postpone their capital investment decisions, which would negatively affect

production in the long term and lead to low growth of the industry. This would in turn imply a reduction in revenue collected from the sector. In the short term, however, the mining companies could respond to those changes in a negative way through reduced production and employee layoffs as a way of cutting costs.

11.2.6 Comparison of Zambia's MRT regime to those of other Jurisdictions

The Committee was informed that there had been a general concern over Zambia's unstable mining fiscal regime. The notable changes included the 2008 regime which introduced a Windfall Tax above mineral royalties, and the 2015 regime which completely abandoned the mining corporate income tax and increased mineral royalties by over 300 per cent.

A comparison of Zambia's mineral royalty regime to those of other jurisdictions as a means to evaluate the competitiveness of the developed taxation system in the country was undertaken in eleven countries by PricewaterhouseCoopers in 2012. The findings indicated that value-based royalty varied between 0 - 8 per cent and the proposed range of 5.5 - 7.5 per cent for Zambia was still within the IMF estimate of between 5 - 10 per cent for developing countries. However, there were arguments that comparing royalty systems between jurisdictions was difficult due to large variations and the complexity of fiscal regimes. Further, royalty rates could be misleading because the base to which the royalty rate was applied also varied across countries. Table 1 below presents a comparison of mineral royalty regimes in selected countries.

Table 1: Mineral royalty regimes in selected countries

Country	**Country Royalty rate**	**Royalty base**	**Mineral royalty deductibility**	**Corporate income tax rate**
Chile	0–5per cent	Total sales, varies by volume	YES	20 per cent First Category Tax + Global Complementary + Additional tax on non-residents
DRC	2per cent companies	Net sales value	YES	30 per cent
Ghana	5per cent	Gross sales	YES	35 per cent
Peru	1-3per cent	Gross Value	YES	39 per cent
South Africa	Unrefined minerals: 0.5 - 7per cent Refined: 0.5 - 5per cent	EBIT (Earnings before income taxes and gross sales)	YES	28 per cent; branch profits tax of 33per cent
Tanzania	4per cent	Gross sales	YES	30 per cent

Zambia	Price based between 4 per cent -6 per cent up to end 2018: 5.5per cent - 10per cent beginning January 2019	Gross value	Yes up to Dec 2018 and NO beginning Jan 2019	30 per cent for mining companies + 0–15per cent variable profits tax.

11.2.7 Profit Based Taxes in Mines

With regard to profit based taxes in the mines, the Committee was informed that apart from mineral royalty tax, Zambia employed other taxes with corresponding tax incentives in the mining fiscal regime. Generally, profit based taxes had failed to generate the much needed revenues from extractive industries for most developing nations. This was mainly due to tax avoidance methods that were employed by multinational companies through inflated costs and continuous declaration of losses by the mines. They added that there were numerous ways used to alter the amount of tax that was payable to the country. Equity participation arrangements in Zambia had not yielded much benefit to the country since most mining companies failed to pay dividends, claiming to be perpetually in loss making positions despite the improved commodity prices.

Furthermore, the Committee was informed that there were no progressive fiscal tools in the mine tax regime following the discharge of *variable profit tax* (VPT) and *windfall profit taxes* (WPT). Those progressive fiscal tools were important if the Government had to share in equitable appropriation of rents in the event of an increase in commodity prices.

11.2.8 Comments on the ramification of replacing VAT with Sales Tax

Stakeholders who appeared before the Committee also commented on the ramifications of replacing VAT with Sales Tax following the budget speech by the Minister of Finance. They submitted that implementation of the sales tax would, however, require a number of factors to be considered, including the application of a reasonable rate that would create certainty and not interrupt business and the general Zambian economy. That tax should also respond to attributes of a good taxation system. Further, there should be clear information on how the sales tax would be implemented to remove investor anxiety and uncertainty in corporate planning, budgeting and forecasting.

12.0 TOUR REPORT TO CENTRAL AND COPPERBELT PROVINCES

In accordance with its programme of work, the Budget Committee undertook its tour to Central and Copperbelt provinces from 3rd to 9th June 2019.

12.1 Mumbwa Farmers Ginning and Pressing Company

During its tour to Mumbwa Ginning and Pressing Company, the Committee learnt the following listed hereunder.

(i) Founded in 2012, the ginning company was a Zambian owned and funded by the Citizens Economic Empowerment Commission (CEEC) through a K21 million loan.
(ii) To raise funds, twenty five to thirty farmers came together to form farmer cotton associations known among the locals as 'chasalas'. The chasalas were a way of raising cheap capital among the local farmers with the assistance of the Cotton Association of Zambia.
(iii) As a result of this investment, local women had been empowered through the purchase of equipment from Egypt for spinning of lint into cotton thread and linen, and thereby, creating employment.
(iv) The Ginnery faced the following two major challenges:
   (a) erratic funding to procure the cotton from farmers for production.
   (b) cotton lint being graded by the buyers in South Africa. Despite having a very good grade which in most cases could be determined as grade 'A' which is the highest in quality in terms of cotton grades, the buyers in South Africa always downgraded the cotton in order to pay less for their good quality cotton. They were further required to pay about US$ 50 for testing each cotton sample for the purpose of grading besides logistical costs. Since the Ginnery had no alternative market, they had no choice but to sell its good grade at a lower price.

12.2 NWK Ginnery

The Committee leart the following listed hereunder.

(i) NWK Ginnery was a subsidiary company of a South African company called NWK limited.
(ii) NWK ginnery owns five ginneries in Zambia, namely, Kabwe, Lundazi, Katete, Gwembe and Mumbwa ginneries. Out of the five ginneries, only the following three were operating in Katete, Lundazi and Mumbwa. This was due to lower yields which had dropped from 300, 000 metric tonnes a decade ago to around 90,000 metric tonnes currently.
(iii) One of the reasons why the cotton value chain was facing challenges was due to weak government policy on importation of textile products. The Government had allowed the importation of second

had clothes popularly known as Salaula, which had caused a drop in the profit margins in the textile factories locally, hence most of them were forced to close down.

12.3 Petroleum Transporters Association of Zambia (PTAZ)

The Committee was informed that the Petroleum Transport Association of Zambia was registered in 2011 under the Registrar of Societies. The Association comprised of members who were fuel transporters and licenced by the Energy Regulation Board.

The major role of PTAZ was to engage the Government of the Republic of Zambia on policy matters pertaining to fuel transportation, promote and help members in capacity building by advocating for fair competition and harmony in the fuel transport sector.

Further, the Committee was informed that its mandate among other things were to engage various government institutions on matters affecting the members of the association and all players in the subsector. In addition, the aims of PTAZ were, among others, the following:

(i) to bring together all transporters in the subsector to enhance capacity and create job opportunities for the Zambia people; and
(ii) to sensitise all members in the subsector on matters of occupational health and environmental safety.

The Committee also learnt that 60 per cent of the total used fuels in the country were supplied by truckers whilst 40 per cent was supplied by Indeni through the TAZAMA pipe line. This therefore meant that 60 per cent was being supplied to TAZAMA by the truckers. However, PTAZ felt that its members were being unfairly treated by TAZAMA in the supply of fuel as they were not given priority during offloading of the fuel. The Committee was informed that trucks took as long as one and a half month to be offloaded after arriving at TAZAMA.
The TPAZ informed the Committee that unlike what was happening in Tanzania at the port where Tanzanian Truckers were given priority to load fuel, TAZAMA was giving preference to the foreign truckers, thereby giving them more business than the Zambian Truckers. They further informed the Committee that about only one out of eighty trucks offloading was Zambian, meaning that the Zambian truckers only offload after eighty foreign trucks had offloaded which was further leading to loss of foreign currency through foreign truckers.

TPAZ recommended that:

(i) A separate queue for Zambian trucks offloading fuel must be created and 50 per cent threshold for the Zambian trucks supplying and offloading fuel at TAZAMA must be strictly adhered to.
(ii) The determination of a citizen's owned company should be interpreted in accordance with the *Citizens Economic Empowerment Act of 2006* in the application of recommendations by TPAZ in order to avoid the flooding of the sector with non Zambian players.
(iii) The Zambian Government should introduce a tracking seal similar to the one introduced in Tanzania. This could reduce the uncontrollable influx of foreign trucks in the sector.
(iv) There was very little monitoring of the sector leaving a lot of room for corrupt practices. The Ministry of Energy should be compelled to release reports regarding the trucks that supply fuel at TAZAMA in order to monitor compliance to regulations.

12.4 Small Scale Miners (Emerald and Semi Precious Stones Mining Association of Zambia and the Chambers of Gemstone and Mines of Zambia)

The Committee interacted with the two representative organisations for small scale miners in gemstone mines, namely; Emerald and Semi-Precious Stones Mining Association of Zambia (ESMAZ) and Chamber of Gemstones and Mines of Zambia. The two representative organisations for the small scale gemstone mines had a total membership of 700. The Chamber of Gemstones and Mines of Zambia had over 500 members out of which 400 members had mining licences and only 20 were paid up members. Further, none of the mines under the Chamber of Gemstones and Mines of Zambia were operational. Only two mining firms under ESMAZ were operating, namely; Tubombeshe Mining Limited and Twampane Mine both located in Lufwanyama District.

Recommendations on the way forward

The two mother-bodies proposed the way forward as set out hereunder.

(i) Marketing

- Government should speed up the establishment of the marketing centres for the purpose of transparency and taxation.
- The Government should facilitate the selling of the gemstone minerals at competitive prices.

(ii) Environmental issues

- Zambia Environmental Management Agency (ZEMA) fees were too high and there was need to revise all statutory fees and to speed up processing of documentation.

(iii) Taxation and export duty

- Small scale miners should be treated differently from the big mines for tax purposes due to their higher financial challenges and lean capital formation.

- the 15 per cent export duty on precious stones and metals should be abolished.

- Importation of mining equipment for small scale miners be zero rated together with all value addition equipment.

Access to financing

- Government should be the guarantor of loans for mining and value addition equipment.

Government policies

- Frequent policy shifts had impacted negatively on the small scale miners.
- There was need to revisit the policies to ensure that they were all-inclusive.

Joint venture policy

- There was need to enact a deliberate policy for joint venture where a Zambian would get a minimum of 40 per cent and the foreign investor would get 60 per cent in the gemstone mining investments.

Licencing

The witness submitted that charges in the mining explorations were a hindrance to small scale mining development. In that regard, they recommended that area charges (such as the Environmental Impact Assessments) for small-scale miners should be waved off. Further, there was need to increase the number of mining bureaus in the mining areas.

12.5 Chamber af Commerce and Industry (Kitwe, Mufulira and Ndola)

a) Maximising Revenue from the Mines

The Committee interacted with the Chamber of Commerce and Industry comprising the Kitwe, Ndola and Mufulira districts. The three chambers submitted that trade and investment was good for Zambia, and that there was an urgent need to close trade and investment gaps to reduce the negative balance of trade.

They informed the Committee that the inflow of investments in whatever form it took had to be transparent with clearly outlined terms that left no room for speculation or suspicion. In addition, overall investments needed to help

Zambia and its people address pressing socio-economic needs and aspirations as espoused in the Vision 2030 and 7th National Development Plan.

Following their submissions, they made the following recommendations with regard to maximising revenue from the mines.

(i) Marine Insurance

The Government should consider setting up Marine Insurance companies locally. This would ensure that all export items were insured locally. This would increase the revenue base in the country.

(ii) Freight Companies

The Government should consider coming up with statutory instruments that would prohibit mining houses from having in-houses freight companies. Currently, all mining houses had their own freight companies, allowing for easy tampering of documentations.

(iii) Buying Local

The Government should pass a deliberate legislation that would compel mining houses to buy from local companies. The definition for local content should be clearly and exhaustively defined. The well defined local legislation would allow would-be investors to factor it in their investment plans.

(iv) Sulphuric acid trade

The Committee was informed that the Government should consider giving free acid to the Democratic Republic of Congo (DRC), and not to be punitive against it. Mines had excess Sulphuric acid and were capable of giving the excess to DRC. Zambia could in turn request the DRC to supply the country with concentrates at zero duty. The concentrates could in turn be fed into all existing smelters. Further, the Committee was informed that huge smelters should be built in Zambia in order to increase the revenue base and create employment for the locals.

(v) Selling of impurities

The government should consider selling impurities such as cobalt and other materials at marginal rate when exporting copper. Presently, these materials were given out free as impurities. The government can maximize revenues from these by-products through the erection of a similar plant to former Ndola Copper Refinery. The plant would process the impurities.

b) Impediment to maximising revenue from the mines
Restrictions on inputs

The Committee was informed that restrictions on inputs posed serious operational challenges to the mines. This was in view of the fact that mines had excess smelter capacity which was not being utilised partly because of the imposition of a 5 per cent import tax on copper concentrates. This had resulted in the mines stopping the importation of the concentrates, thereby, leaving excess capacity unutilized.

c) Recommendation

The Committee was informed that the Government should consider diverting and adopting simpler advantageous business alternative such as smelting reduce the dependency on the mining of copper.

12.6 The Chamber of Commerce, Ndola District on Weaving the Zambian Textile Industry

The Committee learnt that the Zambian textile and clothing sector, formally radiant pillar of the economy had totally collapsed and the small garment industry that was barely surviving was only making small insignificant amounts of industrial wear garments such as work suits. This was at the expense of about 140 companies and over 25,000 jobs in the 1980s to almost nothing at the moment that Zambia kept importing cheap clothes and salaula at minimal income levels and import duties.

Way forward

The Committee was informed there was need to utilise the already built and under-used infrastructure to house the textile industry. This would create more jobs, broaden the tax base and enhance economic development.

12.7 Kasumbalesa Border Post

In its quest to learn what was causing the trade deficits, the Committee made a visit to one of Zambia's busiest border posts, the Kasumbalesa Border Post. Whilst in Kasumbalesa, the Committee learnt that the border post was a transit point for goods that were coming from South Africa and Tanzania.

The Committee further learnt that in terms of trade, over 90 per cent of the trucks crossing the border post were Congolese, Tanzanian and South African. The goods that were exported to Congo from Zambia were mostly, cement, acid and sugar. Further, almost all consumer goods were crossing the border on bicycles and on foot. Currently, there was almost nothing that was being imported from Congo.

With the introduction of the 5 per cent import duty on copper concentrates, the collected taxes by the Zambia Revenue Authority (ZRA) had dropped from around K55 million per month to about K5 million in May. ZRA was currently operating below its set targets.

Challenges

The Committee was informed that whilst goods that entered Congo DR from other countries were cleared through the border on trucks in the normal way, most products that originated from Zambia entered into Congo on bicycles. In that regard, there were challenges in the management of people entering through the border on foot resulting in high levels of smuggling.

In view of the current situation, Kasumbalesa was more of a transit point than an economic post.

12.8 Revin Beverages

The Committee learnt that Revin Zambia limited was a soft drink manufacture based in Ndola. It exported its beverages to countries like Malawi, Uganda, Kenya and South Africa. The Company had invested over USD 50 million in the setting up of its plant, and would open up six more factories in the country.
However, its production had reduced in the recent past following the suspension from its production line, a drink called Power SX. The Committee was informed that the suspension of the drink from its production line arose from a social media complaint by a Ugandan man who complained that he had suffered physiological disorder after consuming the product.

Because of that suspension, the company's exports fell from K 9.5 million at the end of December 2018 to zero as at the end of March 2019. Further, its VAT contribution to the Treasury was K6.6 million as at December 2018 and was only around K780,000 by the end of March 2019. From the total sales of K40 million at the end of December 2018, the total sales at the end the first quarter of 2019 were only K2.6 million.

12.9 China Nonferrous Mining Corporation - Luanshya Copper Mines (CNMC- LCM)

The Committee was informed that the mine held seven mining operating licences for Muliashi North and South, Roan Basin, Roan Extension East and West, Smelter Slag Dump and Muva Hill Silica.

In addition, the Committee was informed that Baluba Centre Mine produced copper concentrate, whilst the Muliashi Project was an integrated mining and leaching project comprising the Muliashi North Mine, and the Muliashi Leach Plant. Production at Baluba resumed in January 2018 with its mining life

expected to end in 2021. The underground ore was estimated at about 225,300 tonnes with the copper grade at 1.4 per cent.

With regard to the slag reclamation operations, the Committee heard that it contained about 166,128 tonnes at grade 1.261 per cent. The major challenges at the slag site were low recovery and high oxidation ratio, which was difficult to grind.

With regard to Muliashi Mine, the Committee heard that the mine was located approximately about 20 Km west of Luanshya Town between Shaft number 28 and Baluba Mines. Its remaining reserves were approximated at 18.29 million tones at grade 0.972 per cent. It had an expected mine life of about 6 years and currently, production was being undertaken under two licence areas; Muliashi North and South. With regard to the ore grades, Muliashi North had 0.519 of total friable copper and 1.384 per cent total competent copper.

The major challenges for the mine were low grades actual grades compared to the findings during the feasibility study. Further, the mine was planning to complete feasibility study for Roan East and West undermined oxide ore body for possible open pit mining. The study was planned to be completed in the first half year of 2019 and thereafter, design, construction and support works would be in commenced in the second half year of 2019.

Operational Challenges – Baluba and Muliashi Open Pit

With regard to challenges, the Committee was informed the following:

(i) low quantity and poor quality resource base;
(ii) geographically scattered mineral reserves with thin and poor ground conditions;
(iii) poor footwall ground conditions resulting in higher strata support; and
(i) High cost of production
(ii) Fluctuating copper price

Impact of new taxation on cost of production

(a) Mineral Royalty Tax(MRT)

The Committee heard that whilst the non deductibility of the mineral royalty tax would enhance revenue collection by Government, it would have a negative impact on the cost of production and would not guarantee the existence of the low volume, poor quality ore and loss making Baluba Underground Mine. An increase of 1.5 per cent Mineral Royalty Tax would increase the total cost by US $ 5.34 million for both concentrate and copper cathode.

In addition, the non-deductibility levy against Corporate Income Tax, which in reality was a double taxation, would further cost CNMC US $8.02 million.

(b) Sales Tax

The Committee was informed that the proposed change from Value Added Tax to Sales Tax would have a significant impact on expansion plans, exploration and debt financing. At 9 per cent, CNMC would incur an additional cost of US $6.92 million on the sale of concentrate alone. Assuming no cascading effect, it would incur an additional cost of US $27.67 million on production cost. The difference between the old and the new taxation regimes would cost CNMC Luanshya Copper Mines an additional US $ 48.43 million. With that rise in the cost of production, it would be a challenge to continue to invest, particularly in the already loss making Baluba underground Mine.

12.10 Konkola Copper Mine – Chingola

The Committee was informed that Konkola Deep Copper Mine in Chingola was the wettest mine in the world pumping around 350 thousand litres of water every day. The Mine had a refinery in Kitwe, the new Nchanga smelter and owned the Nampundwe underground pyrite *mine* and concentrator, a product which was used as a blending material with copper concentrate for smelting copper.

Why the mine was in a net loss position

The Committee was informed that the mine was making profits up until 2012. Production started reducing around 2013 due to the reduction of its ore reserves. With the reduction of the ore deposits, the ability to dig a lot of production points had reduced. Compounded with very high fixed costs, the mine was required to produce about 11000 tonnes of copper per month for it to break –even and was operating around 7000 tonnes just before its closure, which clearly showed that the mine was in the net loss position. Further, the investment in the 4th shaft of about USD 1 billion never yielded any returns for the mine as it was never operationised. The US$ 500 million received in 2017 from the parent company was used for paying off suppliers, salaries and other operational costs as a loan. In addition, the liquidity position was worsened by the nonpayment of VAT refunds owed by the Government amounting to US$ 180 million.

Why Nchanga Smelter relied on foreign concentrates

The Committee was informed that at the time of design, only two smelters were operational in the country, namely; Mopani Copper Mines (*MCM*) and old Nkana Smelters. Currently, there were four modern smelters that could not be filled to full capacity due to less production of copper which included the following:

(i) First Quantum Minerals Smelter which was commissioned in 2014;
(ii) Nchanga Smelter which was commissioned in 2008;
(iii) Mopani Copper Mine smelter which was upgraded in 2014; and

(iv) Chambish Copper smelter which was upgraded in 2014

Further, the Committee heard that prior to 2016 when Nchanga pit reached its lowest levels, the Nchanga smelter relied on the local source for copper blisters. After 2016, the Nchanga Smelter relied on the copper from the DRC copper concentrates. The gap between the available copper concentrates and the smelter capacity had recently widened due to the introduction of the 5 per cent tax imposed on the copper concentrates.

In addition, the DRC was fast developing its smelting capacity and when fully developed, the source for copper concentrates could be lost forever. This would lead to reduced employment levels and loss of earnings by the smelters in Zambia.

12.11 Kagem Limited

The Committee was informed that Kagem also known as Gemfields Limited was the world's largest emerald and ruby mine acquired by Kagem in 2008. The Company supplied 25 to 30 per cent of the Global emerald demand by value and volume, and was the largest rock handling company in terms of coloured gemstone mining. Further, the Company's annual production ranged from 30 – 36 million carats of emerald and beryls.

In addition, the Committee was informed that Kagem Limited Company commenced its operations in 2012, with the Government having 25 per cent of shares through Industrial Development Corporation (IDC), and received more than USD 100 million since 2008. The company had also invested USD 5 million to date.

With regard to its contribution to the National Treasury, the Committee learnt that Kagem Limited Company paid total taxes worth USD 92.5 million to Government. The Company's total investment since inception was USD 105 million and it paid its dividends to share holders such as the Industrial Development Corporation (IDC) a sum of USD 12.5 million.

(a) The 15 per cent export tax on emeralds

The Committee was informed that the introduction of the new 15 per cent Export Duty on 1 January 2019 meant that the effective turnover tax on exporting emerald miners was 21 per cent. This was clearly an unduly burdensome amount by any international standard.

Further, Zambia's gemstone sector had experienced remarkable growth in the last ten years. A decade ago, Zambia was the number three exporter of emeralds in the world after Colombia and Brazil. Currently, Zambia was number one. In addition, the Committee was informed that the sector had seen the Treasury receive more tax revenue during the last 10 years than was

previously imaginable. The increased taxes were likely to affect the gemstone industry negatively, and could result in reduced productivity in the sector.

(b) **Restricted dealings in rough emeralds:**

The Committee was informed that in order to maximise revenue collection from the sector, there was need to restrict exportation of the gemstones to the following licence holders:

- Mining companies in possession of a valid mining licence granted in accordance with the Mines and Minerals Development Act, 2015. A mining licence holder should be the only licence type that allowed the export of rough emeralds; and

- Emerald lapidaries and jewellery manufacturers possessing a valid Mineral Processing Licence granted in accordance with Division 4 of the Act. The Mineral Processing Licence would allow the legal export of cut and polished emeralds. A Mineral Processing Licence should be the only licence type that allowed the export of cut and polished emeralds for lapidaries.

(c) **Provide longer term stability**

The Committee heard that Zambia had effected 10 changes to the mining tax regimes in last 16 years. In that regard, the Committee was informed that to enhance long term planning, there was need to ensure that proposed rates were aligned to International best practices and were left to run for a protected number of years.

(d) Recommendations on the way forward

The Zambian Government needed to copy the Botswana model where the government owned shares in all the gemstone mines in the country. This would enhance transparency and accountability in the gemstone sector.

Further, the Government should also introduce the auctioning of gemstones in Zambia in order to get good prices for the actionable gemstones.

12.12 Nkana Mining and Mineral Processing

The Committee was informed that Nkana Mining and Mineral Processing Limited was a privately owned enterprise, registered in Zambia with the investments around US$ 250 million and funded by the parent company in China called Tianjin MaoLian Science and Technology. This company was a leading private manufacturer of copper and cobalt series of products in China.
In addition, the company was likely to create about 650 jobs for the local people and was expected to commence production in the first quarter of 2020.
Further, the Committee was informed that Nkana Alloy plant in Kitwe would be using the technology used by its parent company in China in the processing of

slags into useful copper and cobalt resources through its world-class leaching technology, as well as low energy and environmentally friendly advanced production processes.

Furthermore, the Committee was informed that all its slag would come from the Black Mountain in Kitwe. The Black Mountain was wholly owned by Nkana Alloy and Mineral processing limited after buying back the 10 per cent from the youths who were given 10 per cent ownership through the Ministry of Mines and Minerals Development. The youths had sold off their 10 per cent share and were now lobbying Government for more slag.

The Committee was also informed that the slag would be transported to the plant site at Nkana Alloy Plant in Chambishi over a period of three years, and it would take about fourteen years to process all the fourteen million tonnes of slag. The plans by Nkana Alloy were to continue processing other slags from neighbouring towns once they depleted the fourteen million tonnes in fourteen years. In that regard, management at Nkana Alloy Plant submitted that it planned to be in operation for more than fourteen years given the massive investments.

12.13 Metal Fabricators f Zambia Plc (ZAMEFA)

The Committee was informed that the Metal Fabricators of Zambia Plc (ZAMEFA) was based in Luanshya and was incorporated in 1968 and was privatised in 1996. Reunert Limited, a South African company owned 75 per cent of the shares whilst the National Pension Scheme Authority (NAPSA) owned 12 per cent of the shares and the rest were owned by other minority share holders.

The company manufactured low voltage electric cables for domestic application and copper rods which were exported to East Africa and South Africa with a work force of about 298 employees.

With regard to production, it was currently operating just below half capacity around 15,000 tonnes per year due to liquidity challenges. The full production capacity for the plant was about 36,000 tonnes per year. The liquidity challenges where exacerbated by the Government's failure to pay the owed VAT refunds which currently stood around K 240 million. The Rural Electrification Authority also owed ZAMEFA about USD 12, 600. To sustain production, ZAMEFA had to borrow USD 20, 000 from the parent company.

With regard to tax contribution to the Government, the Committee heard that ZAMEFA contributed about 40 per cent in the copper sector and was only second to the copper mines. In that regard, the Chief Executive Officer submitted that the introduction of the Goods and Services Tax (GST) at the proposed rate would only make things worse for the company. To survive under

the new tax regime, the Government needed to consider its proposed exemption list for input materials in their production.

With regard to local market share position, the Committee was informed that the cheap cables in terms of quality and price from China had taken up most of the local market in terms of its sales. This was exacerbated by the tendency by some local parastatal companies such as ZESCO who opted to import directly from other countries when ZAMEFA could supply its low voltage cable requirements. Further, whenever ZESCO imported, it always paid upfront to the foreign firms but failed to do the same for ZAMEFA.

13.0 COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS

After having carefully reviewed the submissions from various stakeholders, the Committee makes the observations and recommendations as listed hereunder.

13.1 Taxes from mining companies in Zambia

The Committee notes that there have been growing suspicions on the claimed losses in the mining operations. Whilst the general citizenry feels that the mines are making profits and appropriating profits to their countries of origin, the mines have argued to the contrary, claiming that Zambia Revenue Authority (ZRA) officials have been stationed in the mining operational areas to monitor the operations in an effort to clear suspicions on the declared profits.

The Committee also observes that having ZRA officials stationed in the operational areas does not guarantee that declared profits and losses by the mines are a true reflection of the actual profits or losses as those officials are not usually mining experts.

Further, ZRA officials have limited knowledge in mining engineering skills such as metallurgy and geology. As such, they may not be in a position to give a correct assessment of the actual value of the mined ores as their specialisation is normally limited to accounting information and would only make assessments based on the data given to them by mine specialists employed by the mines, hence failing to assess the actual profits and losses.

In view of the above, the Committee recommends that ZRA officials assigned to work in the mines should have specialised training in assessing declarations on profits and losses made in the multinational mining firms.

Further, the Committee recommends that ZRA assigns specialised teams in the mining operational areas who are highly capacitated in multinational mining operations and not limited to accounting skills. The ZRA should also involve a cadre of mining engineers with different specialisations in mining operations as well. This will drastically reduce complications of valuing intermediate mineral

products in form of concentrates and blister copper which are exported at lower than market value to mother companies as this practice impacts negatively on revenue collections from the mines.

13.2 Tax Regime in the mining sector

The Committee observes that there have been many changes to the tax regimes in the mining sector with a series of policy reversals in the last decade which has not sat very well with mining firms.

To avoid uncertainties and planning challenges in the mining sector caused by constant tax changes, the Committee recommends that the Government should take a more consultative approach in coming up with the tax system in order to avoid ambiguity and anxiety by mining firms whose profit projections, among others , are normally aligned to the prevailing tax regimes.

In addition, the Committee recommends that consultations on tax policy decisions that affect a range of mines with different cost structures and copper grades are done before a new tax regime is announced.

Further, research institutions with vast knowledge in mining tax administration should also be consulted before coming up with a tax regime in order to avoid constant tax policy reversals which affect investor confidence.

13.3 Development Agreements with Mining Companies

The Committee observes that Development Agreements made between the Zambian Government and mining companies have never been made public. This has, for most part, raised suspicions when a mining firm openly indicates its non-adherence to the proposed new tax changes on account of a running concession agreements.

The Committee is of the view that extractive resources belong to the people of Zambia and sharing information on agreements entered into with the mining firms on behalf of Zambians through their elected representatives would reduce suspicions on matters surrounding mining taxation.

i. In view of the above, the Committee recommends that before concession agreements are finalised between the Government and the mining firms, they should be brought to Parliament for scrutiny. This will, among other things, increase transparency in the extractive industry.

ii. Further, the Committee recommends that in order to maximise revenue collection in the long run, the Government should come up with optimal tax rates that do not discourage investments and exploration in the mining sector.

iii. Furthermore, given that profit based taxes have yielded very little economic benefit to the country regardless of the mineral grades and cost structures, the Committee recommends non tax deductibility of mineral royalty. However, the Committee urges the Government to ensure that care is taken to mitigate the anticipated challenges associated with the proposed non deductibility of mineral royalty, such as the increase in costs for the mining operations which could discourage further investments in the sector in the long run.

iv. The Committee further recommends that Zambia Revenue Authority enhances its capacity for both staff and its information and communications technology infrastructure and systems in mine taxation. This will enable the Revenue Authority to carry out complex tax assessments from an informed perspective.

13.4 Lack of value addition in the cotton industry

The Committee observes with concern that there is no value addition in the cotton industry despite the country producing the reportedly best lint in the region. The Committee also observes that the country has only one functional public ginnery despite the sector being among one of the low hanging fruits when it comes to diversification aspiration as espoused in various policy documents.

Further, the Committee observes with concern that the once thriving sector within the economy, employing around 25, 000 people in the 1990's, no longer has any textile company due to cheap imports from China and South Africa, coupled with the cheap second hand clothes known as Salaula.

i) The Committee urges the Government to take bold steps in reviving the textile industry by gradually banning importation of second hand clothes which have been the lead cause of the sector's failure. Once developed, the sector would create employment opportunities within the economy in the up and down streams of the value chain from the cotton farmer up until the garment maker.
ii) Further, the Committee also urges the Government to ensure that it recapitalises the CEEC funded ginnery in Mumbwa, which in 2017 (after being funded adequately) made a profit of K800, 000 in one marketing season. The Committee, therefore, recommends that the ginnery be funded adequately as a way of bringing it to full operational capacity as it is still a viable venture which would not only improve the lives of the farmers around Mumbwa, but would also add to the creation of new jobs.

13.5 Gemstone sector tax contribution

The Committee notes that Zambia is well endowed with a lot of gemstones which have the potential to become one of the sufficiently contributing sectors to domestic resource mobilisation. The Committee also notes that the sector is not highly monitored in terms of assessing the net worth of gemstones mined with a view of assessing liability for tax purposes.

(i) In view of this, the Committee urges that Government to priotise the development of the gemstone sector as it has the potential to outdo the copper sector in terms of contributions to the Treasury.

(ii) Further, the Committee also recommends that the Government should have a stake in every mining licence for the sector to ensure that it is fully monitored as pricing of the sector's precious stones has no global standard like the base metals and is usually based on the party's ability to negotiate and the value attached to the commodity either by the seller or the buyer. Furthermore, it would also be the only assured way through which the Government would get a fair share of its own natural resources. The Committee therefore, recommends a 25 per cent Government ownership in every gemstone mine.

(iii) The Committee also notes that the gemstone sector has too many licences for non operational mines. The mines are around 700 mines in Lufwanyama District alone. The Committee in this regard urges the Government to take a detailed investigation on this matter, and to provide a roadmap through which these mines could be operationised.

(iv) The Committee further notes that the Mine Taxation for the mines in the gemstones was being treated like that in the base metals. In view of the fact that the stripping ratio for the gemstone mines is very high, about 100 tonnes of waste yielding a tonne of ore which in turn was expected to yield about 50 grams of Emerald and Beryl mix, the Committee recommends that the Government should treat the two separate mine sectors differently.

13.6 Department of commerce in each ministry

The Committee notes that some sector specific challenges across various sectors to deal with issues of trade have not been given full attention of the Ministry of Commerce, Trade and Industry due to inter- ministerial boundaries among other things.

In addition, the Committee notes that; for example, commerce challenges in agriculture can only best be dealt with by the Ministry of Agriculture in terms

of identifying the value chains that would enhance growth within that particular sector.

In view of this, the Committee recommends that the Government considers creating a Department of Commerce in each ministry which will be responsible for identifying and nurturing of value chains in that particular sector in collaboration with the Ministry of Commerce and in the long run, devolve the Ministry of Commerce to departments in each ministry for efficiency of commerce related challenges according to the sector.

13.7 Trade at Kasumbalesa

The Committee observes that although Kasumbalesa border post seems to be one of the busiest border posts in Zambia, it only works as a transit point mostly handling non Zambian of transit traffic. However, the Committee notes that there is high demand for Zambian consumer products in the DRC which the country is failing to formalise and exploit. For example, despite being a big grower of maize and other agricultural products, Zambia has failed to exploit the market in DRC. South Africa has been exploiting the supply of maize and meali meal in DRC despite the Zambian maize and mealie meal being preferred to that of South Africa.

In view of this and in line with its own recommendation of establishing a department of commerce in each ministry, the Committee urges the Government through the Ministry of Agriculture and the Ministry of Commerce, Trade and Industry to work together in; firstly, ensuring that they facilitate growing of maize and other crops specifically for export and; secondly, the Ministry of Commerce, Trade and Industry formalises and facilitates trade into the DRC. This will reduce the prevalence of smuggling and formalising the trade will enhance agriculture production for export instead of banning export of agricultural products to the DRC.

13.8 Imposition of import duty on the Copper concentrates

The Committee notes that the imposition of 5 per cent import tax on copper concentrates has resulted in reduced revenues for Kasumbalesa Border post from K50 million per month which was usually above target for ZRA in terms of revenue collections to K5 million in May 2019 which is way below its target.

In view of this, the Committee takes cognisance of the fact that the excess smelter capacity will remain dormant and could result in loss of jobs for people working in smelters even as the DRC develops its smelting capacity. On the other hand, over importation of the copper concentrates could lead to reduced investments in mine development in Zambia, resulting in over reliance on the copper concentrates from the DRC and could also lead to reduced job opportunities and loss of possible MRT from the mines.

In view of this, the Committee urges the Government to take precaution in handling the matter to ensure a win-win situation as mishandling the matter could lead to the ultimate end of one sector at the expense of the other; and in this case, the mine development verses the smelter utility.

13.9 Finance and Procurement managers in the mines

The Committee observes that most mining firms visited by the Committee had employed finance and procurement managers who were non Zambians amidst the growing suspicions that those employed were not patriotic enough to the country to declare correct profit positions and correct market prices for procured equipment and machinery which the ZRA officials might fail to correctly asses for tax purposes due to the complexity of the procured equipment.

In view of the above, the Committee recommends that the Public Procurement Act No. 12 of 2008 and the Accountant Act No. 13 of 2008 be amended and revised to ensure that only Zambians are employed as finance and procurement managers in line with the Employment Code Act, 2019 where only Zambians are allowed to take up the position of the Human Resource Position.

13.9.1 Trade Agreements and Smart Protectionism

The Committee notes that importation of goods that can be made locally is impacting negatively on the local industry and in essence importing labour and loss of foreign exchange on goods that can be manufactured locally.

In view of this, the Committee recommends that the Government takes bold steps to ensure that the local industry, which is still in its infancy, is protected by enforcing smart protectionism strategies. For example; ZAMEFA faces a lot of huddles in establishing a steady market for its manufactured low voltage electric cables due to the cheap imports in terms of quality and price, thereby, undermining a firm that employs from within the economy and contributes to copper value addition.

13.11 Empowerment of the local citizens

The Committee notes with concern that some sectors that are supposed to be left for Zambians are being flooded with foreign participants; for example, the Statutory Instrument no. 1 of 2017 states that the haulage sector should be left for Zambians. Contrary to this provision, the Committee observes with concern that transportation of the petroleum products is completely dominated by the foreigners and this scenario is being exacerbated by the statutory bodies such as the TAZAMA and the Ministry of energy that unfortunately ignore this provision with impunity.

The Committee further finds it unacceptable that only few Zambian Transporters of the petroleum products are allowed to offload fuel at TAZAMA after several foreigner owned trucks have offloaded which is clearly impacting the sector negatively.

The Committee furthermore, notes with sadness that there are a lot of suspicions in the way the petroleum products are handled by TAZAMA where Zambian Truckers only manage to offload fuel several weeks after having arrived from the port as this posses a high risk of fires in terms of un-offloaded Petroleum product.

(i) In view of the foregoing, the Committee urges the Government through the Ministry of Energy to investigate the issues surrounding the transportation of petroleum products so that if any officers are found wanting, they can be subjected to investigative wings.

(ii) Further, the Committee in noting lack of transparency in the handling of the petroleum products by allowing more foreign truckers to keep bring the fuel when there are so many Zambian trucks waiting to offload, the Committee recommends that TAZAMA gives priority to Zambian trucks to offload the fuel before foreign owned trucks.

(iii) The Committee also recommends that TAZAMA should allow for a separate queuing system for Zambian and foreign trucks.

13.12 Policy to facilitate private sector growth

The Committee notes with concern that production of a certified product by the Zambia Bureau of Standards can be suspended due to unverified claims by complaints on social media. This is in view of the visit to Revin Beverages Limited where more than 50 jobs have reportedly been lost due to one complaint which according to the manufacture, originated from a business rivalry scheme by the East African competitors.

In view of the above, the Committee urges the Government to carefully investigate complaints against local companies and establish the legitimacy of the complaints before jumping in making popularist decisions that may hurt and threaten the existence of local companies.

Further, the Committee urges the Government to expeditiously resolve the issues surrounding Revin beverages Limited so that the jobs that have been lost can be restored in the quest to reducing unemployment in Zambia.

13.13 Slag processing

The Committee notes that the Black Mountain ownership disputes have been causing a lot of anxieties for the Nkana Alloy and Mineral Processing coupled with the continued lobbying of the youths to Government for more share of the slag.

In view of the fact that the company will be training more youths in the processing of the slags across the Copperbelt Province and the fact that the skills acquired from Nkana Alloy and Mineral Processing, would be valuable in the processing of other slags from neighbouring towns, the Committee recommends that the processing of the slag be carried out under a joint venture on pre agreed terms so that the issue of lobbying by the youths for more share of the slag are put to rest. Further, this will also ensure a constant flow of assured incomes for the youth in question.

PART II

14.0 CONSIDERATION OF THE ACTION-TAKEN REPORT

14.1 Consideration of the Action-Taken Report on the Report of the Budget Committee for the Second Session of the Twelfth National Assembly

14.1.1 Implementation of tax reforms to enhance Domestic Resource Mobilisation (DRM)

In the previous Session the Committee recommended that the Government should carry out holistic tax reforms. Strengthening the tax system should be done in a holistic fashion, including reviewing existing tax legislation; and inculcating a positive tax-paying culture in citizens. Tax reforms would also require ramping up of enforcement mechanisms.

Executive's Response

The Executive responded that the Government was currently undertaking tax reforms which included a total review of all tax laws, broadening the tax base and the development and enhancement of international taxation capacities and taxation policy in untapped areas such as property taxation, among others. The Government would continue to implement measures aimed at strengthening the tax system while ensuring equity, fairness in the tax system, and maintenance of a stable business environment.

Committee's Observations and Recommendations
The Committee observes that there have been too many tax changes in the mining sector, giving an impression of policy instability and inconsistency. In this regard, the Committee urges the Executive to ensure consistency in the tax laws in order to ensure investor confidence and predictability of the tax systems. This would enhance tax compliance by various business entities within the economy. In light of the fact that further changes in the tax system are expected, in particular, the change from Value Added Tax to Sales Tax, the Committee resolves to await a progress report on the matter.

14.1.2 Improving and modernising the tax system in Zambia

In the previous Session, the Committee recommended that Government should come up with more measures to improve tax administration. It was necessary to build capacity in ZRA so that tax collection could be improved. This should be coupled with measures to address corruption.

Executive's Response
The Executive responded that strengthening tax administration was cardinal in order to enhance domestic resource mobilisation. The Government had, therefore, embarked on the following specific tax policies and reforms aimed at modernising systems and improving tax administration for 2018 and in the long term:

a) In 2018, Government had commenced installation of electronic fiscal devices (EFDs) aimed at improving the performance of VAT. The roll out of those devices would continue in 2019;

b) coupled with the VAT intervention, ZRA had appointed a number of companies including government departments as withholding VAT agents. That was intended to collect output VAT at source and reduce revenue leakages. That approach significantly helped to improve VAT performance to 46 per cent above target in 2017. In addition, 120 officers had been recruited and trained to support EFDs implementation;

c) further, ZRA had commenced appointment of agents to collect other taxes in addition to VAT. Those additional taxes would include withholding taxes on rentals, turnover tax, presumptive tax and base tax. Capacity had been built through in - house training;

d) the introduction of the Tax Online system had allowed for e-filling and e-payments, hence lessening the burden of tax compliance. The use of electronic payments was expected to enhance availability of information on the transactions that took place in the economy which was essential for tax purposes;

e) digital stamps would be introduced to improve excise duty collections on cigarettes and alcohol. Furthermore, a customs valuation database would be installed in order to stop undervaluation of imported goods; and

f) to ensure improved taxpayer services and enhance compliance, ZRA would open customer service centres in strategic locations.

Committee's Observations and Recommendations

The Committee notes and welcomes the steps being undertaken by the Government on the installation of Electronic Fiscal Devices (EFDs) aimed at improving the performance of VAT whose roll out is expected to continue in 2019 and beyond. However, the Committee is of the strong view that more emphasis should be placed on the Sales Tax and on how the EFDs would improve collection of the Sales Tax in light of the fact that VAT is to be replaced by Sales Tax on 1st July, 2019. The Committee awaits a progress report on the matter.

With regard to electronic tax payments, the Committee takes keen interest in the introduction of the Tax Online System which allows for e-filling and e-payments, so as to lessen the burden of tax compliance. The Committee in this regard, resolves to await a comprehensive report on the full implementation of the system and a detailed explanation on how it will benefit both the end users and ZRA.

Further, with respect to the introduction of digital stamps, the Committee resolves to await a progress report on the full implementation of this measure and seeks an explanation on how Excise Duty collections on cigarettes and alcohol will be improved by it.

14.1.3 Reduce the fiscal deficit

In the previous Session, the Committee strongly recommended that the Government's major objective for the 2018 budget should be fiscal consolidation and dismantling the stock of arrears in light of the on-going ambitious infrastructure plans, the need to implement public sector reforms and the requirement to fund the debt repayments.

Executive's Response

The Executive informed the Committee that the Government had announced a number of austerity measures to mitigate against perceived risks associated with the debt going forward. Some of the measures were as outlined below.

a) review of all borrowings and issuance of guarantees and letters of credit;
b) indefinite postponement of contraction of some of the pipeline debt;
c) prioritise funding to projects with highest impact and concentrate on completion of projects which were 80 per cent complete;
d) carry out an asset liability management exercise on the debt portfolio; and

e) cease issuance of guarantees to commercially unviable projects and the issuance of letters of credit to institutions that were technically insolvent until their balance sheets improved.

Further, as outlined in the Economic Stabilisation and Growth Programme-Zambia Plus, the Government had committed itself to dismantle the stock of arrears. In that regard, one of the major priorities over the programme period was to dismantle arrears as a strategy towards breaking the economic crunch.

Furthermore, accumulation of new arrears would be prevented through effective implementation of commitment control systems. Related to this was the restriction of new capital projects and major equipment procurements until all on-going projects were completed.

Committee's Observations and Recommendations

The Committee notes with appreciation the austerity measures being taken by the Executive to reduce the fiscal deficit. However, the Committee is keen to know how much the fiscal deficit will have reduced after implementing the austerity measures. The Committee resolves to await a comparative report on the debt status for the period when the measures will still be in-force, on a yearly basis up to the current year.

14.1. 4 Poor Fiscal Discipline among Ministries, Provinces and Spending Agencies (MPSAs)

In the previous Session the Committee recommended that the Government should ensure the full roll-out of the Integrated Financial Management Information System (IFMIS) so that no MPSAs can spend beyond their approved budgets. Further, the Government should ensure that major revenue collection processes were fully automated to minimise revenue leakages associated with the current manual processes. This measure needed to be supported by strong ICT infrastructure so as to minimise disruptions and ensure efficiency. This would also curb corruption and accumulation of arrears.

Executive's Response

The Executive responded that with regard to management of revenue and expenditure, the Treasury had rolled out IFMIS to fifty nine out of a total of sixty three institutions. It was envisaged that the roll out of the remaining three sites would be finalised by 31st December, 2018. As rightly observed by the Committee, the IFMIS would ensure that fiscal discipline was maintained in Government institutions.

On the revenue part, institutions on IFMIS were now required to account for revenues in IFMIS and the system generated continuous receipts. This measure had enhanced accounting for revenues in the Republic.

Further, institutions that were not on IFMIS had their systems enhanced to ensure that there was no human contact with cash. For example, under the Department of Immigration, services had been automated and the revenues generated were transmitted in real time to Bank of Zambia.

In that regard, the automation of government services that realised revenues would continue to be implemented to ensure enhanced accountability of public funds. The automation would be as follows:

a) one institution (Department of Immigration) had fully automated its services and revenues were being generated and transmitted to Bank of Zambia in real time;

b) ten institutions would be fully automated by 31st December, 2019; and

c) eight institutions would be fully automated by 31st December, 2019.

Committee's Observations and Recommendations
In noting the submission, the Committee resolved to await a comprehensive report on the full roll out of IFMIS to other institutions by 31st December 2019.

14.1.5 Public Finance Management Reforms

In the previous Session the Committee reiterated its earlier recommendations that, as a matter of urgency, the Planning and Budgeting Bill and amendments to the *Loans and Guarantees (Authorisation) Act* should be tabled for enactment in Parliament.

Executive's Response
The Executive responded that the revised *Loans and Guarantees (Authorisation) Act* was presented before Cabinet but was not concluded. It was pending conclusion of the current constitutional review.

Committee's Observations and Recommendations
In noting the submission, the Committee urges the Executive to expedite the current constitutional review process. This will pave way for the finalisation of amendments to the *Loans and Guarantees (Authorisation) Act* and the Planning and Budgeting Bill by Cabinet. The Committee resolves to await a progress report on the matter.

14.1.6 Operational challenges at Nakonde ZRA Border Post

In the previous Session, the Committee recommended that urgent steps be taken to ensure that the problems faced by the ZRA at the One-Stop-Border-Post (OSPB) at Nakonde were immediately acted upon. The Committee urged

the Government to ensure that the issues surrounding the land for further development of the border post were urgently addressed.

Executive's Response

In its response, the Executive indicated that in order to curb smuggling and enhance imports, ZRA had commenced putting in place a Customs Valuation Database. Further, in collaboration with COMESA, ZRA was implementing the Electronic Cargo Tracking System (ECTS). The tracking system was intended to enhance customs control, arrest transit fraud and secure revenue. The Government would continue to collaborate with authorities in Tanzania so that trade facilitation was seamless at the One-Stop-Border-Post at Nakonde. This would include the upgrading and continuous maintenance of the infrastructure at the border post.

Committee's Observations and Recommendations

The Committee notes the progress made and urges the Executive to expedite the upgrading of infrastructure at the border post in order to curb smuggling and to ultimately prevent loss of revenues. The Committee will await a progress report on the matter.

14.1.7 Mpulungu Harbour Corporation Operational Cost

In the previous Session the Committee recommended that the management of the Harbour should set its priorities straight and urgently come up with measures to streamline its expenditure so that more resources could be directed towards capital projects.

Executive's Response

The Executive's response was that management at Mpulungu Harbour Corporation Limited regretted its failure to mobilise more resources for the Treasury. The declining working capital was attributed to the growing unremitted statutory obligations and other creditors on account of failure by Mpulungu Harbour Corporation Limited's (MHCL) to make timely payments. To improve the financial position, management at MHCL had undertaken the following initiatives:

(a) MHCL partnered with Lafarge Zambia to undertake a marketing tour to Burundi to promote Lafarge products and the mode of transport for bulk consignments provided by MHCL. The export portfolio increased due to the export of clinker (input material for cement) and white maize;
(b) MHCL had intensified its marketing efforts to both the local and foreign markets in order to stimulate sales revenue and liquidity. Tonnage moved by MHCL had increased from 108,691 tonnes in 2016 to 172, 760 tonnes in 2017; and
(c) MHCL had signed a Memorandum of Understanding (MoU) for Time to Pay Agreements for taxes to run from 16th March, 2018 to 16th February 2019.

Subject to MHCL adhering to the plan in the first six months, ZRA would be willing to negotiate a waiver of penalties and interest.

The Industrial Development Corporation (IDC) would continue to monitor the profitability of MHCL and for the year ended 2017; MHCL had recorded a net profit margin of positive 4 per cent.

Committee's Observations and Recommendations
In noting the submission from the Executive, the Committee resolves to await a progress report on the current profitability of MHCL.

14.1.8 Mbala – Zombe Road rehabilitation

In the previous session the Committee recommended that the Mbala-Zombe Road should be rehabilitated so as to enhance collection of domestic resources from Zombe Border.

Executive's Response
The Executive responded that the Mbala–Zombe Road, also known as the Mbala to Kaseshya Road, was part of the plan to upgrade to bituminous standard approximately 93 km of the Mbala to Kasaba Bay Road starting at Vyamba turnoff (RD02). The contract for the project was signed on 27th December, 2017 with Messrs China Civil Engineering Corporation at a contract sum of US$247,700.80. The project was expected to be implemented using the Contractor Facilitated Initiative mode of financing and works would commence once the financing agreement had been signed.

In the interim, Government planned to undertake grading and gravelling works on the road so as to keep it motorable as the major works were being awaited. An assessment of the required works had already been undertaken and a budget of K4, 560,771.82 was submitted to the National Road Fund Agency (NRFA) for funding. The commencement of the works awaited the release of funds by the National Road Fund Agency (NRFA).

Committee's Observations and Recommendations
The Committee notes that over one year has passed from the time when the contract was signed. The Committee is, however, concerned that if more time passes, the contract price might escalate due to inflationary pressures. The Committee, therefore, urges the Executive to ensure that the financing agreement with Messrs China Civil Engineering Corporation is concluded and signed without any further delay. The Committee resolves to await a progress report on the matter.

14.1.9 Engagement in the Agriculture Sector

In the previous Session the Committee urged the Government to put more

concerted efforts in programmes that would raise incomes and productivity in the agriculture sector as such programmes, once implemented, would have a positive impact on both inequality and poverty by benefiting a large proportion of households.

Executive's Response

The Executive in its response submitted that the Government had taken note of the Committee's recommendation. The Executive further submitted that a sum of K50,000,000 had been allocated for programmes that raised incomes and productivity in the agriculture sector in the 2018 budget to develop and rehabilitate rural roads infrastructure and supporting agriculture by enhancing connectivity to markets.

In addition, the selection of priority roads was done through the Provincial Administrations. Therefore, once the priority lists were compiled and concluded, they would then be sent to the Ministry of Defence which was mandated to facilitate the construction or rehabilitation of rural roads through the Zambia National Service (ZNS).

Furthermore, with the available equipment and skilled human resources, the Zambia National Service would only undertake three projects per Province at a given time.

Committee's Observations and Recommendations

The Committee takes note of the submission and requests for information on how much was disbursed for the rehabilitation of the rural roads from the K50, 000,000 which was allocated in the 2018 budget. Further, the Committee notes that only three projects can be undertaken at a time per province.

The Committee, therefore, urges the Executive to ensure that equipment and skilled labour for the project are up-scaled so that more areas are covered in a shorter period. This would translate into more support for rural agricultural communities through enhanced access to markets for agriculture produce. The Committee resolves to await a progress report on the matter.

14.1.10 Social Cash Transfer Electronic Single Registry

In the previous session, the Committee recommended that the Government should ensure that there was better targeting in identifying beneficiaries of the social cash transfer and other social protection measures if the intended benefits were to be realised. It welcomed the electronic single registry of beneficiaries as it would ensure that only the deserving beneficiaries accessed social protection.

Executive's Response
The Executive informed the Committee that the Government took note of its recommendation and reaffirmed its goal of rolling out the Single Registry of Beneficiaries to more districts from the current thirteen districts as the initiative was intended to lead to more equitable distribution of resources, facilitate oversight of multiple schemes and establish links with other services to increase efficiency of delivery by avoiding duplication of effort. The Ministry had so far rolled the electronic Single Registry of Beneficiaries to thirteen districts out of the targeted thirty six districts by December, 2018.

Further, the Ministry was currently piloting a single window mechanism which would see various social protection programmes being implemented in a coordinated and integrated manner. This mechanism would easily make beneficiaries understand available programmes and which ones would best suit them. This was currently being piloted in six districts in five provinces namely: Northern, Luapula, Eastern, Lusaka and Copperbelt. In addition, the Ministry had been engaging in a number of sensitisation activities at district, provincial and national levels to create awareness on social protection programmes, such as the Annual Social Protection Week which was a public event open to all.

Committee's Observations and Recommendations
The Committee urges the Government to do more by extending the Single Registry of Beneficiaries to all the districts to avoid duplication of effort, and to establish links with other services. This would lead to increased service efficiency and equitable distribution of resources. The Committee in this regard, resolves to await a progress report on the matter.

14.1.11 Implementation of the Decentralisation Policy

In the previous Session the Committee urged the Government to expedite the full implementation of the Decentralisation Policy as it had the potential to support economic growth at the lowest level of the economy and consequently reduce inequality.

Executive's Response
The Committee was informed that the Government had noted the recommendations made by the Committee and wished to inform the House that:

a) The implementation of the National Decentralisation Policy was being accelerated. Accordingly, devolving ministries had continued compiling staff registers and development of sector devolution plans to facilitate the smooth transfer of human resources and functions from the Central Government to the Local Authorities; and

b) Government had commenced the implementation of the Human Resource Management Reforms to enhance the efficiency and effectiveness of public service management. Under Phase 1 of the Reforms, five Districts, namely Chibombo, Zimba, Solwezi, Lusaka and Samfya had been identified and the programme was successfully launched in Chibombo District in July, 2018.

Committee's Observations and Recommendations
The Committee notes the submission from the Executive and urges the Government to expedite the devolution to other districts once phase 1 of the Human Resource Management Reforms has been successfully implemented in the first five districts. The Committee resolves to await a progress report on the matter.

14.1.12 Growth of local firms

The Committee in the previous session recommended that the Government should facilitate the growth of local firms through the development of targeted policies and better incentives aimed specifically at improving their participation.

Executive's Response
In response, the Executive submitted that the Government had put in place the Micro, Small and Medium Enterprises Development Policy which promoted the growth and development of the SMEs in the country. Government had always been encouraging firms to graduate from being MSMEs into large companies. In that regard, Government was reviewing the MSME Development Policy and Government had also put in place the National Industrial Policy as a way of promoting the growth of local firms. The Government had also put in place preferential procurement for the local firms.

Committee's Observations and Recommendations
In noting the implementation of the National Development Policy, the Committee urges the Government to expedite the review of the MSME Development Policy in order to enhance growth of local firms. The Committee will await a progress report on the review of the MSME Development Policy.

14.1.13 Planning and Budgeting Bill and the amendments to the Loans and Guarantees (Authorisation) Act

The Committee in the previous session observed that the national budget was an important tool for reducing the growing inequality in Zambia. It observed that there was no robust and comprehensive legislation governing the budget process and the contracting of debt. The Committee was aware that the Government had made repeated assurances on the floor of the House regarding the presentation of these pieces of legislation to Parliament for enactment.

The Committee recommended that, as a matter of urgency, the Government should present the Planning and Budgeting Bill and the amendments to the *Loans and Guarantees (Authorisation) Act, Chapter 366 of the Laws of Zambia* to Parliament.

Executive's Response

In response, the Executive informed the Committee that the revised *Loans and Guarantees (Authorization) Act* was presented before Cabinet but was not concluded. It was pending conclusion of the current constitutional review process.

Committee's Observations and Recommendations

The Committee observes that the Executive has not commented on the status of the Planning and Budgeting Bill despite having been requested in the previous session to give an update on this piece of legislation. The Committee urges the Government to expedite the constitutional review process in order to ensure that necessary amendments to the *Loans and Guarantees (Authorisation) Act* are presented to Parliament for enactment. The Committee in this regard, resolves to await a progress report from the Executive on the matter.

14.2 Consideration of the Action-Taken Report on the Report of the Committee Budget Committee for the First Session of the Twelfth National Assembly

14.2.1 Arrears Clearance

The Committee in the previous session requested for a progress report on the clearance of arrears.

Executive's Response

The Executive responded that as outlined in the Economic Stabilisation and Growth Programme - Zambia Plus, the Government was committed to dismantling the stock of arrears. In that regard, one of the major priorities over the programme period was to dismantle arrears as a strategy towards breaking the economic crunch.

Further, an update on some of the arrears that were highlighted in the previous session was provided to the Committee as set out below.

Pension Arrears: Significant efforts had been made towards the liquidation of pension arrears. In 2017, the Government released a total of K1.47 billion towards the dismantling of pension arrears. In addition, the Government had released a total of K444.5 million for pensions in 2018. The stock of pension arrears was reported at K1.22 billion at end of June, 2018, compared to K2.0 billion that was outstanding as at June, 2017. In the spirit of continued

commitment to liquidate pension arrears, the Government had made a further provision of K1.06 billion in the 2019 budget for this purpose.

FISP Arrears: In 2018, the Government had released a total of K860.5 million for arrears relating to FISP for the 2016/2017 farming season and 2017/2018 farming season. The current stock of FISP arrears was estimated at K477.6 million as at end of August, 2018. The full implementation of the e-voucher would reduce the cost of undertaking the FISP programme and reduce the pace of accumulating arrears. It should be noted that, the stock of FISP arrears would not be liquidated in full in 2018, as further interventions were needed to provide inputs for the 2018/2019 farming season. Nonetheless, the Government remains committed to ensuring that all the arrears were liquidated in full.

Food Reserve Agency: In 2018, the Government had released a total of K162 million for the National Strategic Food Reserves. The debt stock as at end September, 2018 was estimated at K181.9 million, of which K100.4 million related to transportation costs.

Fuel arrears: A financing facility had been enacted with Trade and Development Bank (TDB - a financial arm of COMESA) that cleared the arrears. The loan facility would be repaid over five years.

Electricity importation arrears: Zesco had mandated Stanchart to raise the financing and the Government was underwriting the financing. Tariffs had been raised and electricity generation had increased.

Other capital projects arrears: The Government announced a number of austerity measures to prevent accumulation of new arrears. Some of the measures included the following:

- Prioritising funding to projects with the highest economic impact and concentrate on projects which were 80 per cent to completion; and
- The restriction of new capital projects and major equipment procurements until all on-going projects were completed.

Value Added Tax (VAT) Refunds to Exporters: These were being paid upon provision of verified documentation by affected tax payers in conformity with the applicable law at the time of export.

Committee's Observations and Recommendations

The Committee notes the progress made in dismantling the arrears and resolves to await a progress report on the outstanding arrears.

14.2.2 Improve Debt Management

The Committee in the previous session requested a progress report on the operationalisation of the Medium Term Debt Strategy and the finalisation of the amendments to the *Loans and Guarantees (Authorisation) Act* and presentation thereof to Parliament for enactment.

Executive's Response

The Medium-Term Debt Strategy (MTDS) was published and operationalised in 2017, and was to run through to 2019 when it would be revised. The operationalisation of the strategy had led to the restructuring of the debt office resulting in improved staffing levels with appropriate qualifications. In addition, a comprehensive reconciliation of debt data had been undertaken to ensure credibility of debt figures. Periodic comprehensive Debt Sustainability Analyses (DSAs) had also been undertaken to ensure that public external debt was maintained within sustainable levels over the medium to long term.

Committee's Observations and Recommendations

While recognising the Government's efforts to achieve the desired composition of its debt portfolio over the medium term through the MTDS, the Committee urges the Executive to expeditiously conclude the review of the current Constitution, which has taken inordinately long. The Committee, in that respect, urges the Government to subsequently, amend the *Loans and Guarantees (Authorisation) Act*. This will govern and guide the procedure for contracting national debt. The Committee resolves to await a progress report on the matter.

14.2.3 Enhance Transparency in National Fuel Procurement

In the previous Session, the Committee requested for a progress report on the petroleum subsector reforms and the review of the *Petroleum Act, Chapter 435 of the Laws of Zambia* to make the national fuel procurement process more transparent.

Executive's Response

In response, the Executive submitted that the Government, through the Ministry of Energy, was developing a framework for procuring of finished petroleum products by the private sector. In view of that, a tender was floated in August, 2017 and closed on 17th November, 2017. The tender was cancelled as the framework of how the procurement and financing of the product was to be done was not complete. Study tours to Kenya and Tanzania were undertaken in the month of March, 2018 to help understand how the system would work with the involvement of the private sector and ensuring security of supply. The Ministry had developed the tender document which would be issued to the private sector once the current contractual obligations had been exhausted. The document could only be issued once the legal framework had been finalised. Further, a Petroleum Management Bill was currently being drafted by the Ministry of Justice.

Committees Observations and recommendations
The Committee notes the submission and resolves to await a progress report on the matter.

14.2.4 Expedite the Process of the Cost of Service Study

The previous Committee recommended that the Government should expedite the process of undertaking the Cost of Service Study. The study would allay fears by some sections of society that increasing tariffs would result in consumers paying for some of the inefficiencies of ZESCO Limited.

Executive's Response
The Executive explained that the Government, through the Minister of Energy, launched the study on electricity cost of service and determination of economic cost reflective tariffs on 13th April, 2017. The study was being undertaken by the Economic Consulting Associates of the United Kingdom. In June, 2017, the consultants had completed the inception report that was presented to the Technical Committee and would also be presented to the Steering Committee in August, 2017. The study would be completed in the first quarter of 2018.

Progress Report on Cost of Service Study
In the previous Session the Committee requested for a progress report on the Cost of Service Study.

Executive Response
The Executive responded as set out below.

Status of the Electricity Cost of Service Study
The Consultant engaged to undertake the study had withdrawn from the study. The details of the developments and the proposed way forward thus far were presented in the subsequent sections.

Objectives and Terms of Reference of the Study
The ERB launched the Cost of Service Study (CoSS) in April, 2017. The general purpose of the Study was to determine the full cost of generating and providing electricity to various customer categories, at different points in the supply chain and within different geographical areas.

Timeline
The contract to undertake the study was awarded to Economic Consulting Associates of the United Kingdom (ECA) at a cost of US$ 636,130.00. The Study was being funded by the African Development Bank (AfDB). The Study was a follow up to a similar study conducted in 2006 by another consultant, IPA Energy Consulting.

The contract was signed in April, 2017 and was set to be completed within a period of twelve months. However, during the contract negotiations the consultant agreed to undertake the Study within nine months.

Governance of the Study

In order to conduct the Study in a structured manner, ERB established three governance committees, namely: the Steering Committee; the Management Committee; and the Technical Committee. The purpose of the Steering Committee was to provide policy direction and facilitate stakeholder buy-in and implementation of the Study outcomes. The Management Committee's role was to provide implementation oversight. The Technical Committee's role was to provide technical and analytical oversight and ensure that the study outcomes were consistent with analytical approach presented in the bid documents. The Technical Committee thus comprised of policy, legal, technical, financial and economic experts drawn from Government; ERB, ZESCO Limited (ZESCO), and Copperbelt Energy Corporation Plc (CEC).

Inception visit and Report

The consultant undertook an inception visit to Zambia in May, 2017. During the inception visit, the ERB introduced the consultant to strategic institutions that were to provide data required for the successful execution of the Study. During that visit, ERB and ECA agreed on the methodology for each of the Terms of Reference (ToRs), including the data needs and sources. In June, 2017, the consultant submitted the Inception Report and the requisite payment (10 per cent of contract price) was made.

The Load Forecast Report and the subsequent Technical Reviews of the Report

As at July, 2018, the consultant had submitted a total of five versions of the Load Forecast Report. The Load Forecast Report was one of the key deliverables of the Study. A total of five revisions of the report were made between September, 2017 and June, 2018. In all instances, the Technical Committee rejected the Report on account of it being poorly written and its shallow analysis. It was observed that the consultant had not made serious effort to improve the quality of the report and the comments raised on all draft Reports were not fully addressed.

- The consultant did not take kindly to the comments made by the Technical Committee. After several attempts to provide technical guidance, it became increasingly doubtful as to whether the consultant was willing to work on the report and improve on its quality.

- Meanwhile, all the versions of the report were submitted to AfDB who also rejected the report on account of poor quality and lack of depth in its

analytical framework. Further, any payments towards the same outputs were withheld on the basis of poor quality. Meanwhile, the ERB emphasised that it would not compromise on the quality of the Report.

Reviews of the Benchmarking Report

This task required the consultant to carry out a detailed review of ZESCO's cost structure, benchmarking with the cost structures of efficient utilities of similar technical structure as ZESCO, indicating areas of improvements to acceptable efficient utility performance standards, and recommending a realistic time frame for reaching the performance standards.

In June, 2018 the Technical Committee reviewed the Benchmarking Report and found it to have no analytical framework and that it was poorly written. The benchmarking analysis did not present a detailed analysis of ZESCO's operations and financial status in comparison to a selected utility or group of utilities of similar standing but considered more efficient. This report was also rejected.

Revised Work Schedule and Timeline for Completion of Study

In June, 2018, the AfDB and ERB held a meeting to discuss the revised project timelines. To facilitate the extension, ERB requested for a contract extension, for which there was a No Objection from the Bank and from the Attorney General of Zambia. The extension was premised on the belief that there was sufficient time for the consultant to conclude the Study, especially if they had in place a Study Team that was working on various task orders simultaneously.

Meanwhile, the ERB further informed the AfDB that the capacity of the consultant was in serious doubt, based on the experience with the load forecast and the benchmarking reports. Therefore, the ERB was seriously considering the option of terminating the contract because it was increasingly becoming clear that ECA was not capable of undertaking the Study.

The AfDB echoed the ERB's observation and advised that the sooner the termination of the contract took place the better so that the Government could be informed in good time and begin to explore the available options about the completion of the Study.

Cost of Service Study Results Dissemination and Migration to Cost Reflective levels

One of the objectives of the Study was to prepare a comprehensive roll out plan for communicating the outcomes and the proposed strategy to all stakeholders. Through that process and once the Study was completed, the ERB would share the results to all stakeholders in a timely and structured manner. The ERB would also embark on a phased tariff migration path to ensure there was no tariff shock to the economy.

ECA's Proposal to Withdraw from the Study

On 20th June, 2018, ECA officially communicated to the ERB insisting that their submissions were of high professional standard and if no express approvals were guaranteed for the current and subsequent outputs, then the Study would not be completed by end of September, 2018. ECA further proposed to terminate the contract (withdraw from the contract) and opted for it to be handed over to another consultant.

Technical Committee's observations on ECA's Approach to the Study

Having interacted with the consultant and reviewed the reports that had so far been drafted and submitted by the consultant, the Technical Committee made the following observations that could negatively impact the results of the Study:

i. The consulting firm appeared to be heavily constrained in terms of resource capacity to comprehensively undertake the Study. The consultant had indicated to the ERB that some of the key experts had since left and were no longer available to work on the Study;

ii. The lack of response on comments made by the Technical Committee had been exacerbated by the fact that the consultant was working remotely from the UK.

iii. While the wish of the Technical Committee's and the AfDB was to salvage the situation despite the poor quality of works, the minimum quality standard that would be acceptable by stakeholders was not forth coming.

iv. Both the ERB and AfDB were convinced that ECA was not capable of undertaking the Study based on the work that had been done so far.

Study Steering Committee Meeting held of 12th July 2018

The Steering Committee held a meeting on 12th July, 2018 at ERB's Head Office. The meeting was chaired by the Permanent Secretary of the Ministry of Energy. In attendance also was the Co-Chairperson of the Steering Committee, Permanent Secretary in charge of the national budget from the Ministry of Finance. Other members present included the Board Chairpersons of the ERB and ZESCO as well as the President of the Chamber of Mines. Others were the chief executive officers (CEOs) from Copperbelt Energy Corporation (CEC), ERB and Industrial Development Corporation (IDC), Zambia Association of Manufacturers (ZAM), Consumer Unity Trust International (CUTS). The African Development Bank was also in attendance as observer.

The consultant, ECA, made a verbal presentation to the Steering Committee reiterating its decision to withdraw from the Study and offered to smoothly handover to the ERB.

The Study Technical Committee made a presentation to the Steering Committee and recommended that the Steering Committee should accept ECA's proposal to withdraw from the Study on account of the poor quality of the Load forecast Report and inability to deliver on the pending task orders.
The Steering Committee resolved to accept ECA's withdrawal from the Study and requested the ERB to officially engage the AfDB with a view to procuring another consultant to undertake the Study.

Conclusion
Following ECA's withdrawal from the Study, the ERB had since written, via letter of 13th July, 2018, to the AfDB on the availability of the funds and to formally inquire on the willingness of the Bank to continue funding the Study since only 10 per cent of the contract sum was paid to the consultant. Further, the ERB had also requested for possible options to be considered on the procurement of a new consultant to undertake and complete the Study. The ERB was therefore, awaiting a response from the Bank.

Committee's Observations and Recommendations
In noting the detailed submission from the Executive, the Committee resolves to await a progress report on the matter.

14.2.5 Clearing the Arrears for Both the Farmer Input Support Programme and Food Reserve Agency

In the previous Session the Committee requested a progress report on the clearance of arrears.

Executive's Response
The Executive submitted that the Ministry of Agriculture had a carryover debt of K1, 163,714,119.90 as at 1st January, 2018. K941, 836, 846.86 had been paid against the carryover debt, leaving a balance of K221, 877,273.04. Additional debt of K 258,149,102.30 had been contracted over the period from 1st January, 2018 to 31st July, 2018 bringing the total debt to K480, 026,375.34 as at 31st July, 2018.

Committee's Observations and Recommendations
The Committee notes the submission and requests a progress report on the clearance of the arrears.

14.2.6 Expedite the Implementation of Fiscal Decentralisation

In the previous Session, the Committee requested a progress report on the implementation of fiscal decentralisation.

Executive's Response
The Executive responded that the *Public Finance Management Act No. 1 of 2018* was gazetted on 11th April, 2018 and in that regard, the Intergovernmental Fiscal Architecture (IFA) was expected to be fully operationalised to set the pace

for fiscal decentralisation. From 2019, transfers from the Treasury would go directly to the districts. In order to ensure that the process was implemented in a coordinated manner, Chibombo District had been selected as a pilot district for decentralisation before the roll out. Currently, the Local Government Equalisation Fund, which was an aspect of the IFA, went directly from the Treasury Single Account to local authorities. Similarly, other fiscal responsibilities were also expected to be devolved to local authorities from 2019.

The IFA was being operationalised in phases. Currently, the Government was disbursing the Local Government Equalization Funds which were a component of the IFA.

Committee's Observations and Recommendations
The Committee notes the submission and requests a progress report on the matter.

14.2.7 Amend the Local Authorities Legislation and Financial Regulations

The Committee in the previous session resolved to request for a progress report on the amendment of the local authorities legislation and Financial Regulations.

Executive's Response
The Executive responded that the amendment of the Local Government Act was in progress and the Local Government Bill, 2018 was expected to be tabled in the next Session of Parliament which would resume sitting in September, 2018. Further, the local authorities Financial Regulations would be drafted after the enactment of the Local Government Bill of 2018.

Committee's Observations and Recommendations
The Committee notes the submission on the amendment of the *Local Government Act* and resolves to await a progress report on the status of the local authorities' Financial Regulations.

14.3 Consideration of the Action-Taken Report on the Report of the Committee on Estimates for the Fifth Session of the Eleventh National Assembly

14.3.1 Performance Management Bill

The Committee, in the previous session, requested for a progress report on the Performance Management Bill.

Executive's Response
The Executive submitted that the Draft Performance Management Bill had already been considered by Cabinet. Currently, the Bill was undergoing further

stakeholder consultations in order to address some of the concerns that had been raised by some stakeholders.

Committee's Observations and Recommendations
The Committee notes the submission and awaits a progress report on the matter.

14.3.2 Performance Based Management

In the previous session, the Committee requested for a progress report on the roll out of the Performance Based Management System throughout the public service.

Executive's Response
The Executive informed the Committee that the Performance Contracting system was revised in January, 2018 in order to make it compliant with the Seventh National Development Plan that was launched in June, 2017. That revision was necessary in order to ensure that performance contracts facilitated the implementation of the new national development plan. Following the revision, performance contracts that incorporated national development plans had been developed for permanent secretaries in all line ministries and provinces. Those contracts were currently being used to track the performance of permanent secretaries with regard to progress towards the National Development Plan targets.

The revised contracting system had also been cascaded to directors and assistant directors in the civil service. The cascading of the contracts to this level of staff ensured that the permanent secretaries, directors and assistant Directors were held accountable for the implementation of the National Development Plan in their ministries collectively and individually. The cascading of the contract system to include district commissioners commenced in the third quarter of 2018.

Additionally, Government had commenced the roll-out of the Performance Management System in all the local authorities. Presently, 80 per cent of the local authorities had been covered. This process would include the development of performance contracts for town clerks/council secretaries and their chief officers.

Committee's Observations and recommendations
The Committee notes the implementation of the performance contracts and contracting system in the civil service and local authorities. However, the Committee resolves to await a progress report on the remaining 20 per cent implementation of performance contracts in the local authorities.

14. 3.3 Industrialisation and Export Diversification

The Committee, in the previous session, requested for an update on the

finalisation of the National Industrialisation Policy, National Export Strategy and the Trade Policy.

Executive's Response

The Executive responded that the National Industrial Policy and Export Strategy were finalised and launched while the National Trade Policy would be launched once resources permited.

Committee's Observations and Recommendations

The Committee notes the submission and resolves to await a progress report on the launch of the National Trade Policy.

15.0 CONCLUSION

The Committee's study on the effects of trade deficit and high debt stock on the budget performance in Zambia provided insights on the magnitude of the problem. Some of the key causes of Zambia's trade deficit include the constrained manufacturing base, failure to diversify, limited value addition to exports, inadequate enforcement measures to curb illicit trade and may more. The study also highlighted the ramifications of the trade deficit on budget performance. As regards the high debt levels, this study revealed that the key factors influencing this were fiscal indiscipline and high interest rates from increased commercial loans, increased expenditure on developmental projects using commercially contracted loans and non adherence to austerity measures. It also explored the impact of the high debt stock on budget performance. Some of the major implications were high debt servicing which reduced expenditure on socio- economic activities, decreased ability to respond to unforeseeable problems and persistent current account deficits.

As regards maximisation of revenue collection from the mines in Zambia, the Committee identified mineral royalty as the major avenue for taxing the mining in Zambia.

In this report, the Committee makes various key recommendations on the topical issues inquired into and is confident that the Executive will implement these recommendations in order to improve Zambia's budget performance and economic performance in general.

The Committee is hopeful that the observations and recommendations contained in this Report will receive necessary attention and action for the good of the country.

Lastly but not the least, the Committee wishes to pay tribute to all the stakeholders who appeared before it and tendered both oral and written submissions. The Committee is also thankful to you, Mr Speaker, for the guidance rendered to it throughout the Session. The Committee also appreciates the services rendered to it by the Office of the Clerk of the National Assembly.

M Simfukwe, MP
CHAIRPERSON

June, 2019
LUSAKA

APPENDIX I

Ministry of Finance
Zambia Revenue Authority
Economics Association of Zambia
Zambia Association of Chambers of Commerce and Industry
University of Zambia, Economics Department
Zambia Institute for Policy Analysis and Research
Bank of Zambia
Ministry of Commerce, Trade and Industry
Jesuit Centre for Theological Reflection
Civil Society for Poverty Reduction
Zambia Association of Manufactures
Central Statistical Office
Zambia Institute of Chattered Accounts
Chamber of Mines of Zambia
ActionAid Zambia
Policy Monitoring and Research Centre
Copperbelt University

APPENDIX II

List of National Assembly Officials

Ms C Musonda, Principal Clerk of Committees
Mr H Mulenga, Deputy Principal Clerk of Committees (FC)
Mrs C K Mumba, Acting Senior Committee Clerk (FC)
Mr D Kunda, Committee Clerk
Ms L Chilala, Typist
Mr D Lupiya, Committee Assistant