

REPORT OF THE COMMITTEE ON ECONOMIC AFFAIRS FOR THE FIRST SESSION OF THE ELEVENTH NATIONAL ASSEMBLY APPOINTED ON WEDNESDAY 19 OCTOBER, 2011

Consisting of:

Mr C W Kakoma, MP (Chairperson), Ms V Kalima, MP, Dr S Musokotwane, MP, Mr K Hamudulu, MP, Mr M H Malama, MP, Mr R K Chitotela, MP, Mr K Konga, MP and Mr M Chishimba, MP

The Honourable Mr Speaker
National Assembly
Parliament Buildings
LUSAKA

Sir,

Your Committee has the honour to present its Report for the year 2011/2012.

2.0 Functions of the Committee

The functions of your Committee are as follows:

- (i) to study, report and make recommendations to the Government through the House on the mandate, management and operations of Government ministries, departments and/or agencies under its portfolio;
- (ii) to carry out detailed scrutiny of certain activities being undertaken by Government ministries, departments and/or agencies under its portfolio and make appropriate recommendations to the House for ultimate consideration by the Government;
- (iii) to make, if considered necessary, recommendations to the Government on the need to review certain policies and/or certain existing legislation; and
- (iv) to consider any Bills that may be referred to it by the House.

3.0 Meetings of the Committee

Your Committee held eleven meetings during the year under review.

4.0 Programme of Work

At the Committee's second meeting held on 3rd November, 2011 your Committee considered and adopted the following programme of work:

- (i) consideration of the Action-Taken Report on the Committee's Report for 2010/2011;
- (ii) status of Zambia's domestic and external debt;
- (iii) citizens' involvement in economic development; and
- (iv) consideration of the draft report.

5.0 Procedure adopted by the Committee

Your Committee requested detailed memoranda on the topics under consideration from concerned stakeholders and invited them to appear before it in order to give verbal submissions and clarifications on issues arising from their submissions.

Your Committee also undertook a local tour during the year under review.

PART I

TOPIC 1

STATUS OF ZAMBIAN'S DOMESTIC AND EXTERNAL DEBT

6.0 Your Committee, resolved to undertake a study of the status of Zambia's domestic and external debt due to concerns raised by several stakeholders that the country may slip back into the debt crisis following new loans that the Government has contracted. The objective of the study was to:

- (i) ascertain the current external debt segregated into Government debt and Government guaranteed debt;
- (ii) examine the trend of the external debt from 2005 to date in absolute figures and as a percentage of Gross Domestic Product (GDP);
- (iii) know countries and institutions that have provided the loans;
- (iv) know the purpose of each external loan contracted from 2005 to date;
- (v) assess the trend of external debt service as a percentage of the total budget from 2005 to date;
- (vi) ascertain the current domestic debt and trend from 2005 in absolute figures and as a percentage of GDP;
- (vii) assess the ability of the Government to service the domestic debt;
- (viii) learn measures put in place to ensure that the external and domestic debt remains sustainable; and
- (ix) make appropriate recommendations to the Executive.

The following institutions made both written and oral submissions on the subject:

- (i) the Ministry of Finance and National Planning;
- (ii) the Bank of Zambia;
- (iii) Economics Association of Zambia;
- (iv) Civil Society for Poverty Reduction; and
- (v) Jesuit Centre for Theological Reflection.

CONSOLIDATED SUMMARY OF SUBMISSIONS

THE POLICY FRAMEWORK ON DEBT MANAGEMENT

6.1 Your Committee was informed that a strong legal, institutional and policy framework was an essential component of an efficient debt management system for any country.

Legal Framework

The contraction and management of public debt in Zambia was governed by several legislation and regulations. The principle laws and regulations that provide the legal for public debt contraction and management were contained in Part X of the Constitution of Zambia and chapters 347 to 379 of the Laws of Zambia with the following particularly being noteworthy:

- (i) *the Treasury Bills, CAP 348;*
- (ii) *the General Loan and Stock Act, CAP 350;*
- (iii) *the Local Loans (Registered Stock and Securities) Act, CAP 353;*
- (iv) *the Loan (Authorization) Act; CAP 355;*
- (v) *the General Loans (Guarantee) Act, CAP 358; and*
- (vi) *the Loans and Guarantees (Authorization) Act, CAP 366.*

The prominent Act among these was the *Loans and Guarantees (Authorization) Act*, which specifically provides for the raising of loans, the establishment of sinking funds, issuance of guarantees and indemnities and the granting of loans by or on behalf of the Government. CAP 366 also provides for the limits of the amounts of loans raised both within and outside the country. Section 3 states that the Minister of Finance and National Planning may raise from time to time, loans not exceeding an amount outstanding at any one time such amounts as he shall from time to time be authorized by resolution of the National Assembly to prescribe by Statutory Instrument. Further, Section 15 authorises the Minister to guarantee the repayment to any person ordinarily resident in and outside Zambia of any loan or any portion of the loan. From 1988, the Minister's limit for foreign loans has been at K20 trillion (approximately US\$5 billion) per year and at K5 trillion (US\$1 billion) per year for domestic loans.

Institutional Framework:

Your Committee was informed that the Act further provided for the establishment of institutional structures to carry out the day-to-day functions of borrowing and repayment of loans thereafter contracted. Under this provision, the country has two sites from where debt management was conducted, the Ministry of Finance and National Planning (MoFNP) and the Bank of Zambia (BOZ). The Ministry manages the country's external debt as it relates to public and publicly guaranteed debt. It is responsible for negotiating, contracting, guaranteeing, record keeping and debt servicing of external debt. In the area of domestic debt, the Ministry is mainly in-charge of servicing of interest on government securities. It is also maintained data on internal suppliers' credit, contingent liabilities of local government entities and state enterprises. The Bank of Zambia on the other hand is charged with the responsibility of monitoring, recording its own and private sector contracted short-term external debt, management of domestic debt, in particular government securities and effecting external debt service.

Zambia has many laws and regulations that govern public debt management. For example, CAP 366 and other laws define functions and responsibilities of the Ministry of Finance and National Planning and the Bank of Zambia which laws determine the level of indebtedness and guarantees that the country could undertake. However, while legal and administrative framework for the management of national debt exists, they are fraught with very serious weaknesses. These include:

- (i) **lack of high-level coordination** – it was important that the legal framework of debt management clearly define the responsibilities and functions of the various agencies involved in debt management so as to avoid duplication of functions. For example, while the Loan (stock, Bonds and Treasury Bills) regulations and the *Bank of Zambia Act* gives power to the Central Bank to undertake and manage government securities that were publicly issued, the law also assigns the responsibility of registering securities to the Ministry of Finance and National Planning;
- (ii) **lack of guidelines in terms of borrowing** – while the law has imposed limits of indebtedness to the Government, it has not done so to the public sector nor for local governments, except when requesting guarantees. Furthermore, there was no legislation that details the process that needs to be followed to obtain the approval of guarantees from the Ministry, nor do regulations establish any requirements that the public sector need to provide to MOFNP to obtain it;
- (iii) **absence of basic permanent negotiation teams;**
- (iv) **lack of public accountability;** and
- (v) **centralization of borrowing powers in one office** which was also not adequately overseen by Parliament.

There was therefore overall lack of a debt strategy and policy in Zambia to guide the country in the areas of borrowing, terms of borrowing and the purpose of borrowing. This coupled with significant political involvement and poor data management could easily result in uncontrolled debt and litigations.

THE CURRENT EXTERNAL DEBT SEGREGATED INTO GOVERNMENT DEBT AND GOVERNMENT GUARANTEED DEBT

6.2 It was reported that public debt and publicly guaranteed debt amount to K6.5 trillion (US1.3 billion) and K8.5 trillion (US1.7 billion) respectively as shown in Table 1.

Table 1

Type of External Debt	US\$' billion	K' trillion
Public	1.3 billion	6.5 trillion
Publicly Guaranteed	1.7 billion	8.5 trillion
Total External Debt	3.0 billion	15 trillion

2010 Economic Report

THE TREND OF EXTERNAL DEBT FROM 2005 TO DATE IN ABSOLUTE FIGURES AND AS A PERCENTAGE OF GDP

6.3 Your Committee was informed that during the period 2005 to 2007, Zambia's total external debt stock decreased from US \$4.7 billion in 2005 to US \$1.1 billion in 2007. According to preliminary data, external debt stock for 2011 stood at US \$1.9 billion, indicating an increase of 11.54 % from 2010 as shown in Table 2. The increase in the stock of external public debt has mainly been attributed to increased borrowing by the Government to finance infrastructure projects such as roads and housing in the country.

Table 2

YEAR	2005	2006	2007	2008	2009	2010	2011
	US\$ Billion						
Total Government External Debt	4.651	971.77	1,104.65	1,188.55	1,544.52	1,766.16	1,971.70
Total External Public debt as % of GDP	50.95	11.12	9.20	10.55	11.14	10.93	10.73

Source: Ministry of Finance and National Planning

COUNTRIES AND INSTITUTIONS THAT HAVE PROVIDED THE EXTERNAL LOANS FROM 2005 TO DATE THE RESPECTIVE AMOUNTS

6.4 According to the MoFNP, the countries and institutions set out in the table below have provided external debt to Zambia from 2005 to 2011.

Table 3

Creditor	2005	2006	2007	2008	2009	2010	2011
Multilateral	3,540.80	636.58	706.12	751.81	1,114.36	1,198.41	1,240.12
ADB/ADF	377.5	126.53	91.3	121.22	170.79	222.24	216.74
World Bank (IDA)	2,335.60	260.64	316.9	352.03	406.64	430.36	489.91
IMF	591.1	41.38	85.95	95.51	344.78	366.18	367.88
Others	236.60	208.03	211.97	183.05	192.15	179.63	167.7
Bilateral	1,014.00	278.05	286.78	293.16	293.21	298.57	283.19
Paris Club	807.00	204.85	212.55	218.29	219.08	224.56	212.65
Non- Paris Club	207.00	73.2	74.23	74.87	74.13	74.01	70.53
Suppliers Credit	96.20	57.14	111.75	143.58	136.95	269.18	466.9
Total Govt. External Debt	4,651.00	971.77	1,104.65	1,188.55	1,544.52	1,766.16	1,971.70
Total Govt. External Public Debt as % of GDP	50.95	11.12	9.2	10.55	11.14	10.93	10.73

Source: Ministry of Finance and National Planning

PURPOSE AND UTILIZATION OF EXTERNAL LOANS CONTRACTED BETWEEN 2005 AND 2011

6.5 Your Committee learnt that the external loans contracted between 2005 and 2011 were utilized for the purposes set out below.

(a) **OFID/BADEA -US\$14 million**

Copperbelt Feeder Roads Project- the Government contracted these loans in 2007 and 2008 respectively to promote agriculture development and economy diversification and the poor feeder road infrastructure in the province. However, the Jesuit Centre for Theological Research (JTCR) report revealed the following:

- (i) works had not commenced as late as December 2010 with implementation being expected to commence in 2009;
- (ii) instead of the initial 768km, only 210km would now be covered by the project at the same loan amount and interest; and
- (iii) the road network in the targeted roads in Mpongwe had worsened and had led to continued difficulties and increased cost of farmers transporting farm inputs and produce which was the objective of the project.

(b) **AfDB - US\$36.9 million**

Central Province Water and Sanitation Project:

- (i) given the fact that access to clean and safe water and sanitation was now recognised as a Human Right and that a great majority of citizens in Central Province and Kapiri Mposhi in particular had no access to clean and safe water and sanitation, the loan was necessary;
- (ii) at the time of reporting, the project was at completion stage with only the sanitation part remaining;
- (iii) setting up of a commercial utility company had been completed;
- (iv) 99.38% of the loan and about 80% of the grant had been disbursed;

- (v) the project generally lacked impact as most of the residents had not connected to the water and sewerage lines as the cost of connection by Lukanga Water and Sewerage was very high;
- (vi) sanitation remained poor in the district as majority of residents were still found to use self-made pit latrines near unprotected wells, while others continued to use the bush or their back yards in the night;
- (vii) the construction of pit latrines from the project was slow and against the set criterion for beneficiaries;
- (viii) however, in areas such as East Park where majority of residents had connected to water and sanitation, the benefits were felt in terms of 24 hour access to water and gardening;
- (ix) a good number of kiosks had no running water while some were rarely open;
- (x) some kiosks were found to be closed at the time of monitoring; and
- (xi) the kiosks were found to be inadequate and in some areas not evenly distributed.

(c) **IDA - USS\$ 33 million**

Increased Access to Electricity Supply Project:

- (i) the loan agreement for this project was signed in 2008 and was currently under implementation;
- (ii) preliminary findings from project areas (Rural Electrification) monitored in Mwinilunga and Ikelenge districts showed that the loan project was a necessary one as a great majority of citizens and government institutions such as schools and Rural Health Centres in the area had no access to power and thus relied on firewood, charcoal, and lamps which affect productivity and the quality of life and public services; and
- (iii) the lack of power had resulted in poor retention of civil servants who left the institutions in the area for those with access to electricity.

It was also noted that, the Government intended to set up mini hydro power stations and solar packages in Zengamina and Salujinga even though there was already a private hydro power station in operation with sufficient capacity to meet power demand for the areas.

THE TREND OF EXTERNAL DEBT SERVICE AS A PERCENTAGE OF TOTAL BUDGETS FROM 2005 TO-DATE

6.6 It was reported that in 2005, Government paid a total of US \$129.86 million in external debt service. Due to substantial debt relief extended to Zambia in 2005 under the Multilateral Debt Relief Initiative (MDRI) and Heavily Indebted Poor Countries (HIPC) Initiative, public external debt service payment for 2006 declined by 49.9% to US \$65.21 million. In 2011, the debt service payments remained stable being about US \$34.14 million and thus the Country continued to benefit from the increased fiscal space created by the MDRI and HIPC Initiative. The debt service payments for the period under review disaggregated into interest and principal payments are set out in table 4 below.

Table 4

	2005	2006	2007	2008	2009	2010	2011
	US\$ Millions						
Principal	100.31	48.14	47.16	41.44	42.17	29.79	20.45
Interest	29.56	17.07	13.35	19.31	11.48	8.72	13.69
Total	129.86	65.21	60.51	60.75	53.65	38.52	34.14
External debt Service as % of the Total Budget	4.45	2.66	1.83	1.86	1.54	1.11	0.85

Source: Ministry of Finance and National Planning

THE CURRENT DOMESTIC DEBT AND TREND FROM 2005 IN ABSOLUTE FIGURES AND A PERCENTAGE OF GDP

6.7 Your Committee was informed that domestic debt comprise of marketable securities and non-marketable securities as well as other public liabilities. Marketable securities consist of treasury bills and government bonds. Non-marketable securities include the GRZ 10-year bond issued to Bank of Zambia and other special bonds issued to ZANACO. Other liabilities include domestic arrears, pension arrears and awards and compensation. The stock of domestic debt as of December 2011 was about K14, 028.70 billion which represented a 58.98% increase from the K6, 189.38.43 billion in 2010. The table below, shows Zambia's domestic debt and as a percentage of GDP in K' Billion.

Table 5

Year	2005	2006	2007	2008	2009	2010	2011
Domestic Stock	6,189.38	7,720.84	8,279.08	8,494.64	10,340.96	10,867.36	14,028.70
Domestic Debt as a % of GDP	19.32	20.02	17.92	15.49	16.00	13.99	14.93

Source: Ministry of Finance and National Planning

LOCAL INSTITUTIONS THAT THE GOVERNMENT OWES

6.8 The Government has outstanding payments to some key public institutions. These include ZESCO, ZAMTEL, Zambia State Insurance Cooperation (ZISC), National Pension Scheme Authority (NAPSA), Public Service Pension Fund (PSPF) and water utilities across the country. A large composition of the debt was arrears owed by various Government Ministries and departments in form of water, telephone and electricity bills as shown in the table below.

Table 6

Institution	Amount K' Billion
Zamtel	22.32
ZESCO	26.22
Lusaka Water	33.88
Water Utilities	48.87
Total	131.29

Source: Ministry of Finance and National Planning

Other Institutions

Institution	Amount K' Billion
Mulungushi Village Complex	1.16
ZISC	17.40
NAPSA	162.66
PSPF	81.91
TOTAL	263.13

Source: Ministry of Finance and National Planning

THE ABILITY OF THE GOVERNMENT TO SERVICE THE DOMESTIC DEBT

6.9 Your Committee was informed that the Government has always paid its domestic debt interest obligations. The Debt Sustainability Analysis (DSA) shows that the Government has the ability to service its debt obligations.

For instance, the domestic debt/GDP ratio of 14 per cent in 2011 demonstrated the capacity of the economy to carry the debt as it fell below the sustainability threshold range of 20% - 25%. According to Debt Relief International (DRI), who were the developers of the Debt Sustainability Ratios for Domestic Debt, a country was said to be unsustainable if the ratio was above the indicated threshold range.

STRATEGIES FOR CONTRACTING AND MANAGING PUBLIC EXTERNAL DEBT

6.10 It was reported that the strategies for managing public external debt set out below have been employed by Government.

(i) Concessional Loan Contraction

The Tripartite Debt Sustainability Analysis (DSA) conducted by GRZ in collaboration with the International Monetary Fund (IMF) and the World Bank to ascertain the Government's debt carrying capacity has been the basis for mobilizing the resources required to fill the financing gap identified in each given year. In this respect, the Government has endeavoured to borrow loans from external creditors with a grant element of 35% or better.

(ii) Non-Concessional Borrowing

The recent DSA showed that Zambia's debt was sustainable over the medium to long term even assuming additional concessional borrowing of US \$1.0 billion and a further non-concessional borrowing of US \$1.0 billion. On this basis, the Government has an option to contract non-concessional loans within the sustainability framework. In this respect, the Government contracts non-concessional loans for the financing of economic projects that have an appreciably high internal rate of return such as the hydro-power generation stations and roads infrastructure.

(iii) Minimising Contraction of Export Credits

For public debts that could be acquired through external loan facilities, the Government prioritises concessional loans, which were at low interest rate with longer maturity periods, rather than commercial loans and export credits.

(iv) Contracting Debt with Fixed Interest Rates

Efforts had been made to target the acquiring of all new loans with low fixed interest rates, in order to avoid additional expenses that must be paid by the Government, which could occur due to the increase in the interest rate in the market if debts with floating interest rates were

contracted. This strategy was providing certainty to the Government in calculating the amount of the interest costs payable in any budget year.

(v) Minimising Costs and Risks through External Debt Restructuring

As part of the strategy, the Government has made tremendous progress on the conclusion of bilateral debt reduction agreements with its Paris Club and Non-Paris club creditors for the purpose of achieving debt relief under the HIPC Framework. Of the ten Paris Club and three Non-Paris Club creditors, it had concluded Agreements with nine Paris Club and Two Non-Paris Club members.

Committee's Observations and Recommendations

Your Committee observes that:

- (i) there is lack of prioritization and commitment in servicing debt. The Government is more inclined to repay the commercial banks at the expense of pensioners and individual suppliers;
- (ii) the Government is more inclined to service external debt rather than domestic debt;
- (iii) some loans are contracted by Government before projects are appraised and problem areas identified;
- (iv) the law is not very clear about the role of the Ministry of Finance and National Planning and Bank of Zambia and other agencies in relation to debt management;
- (v) there is no debt strategy and policy to guide the country in the areas of borrowing, terms of borrowing and the purpose of borrowing;
- (vi) there is no legislation that details the process that needs to be followed to obtain the approval of guarantees from the Ministry of Finance and National Planning; and
- (vii) the rate at which debt is being contracted is increasing at a fast rate.

In view of the foregoing, your Committee recommends that:

- (i) the Government should give priority to the most vulnerable in the repayment of debt such as the pensioners;
- (ii) the Government should ensure that the legal framework in debt management is revised and defines clearly the responsibilities and functions of the various agencies involved in debt management in order to avoid duplication of functions and improve transparency in the process of contracting loans.
- (iii) the Government should ensure that the debt contracted is invested in projects that will yield the highest economic return in order to offset the fast rate at which debt is being contracted and ensure that it remains sustainable;
- (iv) the Government should develop a comprehensive debt strategy and policy that would stipulate when to borrow, on what terms and for what purposes;
- (v) there should be a publicly determined ceiling for the amount of which the Government of Zambia can publicly guarantee external debt for private investments; and
- (vi) the Government should enhance monitoring and evaluation of projects to ensure that project objectives and targets are met by way of identifying problem areas during implementation.

TOPIC 2

CITIZENS' INVOLVEMENT IN ECONOMIC DEVELOPMENT

7.0 Your Committee, resolved to undertake a study on citizens' involvement in economic development in order to establish the involvement of Zambians in major economic sectors such as Tourism, Transport, Agriculture, Finance and any other relevant sectors, so as to gain insight into this area and engage relevant stakeholders on the way forward. This topic was selected against the backdrop of concerns, that Zambians do not participate in economic activities in their country and thus their minimal gain from the reported economic development in Zambia.

The following institutions made both written and oral submissions on the subject.

- a) Ministry of Commerce, Trade and Industry (MCTI);
- b) Citizens Economic Empowerment Commission (CEEC);
- c) Zambia Development Agency (ZDA);
- d) Zambia Association of Manufactures (ZAM);
- e) Bankers Association of Zambia (BAZ);
- f) Ministry of Mines and Natural Resources;
- g) Association of Mine Suppliers and Contractors;
- h) Economics Association of Zambia (EAZ);
- i) National Council for Construction;
- j) Civil Society for Poverty Reduction (CSPR);
- k) Zambia Federation of Employers (ZFE);
- l) World Bank;
- m) International Labour Organisation (ILO);
- n) Ministry of Finance and National Planning;
- o) Africa Way Forward;
- p) Ministry of Information, Broadcasting and Tourism;
- q) Securities and Exchange Commission;
- r) Ministry of Transport, Works, Supply and Communication; and
- s) Zambia Chambers of Small and Medium Business Associations (ZCSMBA).

CONSOLIDATED SUMMARY OF SUBMISSIONS

THE LEVEL OF PARTICIPATION OF ZAMBIAN CITIZENS IN THE NATION'S MAJOR SECTORS

7.1 Your Committee was informed that the participation of local Zambians in the key economic sectors has been low over the years as could be seen by the percentage of pledged investments by local companies in the last five years ranging between 6 and 24 percent as shown in the Table below. It has been established that there were considerably low levels of entrepreneurship among the owners of Small and Medium Enterprises (SME) as only 20 percent of them were engaged in business activities arising purely out of opportunity identification while the remaining 80 percent entered into business activity due to either family pressure, inheritance or because they had no other option.

Table 1:
Total Investment Pledges Vs Zambian Owned (Local) Investment Pledges (2007-2011)

Sector	2007		2008		2009		2010		2011	
	Total Pledges (US \$ m)	Local (%)	Total Pledges (US \$ m)	Local (%)	Total Pledges (US \$ m)	Local (%)	Total Pledges (US \$ m)	Local (%)	Total Pledges (US \$ m)	Local (%)
Agriculture	63.3	0	62.9	27.0	315.0	2.0	45.8	0	489.7	4.0
Construction	19.5	18.0	33.9	0.0	24.7	10.0	74.4	0	82.4	51.0
Education	4.1	0	-	-	14.7	75.0	214.6	100.0	83.6	0
Energy	-	-	1 306.7	32.0	92.1	11.0	570.2	0	1 098.6	6.0
Finance	-	-	-	-	38.0	0	-	-	141.8	0
Health	1.3	0	38.8	0	59.3	2.0	22.5	0	13.3	0
ICT	275.2	99.0	4.6	0	4.7	18.0	161.7	0	20.5	70.0
Manufacturing	805.4	8.0	1 506.8	6.0	461.1	56.0	2038.4	25.0	739.5	25.0
Mining	441.5	0	7461.4	0.0	217.2	7.0	1 007.9	0.0	983.2	3.0
Real Estate	12.9	31.0	63.8	55.0	445.0	23.0	387.2	72.0	823.5	11.0
Service	34.4	18.0	158.6	23.0	72.7	29.0	135.1	19.0	153.6	6.0
Tourism	51.9	21.0	184.0	1.0	200.4	19.0	125.9	3.0	744.0	68.0
Transport	270.7	6.0	54.8	0	63.5	13.0	4.6	0	43.6	2.0
Overall	1,980.2	19.0	10,876.3	6.0	2,008.4	24.0	4,788.3	22.0	5,417.1	18.0

Source: Zambia Development Agency, Research Department, 2011

The major sectors that experienced low levels of participation by Zambians are set out below.

Mining Sector

In the mining sector, the level of participation by Zambians was low mainly due to the high capital requirements involved. Zambians have very little stakes in the mining firms through the Zambia Consolidated Copper Mines Investment Holding (ZCCM-IH) whose shareholders are the Government of the Republic of Zambia (GRZ) with 87.6% shareholding and private equity holders with 12.4%. ZCCM-IH was quoted on the Lusaka, London, and Euronext Stock Exchanges and has minority shareholders spread throughout the world in various locations. Most Zambians participated in the mining sector on the lower side mainly as suppliers and employees and also illegal mining and in exploration activities.

Manufacturing Sector

In the manufacturing sector, the level of Zambian participation was low mainly due to lack of capital, the high cost of doing business resulting from high taxes, poor infrastructure, high cost of oil, poor supply of electricity, and unsupportive regulatory regime resulting from too many licenses, permits and procedures. The capital requirements involved in setting up a manufacturing company were very high and there were no incentives to encourage Zambians and also empower them to venture into manufacturing. There was no deliberate policy to empower Zambians to develop manufacturing companies that would not only penetrate the local market but also the regional markets.

Tourism Sector

The level of Zambian participation in the tourism sector was low as most tourism establishments especially hotels were foreign owned with the exception of a few hotels. Zambians participate in supplying to hotels and also in small establishments such as lodges and guesthouses where business seemed to be thriving not from tourism but from negative social activities.

On the other side, there has been an increase in the number of Zambian owned tour operators, car hires and travel agencies. However, most of them were not operating to capacity and the majority of those doing fine were owned by foreigners.

Financial Sector

The majority of financial institutions in the country were owned by foreigners. This was so especially in the banking sector with a few Zambian owned banks such as Investrust Bank which was listed on the Lusaka Stock Exchange. A good Zambian presence was seen in the Microfinance sector and also in the Insurance Sector. The capital requirements involved in this sector was quiet huge making it difficult for Zambians to effectively participate. On the other hand, where opportunities has been available, Zambians has failed to run these institutions. Some good examples in the third republic were Prudence Bank and Commerce Bank.

Energy Sector

As the driver of economic growth, the energy sector plays a critical role in economic development. The petroleum side of energy has a substantial level of Zambian participation with companies such as Puma listed on the Lusaka Stock Exchange allowing citizens to buy shares. On the other hand, a number of filling stations around the country were run by Zambians in dealership with the Oil Marketing Companies (OMCs).

The power sector, on the other hand, has a good potential of Zambian participation with the Copperbelt Energy Corporation (CEC) being a major player. A number of Public Private Partnership (PPPs) Projects has been earmarked and in process. However, there was lack of clarity with regards to guidelines and modalities in the PPPs.

It was reported that the energy sector was a capital intensive sector which requires huge financial investments and Zambians did not have that level of finance.

THE SECTORS IN WHICH ZAMBIANS HAVE EXCELLED OR WERE ACTIVELY PARTICIPATING AND THE ATTRIBUTING FACTORS

7.2 Your Committee was informed that the major sectors that experienced high levels of participation by Zambians were as set out below.

Agriculture Sector

The agriculture sector with 3,284,208 farmers has increasingly become an important sector for economic development. The attributing factor to this high level of citizens' economic participation was that this sector was labour intensive and has low entry barriers and readily available factors of production, primarily land. Growth in this sector was driven by the fact that food is essential for sustainability and nourishment. This sector accounted for 19.4 per cent of total GDP. On the Lusaka Stock Exchange, this sector is represented by Zambeef Products Plc and Zambia Sugar Plc.

Trading Sector

It was reported that Zambian's participation in this sector was high because trading business was by far the easiest to setup and did not require heavy investment in machinery as well as technical personel. Furthermore, the operational costs of businesses in these sectors were relatively lower than in other sectors and the market for goods in the sector (mostly consumables) was readily available with low penetration costs.

Services Sector

Your Committee was informed that Zambian participation in this sector was high as the services sector exhibited similar characteristics and dynamics to the trading sector such as low market penetration costs, low operational costs including cost of labour, and ready market for the services. In addition, the services sector has opportunities for creating business linkages and service contracts with business enterprises in the other sectors such as mining, manufacturing, agriculture, energy and financial services to mention a few in the form of; equipment maintenance and repair contracts, vehicle repairs' and maintenance, business advisory services (such as accounting and auditing), sales and distribution arrangements and other general service contracts.

Construction Sector

Your Committee learnt that there was a high level of Zambian participation in this sector which was attributed to the increased economic activity that requires a lot of infrastructure including buildings and roads. The promotion of the concept of home ownership following a change in the general conditions of service where employers were not obligated to provide physical housing for their staff has also necessitated a lot of construction for residential purposes. In addition, the low skill requirements for entry into the sector meant that more Zambians could easily participate.

Transport Sector

Your Committee was informed that there was a high level of Zambian participation in this sector which was motivated by the high demand for passenger transport services, light goods and cargo services, and in some cases, demand for sub-contracting arrangements from the large transporters as well.

MAJOR ISSUES THAT HAMPERED ZAMBIAN ENTREPRENEURS FROM ASSUMING A MORE PROMINENT ROLE IN THE VARIOUS ECONOMIC SECTORS

7.3 Your Committee was informed that the major issues that hampered Zambian entrepreneurs from assuming a more prominent role in the various sectors were as set out below.

Lack of Finance and Access to finance

Apart from low entrepreneurship levels, many Zambian entrepreneurs and potential business people face critical shortage of start-up capital from financial institutions. This was a huge hindrance to setting up economically viable enterprises since most business establishments require considerable financial resources to commence a business activity or expansion of business. Furthermore, for companies to clinch international export deals to supply a given product there were requirements in terms of the minimum volume to be supplied over an agreed period of time.

Lack of Entrepreneurial Skills

A number of SMEs lacked entrepreneurial skills to run their business in a more formal and organized way to win the confidence of most players on the global market. Most players on the global market required an entrepreneur be organized to a certain level and have some level of entrepreneurial skills before any contracts were signed with them. However, the SMEs did not have the basic training to effectively run their businesses in a coordinated way for them to penetrate and win confidence of the players on the global market.

Skills Mismatch

There was a skills mismatch between what technical and vocational education establishments are offering and what was required in the industry and the labour market. Due to the high levels of

poverty, majority of Zambians are unable to enhance their skills levels to enable them to effectively participate in the labour market. The result has been that most citizens were forced to engage in low level economic activities which have low entry skills requirements.

Excessive Regulation

Excessive regulation encouraged smaller businesses to remain in the informal sector. There were too many statutory payments, permits, licences and procedures to be complied with.

Limited funding towards strengthening the labour force

Inadequate funding to the Ministry of Information, Broadcasting and Labour to support labour related programmes or initiatives did not encourage growth in the skilled labour force and thus majority of Zambians were unable to meet requirements for higher level positions. The then Ministry of Labour and Social Security (MLSS) was the least funded Government Ministry. In the national budget of 2010 and 2011, the then Ministry of Labour and Social Security received a paltry 0.11 and 0.12%, respectively. Budgetary allocations for the then Ministry of Sport, Youth and Child Development and the then Ministry of Community Development and Social Welfare were also low. The corresponding allocations for the then Ministry of Community Development and Social Welfare were 0.46% and 0.65% in 2010 and 2011 respectively and 0.18% and 0.20% for the then Ministry of Sport, Youth and Child Development.

The two departments, charged with the responsibility of enforcing labour laws through inspection of work places and factories in the then Ministry of Labour and Social Security (MLSS), the Labour and Occupational Safety and Health Inspectorates were severely handicapped to effectively carry out their functions. As a result, the relevant departments were unable to investigate violations in labour rights for Zambian employees who may be entitled or deserving of a more prominent position.

Weak Linkages between Foreign Direct Investments and the Domestic economy

Your Committee was informed that, the economic growth that Zambia has been experiencing over the last decade was based on extractives, principally copper and other high investment and capital intensive industries financed mainly through Foreign Direct Investments (FDI). The participation of citizens in these sectors was limited largely to that of employees. There were currently weak linkages between these FDI financed multinational corporations and domestic enterprises composed largely of Micro Small and Medium Scale Enterprises (MSMEs). According to the Zambia Business Survey (2010), the Zambian private sector was dualistic comprising of a large scale industrial economy and a domestic MSME economy and the two economies operate independently. As a result, the domestic economy gauged by domestic consumption, domestic production, and domestic investment and savings, has had relatively weak growth. More balance was needed in the drivers of growth, between exports and domestic drivers of growth like consumption and domestic investment and savings. There was also need to intensify business linkages between multinational corporations driving economic growth and the Zambian owned MSMEs operating in the domestic economy.

PROGRAMMES THAT ARE IN PLACE TO EMPOWER ZAMBIANS TO ACTIVELY PARTICIPATE IN ECONOMIC ACTIVITIES

7.4 Your Committee was informed that the Zambian Government has put in place programmes as set out below to empower Zambians actively participate in economic activities.

The Zambia Decent Work Country Programme

The Zambia Decent Work Country Programme (ZDWCP) has been established to promote decent work as a key component of national development strategies and to, promote advocacy and cooperation among the tripartite constituents, namely; government, employers and employees. The ZDWCP promotes a results-based framework to advance rights at work, sustainable enterprises and employment creation, social dialogue and social protection.

The Zambia Decent Work Country Programme was designed and adopted by the International Labour Organisation's (ILO) tripartite constituents to meet the challenges of creating sustainable productive and decent employment by coordinating, harmonising and aligning technical assistance and financial resources around an achievable set of priority outcomes related to the promotion of the Zambia decent work agenda. The ZDWCP provides a policy and operational framework to guide the government, its social partners and other relevant stakeholders.

Farmer Input Support Programme

The Zambia Government with support from international partners has embarked on a number of programmes over the years aimed at affording ordinary Zambians the opportunity to participate in economic development.

Recognising that the majority of Zambians were engaged in the informal sector largely in agriculture, forestry and fishing followed by wholesale and retail trade, programmes had been developed in order to support people in this sector. The farmer input support programme, for example, was introduced to assist the small scale farmers who often had difficulties in accessing finance to purchase inputs. In addition, the Food Reserve Agency (FRA) purchases the farmers' output above market price to enable them realise enough income to sustain their farming lifestyle.

Citizens Economic Empowerment Programme

The establishment of the Citizens Economic Empowerment Commission (CEEC) is another mechanism which has been put in place to empower Zambians and it has a mandate to promote the economic empowerment of targeted citizens.

The CEEC is integrated broad based and multifaceted strategy aimed at substantially increasing the meaningful participation of targeted citizens and companies and at decreasing income inequalities. The CEEC addresses national priorities such as agriculture and tourism by working on its nine pillars of economic empowerment, namely; enterprise ownership, management and control, preferential procurement, skills and development, access to finance, transformation of society, corporate social responsibilities, political and corporate governance, green field investments and foreign direct investment. In terms of local economic development, economic empowerment of marginalized sectors of the population and employment creation, the CEEC has an important role to play.

The MSME Development Policy and the National Business Linkages Programme

The Zambia Government introduced the Micro, Small and Medium Scale Enterprises (MSME) Development Policy as part of its efforts to foster MSME development, with the view to increase the economic participation of citizens. Some of the strategies under the policy included facilitating access to finance, markets and business development services for MSMEs who employed more than 70% of the labour force. This policy operates in harmony with other legal and institutional frameworks, such as the recently approved Commercial, Trade and Industrial Policy, and within the context of the country's national development plans to contribute towards the achievement of the broader Vision 2030, which seeks to make Zambia a prosperous, middle income country.

Within the context of the MSME Policy, the ILO and the United Nations Conference on Trade and Development (UNCTAD) have supported the Zambia Development Agency (ZDA) to establish a National Business Linkages Programme whose main objective is to facilitate establishment and strengthening of commercially viable business linkages between MSMEs and large corporate companies with the view to enhance the creation of a competitive domestic industry which can strengthen the local economy and increase the participation of citizens in economic activity.

PERFORMANCE OF THE CITIZENS ECONOMIC EMPOWERMENT FUND

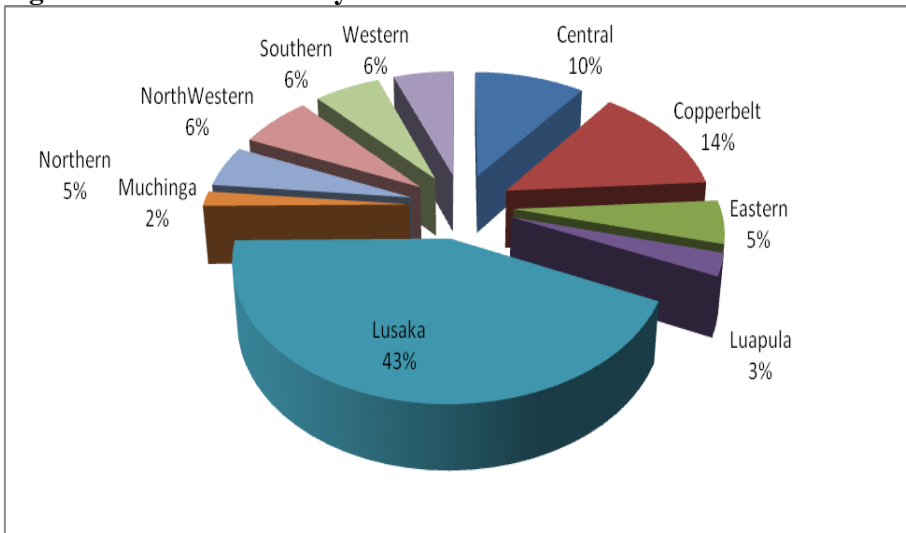
7.5 Your Committee further learnt that the operations of the CEEC have revealed the issues set out below.

It was reported that the Citizens Economic Empowerment Commission (CEEC) has, since inception in November 2008, received a total input of K176, 180,908,070.00 from the National Treasury for onward lending. Implementation of the Fund had been through trade and project finance.

Trade finance involves the use of a range of instruments to provide finance to the business world, including exporters and importers, whereas Project finance is a facility tailored to be long term where funds were disbursed to viable projects at a simple annual rate of 12% per annum, and repayment periods of up to five years.

A total of one hundred and eleven (111) projects have so far been funded at a total cost of K24.325bn under trade finance, whereas a total of 1,439 projects have been funded amounting to K 174bn under project finance from the time the fund was launched in November 2008.

Figure 1: Disbursements by Province



The CEEC has, since inception, approved a total of 1,634 projects valued at K219 billion from the time the fund was launched in November 2008. To date, a total of 1,439 projects (loan applicants) have been funded to the tune of K 174 billion. On a province by province basis, the largest amount of the total funds have been taken up by Lusaka province (43%), followed distantly by Copperbelt province (14%).

Disbursements by category of Beneficiary

Various categories of targeted persons have been supported under the Empowerment Fund. Women groups and companies received 19% of the total funding whilst the Youths and the disabled received 7% and 1%, respectively. The 'others' category which was made up of men, women and youth, took up a share of 73% from the total fund.

Tailor Made Empowerment Products from the Empowerment Fund

In the Commission's effort to ensure broad-based empowerment programmes targeted at a wider section of the national society that ensured the participation of the potential citizens, the Commission has continued to promote various empowerment products with varying degrees of success.

Fisenge Smallholder Irrigation and Dairy Product

This was an integrated dairy and irrigated horticulture product for the Fisenge Dairy Business Cooperative Union based in Luanshya District. This intervention was identified and developed jointly between the Commission and the Copperbelt Provincial Administration. The Provincial Minister and the Provincial Development Coordinating Committee (PDCC) were actively involved in the process.

It was reported that this product would ultimately create business linkages for 350 women farmers who were members of the Cooperative Union. The product entailed increasing milk production for sale to the Fisenge Cooperative Union that would in turn supply the milk to Parmalat for processing and retail. Part of the support to the dairy farmers include water supply through investing in irrigation systems and water wells. The product also entailed providing common user equipment such as tractors and implements among other accessories. This product is aimed at significantly increasing household income through increased milk production and productivity of crop yield per hectare.

With regard to the approved facility, the Commission has procured and delivered the following components to the project by end of the reporting period:

- (i) delivered tillage equipment for use by the 350 farmers that make up the membership of the eleven cooperatives of the Fisenge Dairy Business Cooperative Union limited of Luanshya;
- (ii) procured forty- eight Fresian Holstein dairy cows obtained from breeding farms in South Africa that had been distributed to eighteen farmers of which fifteen were women farmers;
- (iii) imported dairy cows from South Africa and now on the farm;
- (iv) drilled boreholes on 4 farms and connected to an irrigation system; and
- (v) payment of working capital to the farmers.

This product has a total investment of ZK3, 900,000,000.

Empowering People with Disabilities Product

In response to the need to have inclusiveness in the delivery of empowerment funds to citizens, the CEEC working with the Zambian Agency For Disability Organizations (ZAFOD) was implementing a product for facilitating access to the funds by those citizens that lived with disabilities. This product is aimed at delivering a total of 604 loans valued at K3, 180,000,000. CEEC was contributing K1, 500,000,000 whilst ZAFOD with their Irish partner Gorta were providing 1,680,000,000 of which half respectively would go to the joint fund and ZAFOD's operations. Out of the K1.5bn expected from the CEEC, a lump sum of K750, 000,000 has already been disbursed to ZAFOD. This facility was available to beneficiaries in selected

districts of North Western province. This project was expected to impact positively on this target group in the following manner among others:

- (i) increased ownership of productive assets and resources;
- (ii) increased household incomes; and
- (iii) increased employment levels.

Your Committee was informed that the following activities have since been carried out:

- (i) sensitization of the people living with disabilities on the fund and its modalities;
- (ii) distribution of application forms;
- (iii) desk and field appraisals; and
- (iv) monitoring visits to the funded projects.

Cashew Out grower product

The product is aimed at setting up a nursery with support from the cashew growers of Mozambique, who provide transportation services and on farm cashew semi processing facilities.

The Commission has already disbursed a total of K2.5 bn to the project for construction of a cashew nursery, facilitate farm preparations and importation of scions from Mozambique. Nursery construction has been completed while farm preparations were still going on. Importation of gem plasma materials has been authorized by the Government and payment for importation has been done.

Youth Empowerment Product

The CEEC in collaboration with its partners Stichting Nederlandse Vrijwilligers (SNV) of the Netherlands, the International Labour Organization (ILO) and the Private Sector Development Programme II under the Ministry of Commerce Trade and Industry (MCTI) have developed the Youth Empowerment Programme as part of the solution to the challenges that youths have in preparing business plans; more so in the rural areas of Western, Luapula, Northern and North Western Provinces. The product offers selected youths an opportunity to develop business plans in a controlled learning environment tutored by consultants based on the ILO training materials on business planning.

Further, the programme identifies youths with unique ideas in the various districts of a province and brings them into a central learning point where they learn as a group. The youths are released after a five day training programme and requested to develop business plans based on their own ideas and the opportunities available in their local district. This is followed up by a business clinic that help the youths to fine tune their applications. Arising from this training seventy four youths have managed to submit proposals for funding out of which twenty three projects have been funded. Youth participation in the programme summarized in the table below.

Table 6: Youth participation in Empowerment trainings

Province	Participants in One day skills identification session	Business plan Training Participants	Business Clinic participants
Western	50	25	15
Northern	50	25	25
Luapula	50	25	22
N/Western	50	27	13
Total	200	102	75

Your Committee learnt that each of the eight beneficiaries from Mongu has obtained an amount within a limit of K50 million loans from the CEEC.

The Commission, in collaboration with the ZDA, has since conducted trainings in Western, Northern, Luapula, North Western, Southern and Eastern and Copperbelt Provinces.

Chilimba Market Product

This product was specific to the requirements of those citizens that operated in many markets around the country. The product requires no collateral and operated on the principle of the informal credit system called 'Chilimba'. The maximum amount tenable was K100, 000,000 and the repayment period was 6 to 12 months.

Further, the CEEC has disbursed a total of K2, 655,350,000 to various markets across the country which had benefited more than 3,000 women.

Challenges Faced in Empowerment Fund Implementation

Your Committee was informed that the Commission faces the challenges set out below in the implementation of the Empowerment fund;

- a) The Commission in the initial stages of disbursement of the fund through project finance face the challenge of poor quality of applications from citizens and collateral and business plan requirements.
- b) With regard to funding the Commission went ahead to approve projects on the strength of the budgetary allocation, whilst not all funds were released from the Treasury and this left the Commission with a backlog that it was currently grappling to dismantle. Most of the projects funded were in their infancy stages and took long to reach maturity stage where they could start making loan repayments. Furthermore, instances of diversion of funds became common though this contractual breach has reduced with one or two instances still occurring.
- c) The period it took between the time a project was approved and the time it was fully funded also has proved quite a challenge to the Commission. By the time that project was funded, the cost or prices of products in the business plan might have changed. This has contributed to low repayment of loans as most projects were partially funded or not adequately funded at all.

It was reported that the Fund did not generally deliver as expected. The allocation of funds did not necessarily have the forward and backward linkages that would foster economic growth. Most of the funds have been allocated to traders and not business players in manufacturing and other value adding service sectors that would yield returns in wealth, employment and investment creation.

Further, there has been a lack of focus on putting in place an overarching strategic framework that would see more citizens owning, controlling and managing significant and important parts of the economy such as manufacturing. There was need for the Fund to be more responsive and useful to business and not to be channeled to administrative operations.

If not carefully managed, the Commission may pose a serious obstacle to the country's development in that even though measures such as this one had been put in place, the citizens may not step up to the challenge because of lack of capacity. For instance, very few Zambians may actually deliver if they were awarded a tender because of lack of capacity. Furthermore, the level of skills development in the country needed to be made commensurate with the needs of

industry. Therefore, a lot of work needed to be done if this initiative was to be effective and deliver on its set goals. This means that the challenges of insufficient entrepreneurship and technical skills needed to be addressed so that the Commission truly delivers on its set objectives. In addition, if the funds were channeled to the priority sectors and awarded to established business entities besides the other stated beneficiaries of the Fund, the nation would benefit economically.

COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS

Your Committee observes that:

- (i) most entrepreneurs and potential business people face critical shortage of start-up capital from financial institutions;
- (ii) entrepreneurial skills are low in most Zambian businesses;
- (iii) the skills offered by technical and vocational training institutions do not match the skill requirements in the industry;
- (iv) inadequate funding to the Ministry of Information, Broadcasting and Labour to support labour related programmes or initiatives has not encouraged growth in the skilled labour force and thus majority of Zambians are unable to meet requirements for higher level positions;
- (v) low participation of citizens in the financial sector and activities on the Stock Exchange;
- (vi) there are too many statutory payments, permits, licenses and procedures in the process of setting up a business; and
- (vii) disbursement of the Citizens Economic Empowerment Fund was low in the rural areas and the Fund was not aligned to target micro economic reform strategy in priority areas.

In view of the foregoing, your Committee recommends that:

- (i) the Government should establish a well developed education system aimed at instilling a business and entrepreneurship mindset in the youths from an early age;
- (ii) the Government should set up Training and Development Centers to equip youths with various skills and trades to enable them acquire skills and knowledge necessary to develop their own businesses;
- (iii) the Government should adequately fund the Ministry of Information, Broadcasting and Labour and the relevant departments to enable them investigate violations in labour rights for Zambian employees who may be entitled or deserving of a more prominent position;
- (iv) the Government should introduce sustainable financing mechanisms for supporting start-up businesses and capacity building of micro and small enterprises;
- (v) the Government should establish programmes to ensure that citizens are financially literate to enable them benefit from economic development in the financial sectors and activities from the Stock Exchange;
- (vi) the Government should come up with a one-stop-shop in order to lessen the processes involved when setting up businesses; and
- (vii) the Government should review the Citizens Economic Empowerment Programme and its objectives and strategies. The Programme should be aligned to target micro economic reform strategy in priority areas. The CEEC should ensure that funds are disbursed evenly across the provinces of Zambia.

PART II

ACTION-TAKEN REPORTS FOR THE YEAR 2010/2011

8.0 Impact of the Extractive Industries on the Zambian Economy in the Post Privatisation Era - A Case of Mining

A. Benefits (Excluding Tax) Attributed to Mining- Para.5.8,

a) Promotion of Partnerships for Value Addition Enterprises

8.1 Your previous Committee urged the Government to partner with the private sector and establish a strategic metal trading company and exploit the combined mineral wealth in Zambia and the region.

Response

It was reported in the Action-Taken Report that currently most of the copper being produced by the large scale copper mines has already been purchased under forward buying contracts. This unfortunately has left the country with insufficient copper stocks for sale on the local market. There was only one company in Luanshya that was adding value to our copper and that was ZAMEFA which was producing electrical copper cables, copper tubes among others.

The Government wished to inform your Committee that the Ministry of Mines and Natural Resources was encouraging investment in value addition.

Further, the marketing of copper has now been liberalised and that the copper mining companies were free to sell their copper to any buyer as long as the London Metal Exchange (LME) prices were used. It is for this reason that the Government recommends to your Committee that there is no basis for establishing a strategic metal trading company in Zambia.

Committee's Observations and Recommendations

Your Committee observes that while efforts to promote value addition were appreciated particularly under the MFEZs, and generally through the Commercial, Trade and Industrial Policy, involving Zambians in the trading of metals will be a viable option for economic empowerment. Your Committee, therefore, does not appreciate the position that there was no need to establish a strategic metal marketing company operated by Zambians. Your Committee requests an update on the matter.

b) Social and Economic Benchmarks

8.2 Your previous Committee had recommended that the Ministry of Mines and Natural Resources should come up with clearly defined social and economic benchmarks to form part of the conditions for granting mining licenses to secure benefits for the local communities.

Response

The Government through the Action-taken Report informed your Committee that the Ministry of Mines and Natural Resources noted the need for the mining companies to plough back into the local communities in which they operate. The *Mines and Mineral Development Act of 2008*, however, has the following conditions under the mining licence:

- (i) the mining licence holder needs to develop a programme with respect to the employment and training of citizens of Zambia;

- (ii) the mining licence holder needs to develop a programme for the promotion of local business development outlining how the licence holder intends to promote;
- (iii) the participation of Zambia entrepreneurs in procurement and supply business opportunities;
- (iv) the setting up by Zambian entrepreneurs of import substitution, and repair and maintenance businesses locally;
- (v) the establishment of partnerships between the Zambian entrepreneurs attain suppliers and contractors; and
- (vi) skills development to enable the Zambian entrepreneurs attain quality standards in contract works and supply.

In addition to the above, Regulations under the Act were being developed to provide a template where mining companies would be expected to specify the number of persons to be employed and thus making easier for regulators to monitor compliance.

Your Committee was informed that Corporate Social Responsibility (CSR) was a voluntary undertaking by mining companies and research by consultants has revealed that it was not a mining practice to incorporate CSR into mining laws.

Committee's Observations and Recommendations

Your Committee requests a progress report on the Regulations under the *Mines and Minerals Development Act* which will, among other things, enhance monitoring of employment levels in the mining sector. Further, your Committee urges the Government to ensure that companies are monitored before renewal of licences in order to ascertain whether they have fulfilled their commitments to society.

c) Shareholding in Mines

8.3 Your previous Committee had recommended that the Government through ZCCM-IH, should increase its shareholding in the mines. ZCCM-IH should partner further with other investors and venture into mineral exploration works and other Greenfield mining projects. This would be more economically sustainable for the country considering its dependence on mining.

Response

It was reported in the Action-Taken Report that the current shareholding of ZCCM-IH Plc in the operating mines was based on what was agreed during the negotiations at the time of privatisation. The Government wished to inform your Committee that shareholding was free carry and that any further acquisition of shares could be done on a commercial basis and also if the current shareholders were willing to dilute their shareholding.

Further, the Government wished to inform your Committee that for the 3% shares that ZCCM-IH acquired in Equinox Resources, it had to pay US\$30m.

Committee's Observations and Recommendations

Your Committee requests the Government to clearly state whether it has any plans to increase its shareholding in the mines.

d) Mineral Sharing Mechanism

8.4 Your previous Committee had recommended the Ministry of Finance and National Planning to implement section 136 (Mineral Royalty Sharing Mechanism) of the *Mines and Minerals*

Development Act of 2008. There was need for the local communities to feel the benefit of having a resource in their areas and lessen their apprehension towards foreign investors.

Response

The Government reported in the Action-Taken Report that the *Mines and Minerals Development Act of 2008* in Section 136, which provides for the Mineral Royalty Sharing Mechanism has not been implemented by the Ministry of Finance and National Planning as the accompanying regulations were not yet in place. The Government wished to inform your Committee that the preparation of the Regulations has reached an advanced stage.

Committee's Observations and Recommendations

Your Committee requests an update on the Regulations which will pave way for the implementation of the Mineral Royalty Sharing Mechanism.

e) Rates and Unutilised Land

8.5 Your previous Committee recommended that the Ministries of Mines and Natural Resources and Local Government Housing, Early Education and Environmental Protection should not interfere with local authorities in the collection of rates from mining companies. In addition, the Ministries should assist local authorities to claim back land that mining companies had no use for.

Response

It was reported in the Action-Taken Report that the Ministry of Mines and Natural Resources had not interfered in collection of rates by the local authorities. The Ministry of Mines and Natural Resources was glad that mining companies in Kalulushi and Solwezi Districts just to mention a few were paying prescribed rates. However, local authorities ought to plough back revenues collected for the development and maintenance of infrastructure in mining districts to demonstrate transparency.

The Government wished to note that mining operations were a long term investment and large scale mining licences were issued for a period of up to twenty five years and were renewable. When mining houses applied for a prospecting licence, this usually covered large pieces of land but this was reduced when exploration projects come to an end within these areas with no development plans being relinquished.

Further, mining projects being long term progress in phases meant that development would begin on one ore deposit then move to another later. The area over which future operations were ear marked would appear as excess land but this would not be the case. The maximum area for a large scale mining license was capped 250 Km². However, the Ministry of Mines and Natural Resources would soon embark on a land audit campaign.

Committee's Observations and Recommendations

Your Committee requests an update on the land audit campaign and urged that the people of Kankoyo should be relocated.

B. Adequacy of Mining Taxation - Para. 5.8, Page 23

a) Modified Tax for the Mines

8.6 Your previous Committee recommended that the Ministry of Finance and National Planning should devise a modified tax for the mines, which would incorporate features of Mineral Royalty, Company Income Tax and Variable Profit or Windfall Tax.

Response

It was reported in the Action-Taken Report that ZRA was continuously building the capacity of its staff to ensure that the correct amount of tax was assessed and collected in accordance with the tax legislations. The capacity building programmes includes:

- a) employing and developing qualified and experienced staff to handle mining taxation;
- b) in-house training programmes in taxation, auditing and other relevant fields;
- c) staff exchange programmes with Norwegian Tax Administration (NTA) under the ZRA/NTA Technical Cooperation Programme;
- d) conducting joint activities with NTA officials;
- e) sending staff to attend international training programmes organised by the Commonwealth Association of Tax Administrators (CATA), African Tax Administration Forum (ATAF), Organisation for Economic Cooperation and Development (OECD) and other international organisations; and
- f) deploying officers to conduct tax audits of mining companies.

Further, the Government wished to inform your Committee that a Tax Policy Review Committee was formed by the Government spearheaded by the Ministry of Finance and National Planning to which ZRA had representation. One of the terms of reference of the Committee was to review the mining tax regime with the view to strengthening and sealing any loopholes that may exist in the current regime. The work of the Committee may lead to the modification of the current mining taxes for example Mineral Royalty, Company Income Tax, Variable Profit Tax or introduction of other new appropriate taxes.

b) Mining Products to be based on LME Prices

8.7 Your Previous Committee recommended that ZRA should ensure that the purchases were based on LME prices. In the case of concentrates, monitoring of metals contained should be enhanced.

Response

The Government through the Action-Taken Report informed your Committee that in 2008 the *Income Tax Act* was amended to provide that any sale of minerals to a related or associated company should be done at LME price and furthermore all mineral royalty calculations were done using the LME price. ZRA ensured that this was adhered to through carrying out audits.

Further, the Government informed your Committee that ZRA relied on the expertise of the officials from the Ministry of Mines and Natural Resources to monitor and ascertain the metal contained in concentrates. Also through carrying out audits ZRA has developed a reasonable level of expertise to know what type of metals were expected to be found in concentrates from certain mines.

Committee's Observations and Recommendations

Your Committee requests the Government to state the mechanism that was in place in order for the Ministry of Mines to adequately police metals contained in concentrates.

c) Increasing Revenue Collection from Mines

8.8 Your previous Committee urged the Ministry of Finance and National Planning consider the following in order to increase revenue collection from mines:

- (i) treating current mining operations separately from new mining projects for tax purposes;
- (ii) reducing capital allowance from 100% to 25%;

- (iii) reducing the period for carry forward losses from ten to five years; and
- (iv) reducing the tax stability period from ten to five years.

Response

It was reported in the Action-Taken Report that the issues raised above were policy in nature and ZRA has no mandate to decide on them. The Tax Policy Review Committee formed by Government has the mandate to review them and make recommendations.

However, the Government noted that the legislation was already in place for treating mining operations separately from mining projects. The legislation was effected in 2008.

Committee's Observations and Recommendations

Your Committee advises the Government that the recommendation was clearly addressed to the Ministry of Finance and National Planning being the tax policy maker. The Ministry should therefore respond and not ZRA.

C. Labour Matters in the Mining Sector - Para. 5.8, Page 24

a) Challenges facing workers in the Mining Industry

8.9 Your previous Committee urged that the then Ministry of Labour and Social Security should be more responsive to the challenges that workers were facing in the mining industry.

This would be achieved by:

- (i) improved funding and support to the Ministry; and
- (ii) reviewing relevant labour laws and, among other things, introduce a minimum requirement that every worker engaged for a period of twelve months or more must be on contract and should be paid a gratuity upon the expiry of the agreed period.

Response

It was reported in the Action-Taken Report that the Ministry of Labour, Youth and Sport had engaged the Ministry of Finance and National Planning to increase budgetary allocation in relation to the Sixth National Development Plan so that more money was channelled into rehabilitating field stations, opening up of new labour offices and improving the labour administration system.

Further, the Government informed your Committee that the Proposals to amend the Employment Act were adopted by the Tripartite Consultative Labour Council and these were currently undergoing the legislative process. The proposed amendments would adequately address the observations made by your Committee.

Committee's Observations and Recommendations

Your Committee urges the Government to expedite the process of reviewing the Employment Act which would among other things address the issue of contracts and gratuity for mine workers.

b) Proactivism in Addressing Labour Matters

8.10 Your previous Committee recommended that the Ministry of Information, Broadcasting and Labour should ensure that the Tripartite Consultative Labour Council and Zambianisation Committee become more proactive in addressing the numerous labour matters affecting the mining industry.

Response

The Government through the Action-Taken Report informed your Committee that the Ministry has embarked upon the programme of reviewing the operational mechanism of the Tripartite Consultative Labour Council in order to improve its efficiency and effectiveness in its consultative process. This was meant to bring its operations in line with the current trends on the international labour market.

Committee's Observations and Recommendations

Your Committee requests an update on the programme to review the operational mechanism of the Tripartite Consultative Labour Council to make it more efficient and effective. Further, your Committee urges the Immigration Department not to give out work permits to foreigners before consulting the Ministry of Information, Broadcasting and Labour.

c) Capacity of District Labour Officers

8.11 Your previous Committee recommended that the Ministry of Information, Broadcasting and Labour, should build capacity of its District Labour Officers so that they could closely monitor labour related matters in mining companies. The Ministry should further impress upon union mother bodies to be providing the necessary support to their local branches in the respective mines.

Response

The Government through the Action-Taken Report informed your Committee that the Ministry of Information, Broadcasting and Labour, within the context of the Decent Work Country Programme, and in conjunction with the International Labour Organisation has facilitated various local and international training programmes in the area of labour administration. Capacity building of field offices was top on the Ministry's priorities. Therefore, the Ministry would during the period of the Sixth National Development Plan and beginning in 2012, facilitate the provision of more training and equipment to field offices to improve their operations.

Committee's Observations and Recommendations

Your Committee requests an update on the matter.

d) Shortage of Artisanal Skills

8.12 Your previous Committee recommended that the Ministry of Mines and Natural Resources should immediately engage the Ministry of Education, Ministry of Science, Technology and Vocational Training and mining companies to address the shortage of artisanal skills relevant to mining. This should include re-introduction of apprenticeship programmes and revision of the curricula.

Response

The Government through the Action-Taken Report informed your Committee that following this directive, the Ministry of Mines and Natural Resources engaged the Ministry of Education, Ministry of Science, Technology and Vocational Training, and mining companies to address the shortage of artisanal skills relevant to mining.

Further, The Ministry of Mines and Natural Resources, in partnership with the Technical Education, Vocation and Entrepreneurship Training Authority (TEVETA), the Chamber of Mines and the World Bank, launched an assessment of the demand for supply of skilled workers in Zambia's mining industry which was driven by an independent consultant. The objective of this work was to identify to what extent the supply of graduates by the training institutions matched the industry's demand in terms of the quantity, type, and level of competence of the graduates.

It was reported in the Action-Taken Report that a number of meetings were held between the Ministry of Mines and Natural Resources and the CEOs of the mining companies and their training managers on one hand and the TEVETA and other training institutions on the other hand.

The Consultant finally came up with a final report which was presented to all the stakeholders and was yet to be actioned. Presentations of the report were held on 30th May 2011 in Kitwe and 31st May 2011 in Lusaka respectively to discuss the findings of this exercise. Participants included representatives of the private sector, Government and training institutions.

The Government informed your Committee that the issues set out hereunder were discussed and agreed.

- (i) There was insufficient training capacity in some key disciplines. Training provision needed to better match the needs of industry. In particular, there was a shortage of technicians, in part related to the change from Zambia Institute of Technology to Copperbelt University which has more of a business studies focus. This shortage of technicians needed to be resolved as a matter of urgency.
- (ii) Even where training capacity' exists, not enough students were enrolling in mining-related courses or interested in mining-related careers.

In many cases, training capacity exists but too few students were enrolling in the courses, due to:

- (i) negative perceptions of the mining industry among many prospective-students or employees which was, in part, caused by a lack of proper career guidance and incentives being given to students; in the past, annual career fairs were held and scholarships were offered to students interested to study in mining related courses;
- (ii) weak links between student and industry;
- (iii) even where training capacity exists, the quality of graduates was insufficient;
- (iv) inadequate and/or inappropriate training of students was hindering the productivity of workers;
- (iv) training was not properly regulated: TEVETA did not have sufficient capacity to regulate the increasing number of training institutions, many of which were substandard. However, professional association may have had a role to play in assuring quality - for example, in the past, the Engineering Institution of Zambia used to assess the quality of engineering programs from the various training institutions and, subsequently, students with qualifications from institutions that were not Engineering Institution of Zambia (EIZ) certified were not considered suitable for employment;
- (v) training curricula was inadequate: insufficient communication between industry and training institutions about what types of training and skills were needed resulted in curricula that did not reflect the industry's needs and meet their required quality standards; and
- (vi) the system of industrial attachments was not meeting its objectives: inadequate collaboration between the training providers and the industry in relation to industrial attachments often meant that industrial placements failed to fulfill their objectives; for example, mining companies were often not provided sufficient information on a university calendar and the university's industrial attachment requirements and industrial placements often did not teach students what was needed.

POSSIBLE WAY FORWARD

Participants suggested several possible strategies to improve the quality of graduates as set out below.

- a) **Increased investment in training and training institutions**

The shortage of skilled mining industry workers was a global phenomenon and the shrinking pool of skilled expertise needed to be replenished through investment in training and the revamping of training institutions. To achieve this, stakeholders could:

 - (i) consider different means of providing training, for example;
 - (ii) replicate the First Quantum Mining Limited (FQML) Government joint venture at Solwezi Trades Training School, whereby FQML would provide staff and learning materials for a five year period while the Government had provided the existing facility as the training venue; the institution would run courses in disciplines required by FQML requirements and that met the training standards set by FQML;
 - (iii) establish an institution similar to Zambia Institute of Technology; and
 - (iv) explore different funding mechanisms for technical training. For example, Government could offer incentives to companies or students, or impose levies or fines for the employment of expatriate personnel with the proceeds used to revamp training institutions.

- b) **The mining industry to take a more proactive role.**

Mining houses' CEOs needed to better understand that the manpower shortage was a real threat to their companies' operations. Since improvements in the availability of skilled workers would benefit them, the companies should take a more proactive role with regard to training. This could include offering career guidance including hosting career fairs; offering scholarships in mining-related subjects; sponsoring educational programs such as Junior Engineers, Technicians and Scientists (JETS); implementing industrial attachment programs; and or providing more in-house training which could be certified by TEVETA.

- c) **Improve communication between industry, government and training providers.**

The Chamber of Mines should serve as the link between government, industry and training providers in terms of coordination, industry requirements such as the quantity, quality and nature of demand for skilled workers with training curricula, industrial attachments and driving training initiative.

Based on the above discussion, the Ministry of Mines and Natural Resources, TEVETA and the Chamber of Mines agreed to work together to identify and implement activities that could help improve the situation.

Committee's Observations and Recommendations

Your Committee requests an update on the implementation of recommendations contained in the consultant's Report. Further, your Committee urges the Government to persuade mining companies to offer scholarships in the short term to address the shortage of artisanal skills as there were many unemployed youths who would take up the opportunity.

D. Transparency and Accountability Initiatives in Mining - Para.5.8, Page 25

a) Subscription to the EITI

8.13 Your previous Committee recommended that the Government should ensure that all companies in the extractive industries subscribed to the Initiative.

Response

The Government through the Action-Taken Report informed your Committee that the objective of EITI was to ensure that all the extractive industries disclosed what they pay to the Government and what Government receives as revenue.

Currently this was being implemented through the Memorandum of Understanding signed by the stakeholders, who included the government, mining companies and civil society organisations to commit themselves to disclose what mining companies pay and what the Government receives.

Committee's Observations and Recommendations

Your Committee requests a progress report on compliance to the Initiative before considering the matter for closure.

b) Criteria for awarding Investment Concessions

Your previous Committee urged the Government to devise a clear and transparent criterion for awarding concessions and tax incentives to investors in the mining industry. This should include consulting other relevant stakeholders.

Response

The Government through the Action-Taken Report informed your Committee that the Ministry was developing a computerized mining concession licensing system. Once fully operationalised, the licensing system would be more transparent.

It was further reported in the Action-Taken Report that Development Agreements which were provided for under the *Mines and Minerals Act of 1995* provided for tax incentives. The purpose for these tax incentives was to attract foreign direct investment into the mining sector. However, with the enactment of the *Mines and Minerals Development Act of 2008* the provision for development agreements was done away with, which meant that all taxes paid by the mining companies were now provided for under the *Income Tax Act*.

Further, the Zambia Development Agency (ZDA) incentives to investors and the tax incentives given were for a shorter period and depended on the level of investment.

Committee's Observations and Recommendations

Your Committee requests an update on the computerised mining concession licensing system meant to make the process transparent.

c) Publication of Development Agreements

8.14 Your previous Committee urged the Government to make public all agreements between the Government and mining companies.

Response

The Government through the Action-Taken Report informed your Committee that the only agreements that the Government enters into with mining companies were done under the Zambia Development Agency (ZDA) through the Ministry of Commerce, Trade and Industry and were known as the Investment Promotion and Protection Agreements.

Committee's Observations and Recommendations

Your Committee re-emphasise that for purposes of transparency, all mining agreements should be made public.

E. Environmental Matters in Mining - Para. 5.8, Page 25**Consultation with Local Councils and Relocation of Kankoyo Township**

8.15 Your previous Committee urged The Ministry of Mines and Natural Resources working together with the ECZ which was recently renamed Zambia Environmental Management Agency (ZEMA) was to:

- (i) boost the confidence levels of local authorities being agents on environmental matters, by ensuring that before any major decision was made, recommendations from local authorities were considered first, and the local authorities should be fully involved in the enforcement of environmental laws as they were closer to the areas where offences were committed; and
- (ii) facilitate the relocation of residents of Kankoyo Township to an appropriate site.

Response

- (a) The Government through the Action-Taken Report informed your Committee that through the laid down statutory procedure of the Environmental Impact Assessment process, Government through the Environmental Council of Zambia, now renamed as Zambia Environmental Management Agency or ZEMA, had always been consulting local authorities before decisions were made on all projects. Unfortunately, the majority of local authorities rarely submitted comments on the decision making document forwarded for their inputs. However, in an effort to improve their involvement, consultations were still being made on how best to engage them. Government through ZEMA had conducted a number of training to local authorities on environmental issues.

Further, Government through ZEMA has been carrying out capacity building activities of local authorities by engaging them in the preparation of State of the Environment Reports. Through the current Government process of "devolution", a number of functions will be devolved to local authorities, and will build capacity in them in environmental management.

The Ministry was one of the pilot Ministries in the devolution of functions under the Decentralisation policy and to this effect, proposals had been made on the functions to be devolved to local authorities, and this will be accompanied by capacity building of the local authorities in environmental management.

It was reported in the Action-Taken Report that the new Environmental Management Act, No. 12 of 2011 has an inbuilt provision for appointment of honorary inspectors and the delegation of functions to conservancies such as local authorities.

- (b) Further, the problems of sulphur dioxide and subsidence in Kankoyo were of historical nature and originated from the ZCCM era. In the meantime, Government has no immediate plans to relocate residents of Kankoyo Township to another site.

Committee's Observations and Recommendations

Your Committee urges the Government to liaise with Mopani in facilitating the relocation of the residents of Kankoyo Township to an appropriate area. Your Committee requests an update on the matter.

F. Impact of Mining on the Road Infrastructure - Para.5.8, Page 26

a) Sharing the Burden to develop Road Infrastructure

8.16 Your previous Committee recommended the Government to immediately implement or if these were not in place, develop measures that would:

- (i) promote Public-Private Partnerships in the development of road infrastructure;
- (ii) revamp the railway transportation system and improve security of goods in transit;
- (iii) ensure that mining companies bear part of the burden of road maintenance; and
- (iv) stiffen penalties for abnormal loads.

Response

- (a) It was reported in the Action-Taken Report that the Government has put in place enabling policies to encourage investors to partner with Government through the Public Private Partnership (PPP) Policy. In addition, the Tolls Act of 2011 was now law which complements the PPP Policy. The Government in order to accelerate the collection of Toll fees appointed a Consultant, Messrs Musa Capital, to assist in the establishment, operationalise and management of Tolls on the strategic core road network. It was envisaged that the additional revenues from the Toll Gates would be re-invested into the road infrastructure maintenance.
- (b) Further, the Ministry of Transport, Works, Supply and Communications with the support of the World Bank undertook an Independent Review Study of the GRZ or Railway Systems of Zambia Concession Agreement in 2010. This was essentially undertaken to probe the performance of the GRZ or RSZ Concession with a view to suggest ways of contract performance improvement. A draft MoU containing recommendations of this study has since been submitted for Government and RSZ to consider. This entails a Post Evaluation Meeting of this MoU amongst Government stakeholders and then between Government and RSZ for a conclusive resolution. This Post Evaluation Meeting was yet to be undertaken, however, the Ministry with the Stakeholder's Consultative Committee on the inter-mine railway network was addressing the challenges of the rail transport subsectors which include among others the following:
 - (i) need for rehabilitation of the inter-mine network;
 - (ii) construction of storage facilities at relevant inter-mine points; and
 - (iii) revamping of inter-mine train operation of which Government has engaged RSZ and the mines to resolve problems of the railway network.

It should be noted that Government engaged the Railway Systems of Zambia (RSZ) and Zambia Railways Limited (ZR) and mining companies for revitalizing and increasing

investment in the rail transport sector. In addition, other private companies have also shown interest on coming on board to revive the sector.

Further, the Government has started the process of comprehensively reviewing the performance of the rail network in Zambia and has contributed through the refunding of fuel levy by way of channeling it to developing of new rail lines, for example, the Chipata-Muchinji Line. Plans were underway to develop the Livingstone to Kazungula line and Solwezi to Namibia lines, among others. The Government has also developed plans for rehabilitation of the rail track, signaling system, rolling stock and general condition of the infrastructure.

- (c) It was reported in the Action-Taken Report that the Tax revenue collected from the mining industry goes into the mainstream general total tax revenue which finances most Government social and economic obligations. Part of this tax revenue was used to finance the construction, rehabilitation and maintenance of the public roads. With the enactment of the Tolls Act, it would be expected that all vehicles depending on the size, would pay a Toll fee for using specific roads that would be tolled and this will include mining companies that will be transporting their Copper for export.
- (d) Further, the Axle Load Control Unit under the Road Development Agency (RDA) would ensure that there were stiffer penalties for transporters who deliberately under declared their Axle Loads. Furthermore, the RDA proposes to deliberately lengthen the issuance of permits to transporters who knowingly but deliberately opt to under declare their Axle Loads.

Committee's Observations and Recommendations

Your Committee requests an update on the Post Evaluation meeting which is part of the process to revamp railway transport in Zambia. Further, your Committee urges the Government to review the concession awarded to RSZ and ensure that RSZ meets its obligations.

G. Gemstones Mining Sub-Sector - Para. 5.8, Page 26

(a) Equipment Hire Scheme

8.17 Your previous Committee urged the Ministry of Mines and Ministry of Commerce, Trade and Industry to consider establishing an equipment hire scheme which should include exploration equipment such as core-drilling machines.

Response

It was reported in the Action-Taken Report that the Ministry supports the unlocking of the economic potential of citizens by providing attractive tax incentives and also by linking them to the CEEC which provided broad based empowerment programmes. Through these tax incentives and empowerment programmes, citizens then would have the financial capacity to acquire capital equipment necessary to engage in core mining activities.

Committee's Observations and Recommendations

Your Committee advises the Government that the CEEC does not answer problems that gemstone miners face in their operations. The Government should, therefore, facilitate the setting up of an equipment hire scheme.

(b) Loan Guarantee Scheme

8.18 Your previous Committee urged the Ministry of Mines and Ministry of Commerce, Trade and Industry to assist in the establishment of a loan guarantee scheme within the frame work of the Citizens Economic Empowerment Programme.

Response

It was reported in the Action-Taken Report that the Ministry through the Citizen Economic Empowerment Commission provides broad based empowerment programmes to the citizens across all sectors of the economy. This was done by assisting the local entrepreneurs with project and trade finance loans, business mentorships and capacity building initiatives, among others. Broad based economic empowerment provides a durable and sustainable foundation for achieving a greater significant level of citizens' participation in business and economic activities in general, thereby contributing towards realizing the vision 2030. Examples of SMEs that had been funded in the sector include Gramiraj Investments Ltd K191m and Zamkor Mining K250m.

Committee's Observations and Recommendations

Your Committee requests an update on whether the Government will provide a Loan Guarantee Scheme for small mining businesses.

(c) Gemstone Auction

8.19 Your previous Committee urged the Ministry of Mines and Ministry of Commerce, Trade and Industry to assist in establishing of a private sector operated gemstone auction.

Response

The Government through the Action-Taken Report informed your Committee that the sale of Gemstones was conducted by the operators themselves. For example Kagem Mining Limited sells its gemstones by holding private auctions.

Further, the Ministry signed a Statutory Instrument declaring Sub Saharan Gemstone Exchange as an Industrial Park located on a 300Ha piece of land in Ndola. It is a wholly Zambian owned firm whose aim will be to create a streamlined export procedure that will assist buyers, sellers and producers of rough and processed gemstones and jewellery to freely participate and conduct regular auctions and routine transactions and thereby making the gemstone mining a sustainable venture to bring wealth to the nation as a whole. The Industrial Park was expected to create more than 3,000 job opportunities.

Committee's Observations and Recommendations

Your Committee requests a progress report on the operations of the Sub-Saharan Gemstone Exchange and urges the Government to come up with a mechanism to monitor the sell of Gemstones in Zambia.

(d) Creation of Linkages

8.20 Your previous Committee urged the Ministry of Mines and Ministry of Commerce, Trade and Industry to consider creating linkages between small and large scale miners for purposes of production, polishing and marketing.

Response

The Government through the Action-Taken Report informed your Committee that this was made possible by ZDA inviting the private sector to be part of the Zambian business delegation during investment promotion missions. Those with projects were given opportunities to discuss their respective projects with potential foreign partners in match making sessions during such business fora.

Further, the ZDA also provides a window for the private sector to make available their respective projects which were either posted on the ZDA website for the international investing community to assess or sent to foreign missions in Zambian embassies and high commissions.

Committee's Observations and Recommendations

Your Committee urges the Government to assist the small scale miners in polishing, marketing and link them to large scale miners. Your Committee requests an update on the matter.

(e) Value Addition and Security

8.21 Your previous Committee urged the Ministry of Mines and Ministry of Commerce, Trade and Industry to promote value-addition to gemstones before being exported. The previous Committee recommended that the Ministry of Mines and Natural Resources and the ZRA should enhance the monitoring of production and sales levels of gemstone mines for tax purposes. Further, the Ministry of Mines and Ministry of Home Affairs should further enhance security in mining areas to curb smuggling of gemstones.

Response

It was reported in the Action-Taken Report that the *ZDA Act No. 11 of 2006* recognizes gemstone polishing as a priority sector and provides attractive tax incentives for investments in the sub sector. This was meant to attract investments in this area and entice current mining houses to do value addition after mining before export.

The Government informed your Committee that Value addition was very cardinal as it increases the earnings from the sector. Government has emphasized on this and has helped to establish a lapidary training school in Ndola on the Copperbelt Province.

Further, security was very critical in gemstone mining areas. The Lufwanyama Emerald mining and the Maptizya Amethyst mining areas have police check points. These measures were not adequate. There was need to improve on this by fencing off these areas.

Committee's Observations and Recommendations

Your Committee requests the Government to state the actual plans and time frame involved in ensuring that monitoring of production and sales of gemstones is enhanced.

CONSIDERATION OF THE ACTION-TAKEN REPORT ON THE COMMITTEE'S SECOND REPORT FOR THE FOURTH SESSION OF THE TENTH NATIONAL ASSEMBLY

A. Consideration of the Pension System in Zambia - Para 6.1, Page 27

Exemption of Certain Institutions from Contributing to National Pension Scheme Authority (NAPSA)

8.22 Your previous Committee had requested for an update on the actuarial evaluation scheduled for 2011 and revoking the exemption of staff of Konkola and Mopani Copper Mines from contributing to NAPSA. It, however, resolved that Defence and Police should continue being exempt from NAPSA.

Response

It was reported in the Action-Taken Report that the statutory actuarial valuation of the National Pension Scheme Authority for the period 2005 to 2008 was undertaken in 2009 and an actuarial report was ready to this effect. The next statutory actuarial valuation for NAPSA would only be undertaken in 2012 for the period 2009 to 2011. Furthermore, the Ministry of Labour, Youth and Sport, through the Department of Social Security, had engaged the two mining firms to explore avenues for basic social security coverage for its employees.

Committee's Observations and Recommendations

Your Committee requests an update on the actuarial valuation. Your Committee further requests an update on the revoking of the exemption from contributing to NAPSA by Konkola and Mopani Copper Mines.

B. PSPF and LASE as Supplementary Schemes - Para 6.2, Page 29

8.23 Your previous Committee had urged the Ministry of Labour, Youth and Sport to use powers within its means to expedite the adoption of the Policy which among other things should provide for:

All staff in councils and associated authorities such as ZESCO and National Housing Authority to

- (i) be contributing to LASF; and
- (ii) all public service workers to be contributing to PSPF.

Response

It was reported in the Action-Taken Report that the statutory actuarial valuation of the National Pension Scheme Authority for the period 2005 to 2008 was undertaken in 2009 and an actuarial report was ready to this effect. The next statutory actuarial valuation for NAPSA would only be undertaken in 2012 for the period 2009 to 2011. The Government has directed the Ministry of Labour, Youth and Sport to engage a consultant for a special actuarial valuation of PSPF, LASF and NAPSA to inform policy reforms within the sub-sector.

Committee's Observations and Recommendations

Your Committee requests an update on the matter and urges the Government to make a definite decision on whether or not it will wind up the two pension schemes. Further, your Committee requests an update on how pensioners would be taken care of if the pension schemes were winded up.

C. Supervision of PSPF and LASF by the PIA - Para 6.3, Page 30

8.24 Your previous Committee had requested an update on the National Pension Scheme Act which should be amended to allow for the supervision of NAPSA by the Pensions and Insurance Authority (PIA). The Committee re-emphasised the need to have all pension schemes, including the LASF, supervised by the PIA.

Response

It was reported in the Action-Taken Report that the Government, through the Office of the Secretary to the Treasury, was in the process of formalising the appointment of technical team members on the subject. The Ministry of Labour, Youth and Sport, through the Department of Social Security, has since finalised a concept note on the subject and stakeholder consultations on various options were on-going.

Committee's Observations and Recommendations

Your Committee requests a progress report on the Technical Team and on when the PSPF and LASF will begin to be supervised by the PIA.

D. Increasing coverage of Pensions - Para 6.4, Page 30

8.25 Your previous Committee requested an update on the survey to collect information on the possibility of extending pension coverage to the informal sector.

Response

It was reported in the Action-Taken Report that the Government, through Ministry of Labour, Youth and Sport, had undertaken a number of data collection exercises in Lusaka, Eastern, Luapula, Northern and Southern Provinces. The National Social Security Reform Implementation Committee resolved to undertake a joint nation-wide study to assess the viability of mutual funds as a strategy for extension of social security to the informal economy. The said nation-wide research study was earmarked for 2012 and the Ministry was in the process of developing Terms of Reference for the consultant.

Committee's Observations and Recommendations

Your Committee requests a progress report on the Nation-wide Research Study. Further, your Committee requests an update on the outcome of the results of the previous five studies that had been undertaken.

E. Adoption of the National Social Security Policy - Para 6.5, Page 31

8.26 Your previous Committee requests an update on the development of a national policy on social security to address the challenges in the social security system in Zambia.

Response

It was reported in the Action-Taken Report that the Draft Social Security Policy was tabled in Cabinet for adoption in early 2011. However, Cabinet resolved to defer the adoption of the Policy to allow for the conclusion of special actuarial valuation to determine the pros and cons of a government policy reversal for example the re-opening of LASF and PSPF. The said actuarial study was earmarked for 2012.

Committee's Observations and Recommendations

Your Committee requests a progress report on the Social Security Policy.

F. Harmonisation of the Supervision and Regulation of Pensions - Para 6.6, Page 31

8.27 Your previous Committee requested an update on the harmonisation of laws governing pension schemes to ensure that supervision and regulation of all pension schemes would be under the PIA.

Response

It was reported in the Action-Taken Report that Government, through the National Social Security Reform Implementation Committee, was facilitating a process of consultations amongst stakeholders on the harmonisation of the sub-sector.

Committee's Observations and Recommendations

Your Committee requests for a progress report on the harmonisation of laws governing pensions.

G Actuarial Deficits - Para 6.7, Page 32

8.28 Your previous Committee applauded the Government for the effort of clearing the unremitted pension contributions. It, however, urged the Government to intensify the efforts and report progress on the matter.

Response

It was reported in the Action-Taken Report that Government, through the Ministry of Finance, provided a total of K150 billion in the 2011 national budget to dismantle the pension debt that had accrued over the years. As for July 2011, Government was up-to-date with its pension contributions to the National Pension Scheme Authority. Furthermore, as at July 2011, Government had paid a total of K363, 081,682,167, through both budgeted (i.e. K150, 000,000,000) and supplementary (i.e. K213, 081,682,167) funding to the Public Service Pension Fund. It was envisaged that Government would continue to make steady progress on the dismantling of the pension debt accrued over a period of time.

Committee's Observations and Recommendations

Your Committee appreciates the efforts to dismantle arrears to the PSPF. Further, it requests the Government to report further progress on the arrears for both LASF and PSPF.

H. Outdated Legislation - Para 6.8, Page 32

8.29 Your previous Committee requested for an update on the specific pension laws that were being reviewed taking into account the fact that the Constitution Review exercise had not been successful.

Response

It was reported in the Action-Taken Report that the Government, through the Ministry of Labour, Youth and Sport and other relevant line Ministries, has been reviewing various policies and pieces of legislation related to social security in order to enhance the social security delivery system in Zambia. Key legal frameworks up for review include the following:

- (i) *National Pension Scheme Act No. 40 of 1996;*
- (ii) *Workers Compensation Act No. 10 of 1996; and*
- (iii) *Pensions Regulation Act No. 28 of 1996 (As amended by Act No. 27 of 2005).*

The proposed amendments have since been adopted by the National Social Security Reform Implementation Committee and the Tripartite Labour Consultative Council.

Committee's Observations and Recommendations

Your Committee requests Government to expedite the processing of these Bills in Parliament.

I. Portability of Benefits - Para 6.9, Page 33

8.30 Your previous Committee noted the need for a thorough study on the matter but wished to advise that priority should be placed on ensuring portability of benefits between like schemes such as defined contributions to defined contributions schemes and from defined benefit to defined benefit schemes.

Response

It was reported in the Action-Taken Report that the Government through the Ministry of Labour, Youth and Sport, in collaboration with the National Social Security Reform Technical Committee, held an extraordinary meeting from 6th to 7th September 2010 where the above mentioned subject was substantially discussed. Government through the Steering Committee was facilitating a process of consultations amongst stakeholders to develop Terms of Reference on a study regarding portability of pension benefits between public schemes. With regard to the private pension schemes the Pension Scheme Regulation Act No. 28 of 1996 provides for portability of pension benefits.

Committee's Observations and Recommendations

Your Committee requests an update on the study regarding the portability of pension benefits between public pension schemes.

J. The High Supervisory and Administrative Costs - Para 6.10, Page 33

8.31 Your previous Committee resolved to await the results of the comparative study on administrative costs of pension schemes. It, however, urged the Government to reconsider the levy

Response

It was reported in the Action-Taken Report that the Government through the Pension and Insurance Authority (PIA) and other statutory bodies, was yet to conclude a comparative study of administrative costs across pension schemes within the sub-region. However, in terms of local schemes, both statutory and occupational, the current administrative cost, on average, was 13% of the pension income i.e. net assets. Pension income includes pension contributions and gross investment returns. Furthermore, Government was awaiting the conclusion of the technical study on comparative administrative costs within the sub-region to begin a process of reviewing the 0.3% pension levy.

Committee's Observations and Recommendations

Your Committee requests a further update on the comparative study and the reviewing of the 0.3% pension levy.

K. Generation of Local Employment Opportunities - Para 6.12, Page 35

8.32 Your previous Committee had resolved that they be updated on Public Private Partnerships, Multi-Facility Economic Zones (MFEZs) and Industrial Parks vis-à-vis employment creation and skills transfer.

Response

It was reported in the Action-Taken Report that the implementation of MFEZs in Zambia was designed to make Zambia competitive through increased activity in the trade and manufacturing sectors, which had numerous positive spillover effects in other sectors such as utilities, transport,

agriculture and services. The MFEZs were special industrial zones for both export-oriented and domestic-oriented industries. The zones would have the well appointed infrastructure in place in order to attract and facilitate establishment of world-class enterprises in the zone (s).

Further, the MFEZs blended the best features of the free trade zones, export processing zones and the industrial parks or zones concept and created the administrative infrastructure, rules, regulations that benchmark among the best dynamic economies. The blending of physical infrastructure with an efficient and effective administrative infrastructure would create the ideal investment environment for attracting major world class investors.

The Ministry has to-date declared six areas as MFEZs and or Industrial Parks vis-à-vis: Chambishi, Lusaka East, Lusaka South, Lumwana; and Ndola (Sub Saharan gemstones exchange) and Roma as Industrial Parks. The following were the updates on the declared MFEZs/Industrial Parks:

Chambishi MFEZ

It was reported in the Action-Taken Report that the development of the Chambishi MFEZ, an 11.58 square Kilometres land, was being undertaken by China Non Ferrous Metal Mining Company Limited. The Chambishi MFEZ already houses fourteen enterprises with a total investment outlay of more than US\$ 1 billion. These enterprises have provided more than 6,000 local jobs which were expected to increase as more zone enterprises locate in the MFEZ.

Further, the infrastructure construction was progressing well and already the total investment in infrastructure development had exceeded US\$ 100 Million. A water pipeline, ZESCO sub-station, land levelling, ZCCZ office building and an ultra-modern main gate has been put in place.

Furthermore, the Chambishi MFEZ will house heavy and light industries, among them; copper smelting, copper cable and other copper related products, agro processing, manufacture of household appliances, manufacture of bars, wires, electric cables and motor parts. In the next four years, this MFEZ is poised to accommodate fifty to sixty zone enterprises with an output volume exceeding US\$ 1.5 billion.

Lusaka East

It was reported in the Action-Taken Report that the Lusaka East MFEZ measuring 5.7 square Kilometres was located adjacent to the Lusaka International Airport. The construction work was launched on 14th January 2009 by the Republican President, His Excellency Mr. Rupiah Bwezani Banda. This was an extension of the Chambishi MFEZ and will focus on light manufacturing activities and services such as provision of conference facilities, hotel accommodation, among others. CNMC has since developed a Master Plan and the actual construction work has commenced. So far the developers have injected US\$ 5 million in the construction of internal roads and earth works.

Lusaka South MFEZ

It was reported in the Action-Taken Report that the Lusaka South MFEZ was being promoted by the Government. The development of MFEZ will be undertaken under the Public Private Partnership (PPP) policy framework.

Further, the Government has incorporated a Special Purpose Vehicle (SPV) which will act as a developer for the Lusaka South and will own the assets of the Lusaka South and raise the necessary equity and debt finance for the development. The SPV would be capitalized through equity contributed by GRZ through:

- (a) the land value, cost of the Master Plan, and other preparatory costs invested by GRZ to date; and
- (b) initial equity injection by suitably qualified private sector investors.

Any debt raised by GRZ from co-operating partners would be lent to the SPV on terms that ensure the viability of the Lusaka South. The management and administration of the zone would be undertaken through the SPV to be established, while the promotion and marketing of the Lusaka South will be done jointly by ZDA and the SPV.

The Government through the Action-Taken Report informed your Committee that the construction of the Lusaka South MFEZ, a 2,100 hectares area, would be done in five phases. Phase 1 will require development of 414 hectares land and will employ up to 4,800 locals once completed.

Further, the Lusaka South MFEZ whose Master Plan was developed by Kulim Hi Tech Cooperation of Malaysia, the Japanese Experts and the Local Expert Team will house a variety of industries and facilities, among them; high tech industries, research and development, commercial, residential, golf course, institutions and community facilities with total investment flows expected to exceed US\$ 1.2 billion.

Furthermore, the construction of a 2.4 km access road has been completed and the construction of 12.4 km internal roads within the MFEZ was underway. It should be noted that Government has to date provided K50 billion for development of infrastructure in the MFEZ.

Lumwana MFEZ

It was reported in the Action-Taken Report that the Lumwana MFEZ to be developed by Lumwana Property Development Company Ltd was a 1,300 sq km area which will focus on light and heavy industries. Some notable activities that the MFEZ will house include:- manufacture of explosives, agro processing, horticulture, fisheries, hotel accommodation, among others. The developers of this MFEZ have prepared a Master Plan and plans to invest US\$ 1.2 billion for development of the MFEZ whilst creating 13,000 jobs. The construction works was officially launched in July, 2010 by the then Minister of Commerce, Trade and Industry Hon. Felix C. Mutati, MP. Lumwana has since engaged experts to assist in developing the MFEZ.

Sub-Saharan Gemstone Exchange Industrial Park

The Government wished to inform your Committee that A 300 Hectares Sub Saharan Gemstone Exchange Industrial Park was located in Ndola to be developed by Phoenix Materials, a wholly Zambian owned firm. It will aim to create a streamlined export procedure that would assist the buyers, sellers and producers of rough and processed gemstones and jewelry to freely participate and conduct regular auctions and routine transactions and thereby making the gemstone mining a sustainable venture to bring wealth to the nation as a whole. The Industrial Park was expected to create more than 3,000 job opportunities. US\$ 3 million has since been invested in infrastructural development and two companies are currently operating.

Roma Industrial Park

It was reported in the Action-Taken Report that a 104 Hectares Roma Industrial Park was located in the Roma area, Lusaka. The park will be developed by CPD Properties of South Africa at a cost of US\$ 54 million and was expected to create 4,000 job opportunities. The Park will specialize in light manufacturing activities and incubators for SMEs.

Committee's Observations and Recommendations

Your Committee requests an evaluation of the MFEZs and Industrial Parks to be carried out in future when they were fully operational. Meanwhile it requests a progress report.

CONSIDERATION OF OUTSTANDING MATTERS FROM THE FIRST REPORT OF THE COMMITTEE ON ECONOMIC AFFAIRS AND LABOUR FOR THE FOURTH SESSION OF THE TENTH NATIONAL ASSEMBLY

9.0 Impact of the Global Economic Crisis on Zambia's Economy and the Stability and Operations of the Financial Markets

A. Dollarisation - Para. 6.22, Page 43

9.1 Your previous Committee requested a further update on what has been done, to ensure that the Statutory Instrument was finally issued.

Response

It was reported in the Action-Taken Report that the Executive does acknowledge that the above response was provided to your previous Committee on Economic Affairs and Labour. The current position was that the status on this matter has not significantly changed. However, the business community has made further submissions on the need to ensure a balance between the anti-dollarisation laws and to avoid a law that would be detrimental to operations of businesses. In this regard, Government was undertaking consultations to address the concerns of the business community that the recommended penalties in the layman's draft were too severe and had the possibility of resulting in the closure of many businesses, especially small and medium enterprises. Once the process of consultations was finalized, the Ministry of Finance will issue the Statutory Instrument.

Committee's Observations and Recommendations

Your Committee observes that other than just quoting prices in dollars, some institutions were demanding settlement in hard currency thereby exerting pressure on the exchange rate. It therefore, requests a further update on the Statutory Instrument.

B. Externalisation - Para. 6.23, Page 44

9.2 Your previous Committee had requested for a further update on the study on externalisation of earnings by foreign investors. In the intervening period, it strongly urged the Government to curb the externalisation of sale proceeds.

Response

In the Action-Taken Report on the Report of the previous Committee for the Fourth Session of the Tenth National Assembly, the Zambian Government had indicated that foreign exchange controls had been done away with since the early 1990s. As indicated above, Zambians and foreigners alike were free to keep or take away their foreign exchange earnings without any hindrance from the Government. It was further indicated that Government policy with regard to foreign exchange controls was to maintain the status quo. This was on the basis of the experience prior to liberalization of the foreign exchange market which resulted in:

- a) consistent over-valuation of the currency, which affected the external competitiveness of the economy; and
- b) a booming black market, which led to inefficient allocation of foreign exchange as well as a build-up in money laundering activities.

On the basis of the above, the Government intended to maintain the status quo. However, the Executive agrees with the Committee that a study should be undertaken to study the matter further.

The current status is that the study on this matter was yet to be undertaken by the Bank of Zambia. However, Government has observed that a number of countries in Africa have foreign exchange regimes which appeared to be working well, although they have a regime that was less liberal than Zambia. The Bank of Zambia, therefore, intends to examine the management of foreign exchange policies in a number of countries like South Africa, Botswana and Ghana, so as to establish whether lessons could be learnt in order to improve the management of the foreign exchange regime.

Committee's Observations and Recommendations

Your Committee requests a further update on the comparative study on foreign exchange policies in the region.

B. MATTERS ARISING OUT OF THE TOUR OF THE LUSAKA STOCK EXCHANGE (LUSE)

Amendment of the Securities and Exchange Act - Para. 6.26, Page 46

9.3 Your previous Committee had resolved to wait an update on the review of the Securities and Exchange Act which would provide for a regulatory framework to support, among other things, electronic clearing and settlement.

Response

It was reported in the Action-Taken Report that the Government welcomed the observation by the Committee that the existing legislation was lagging behind market developments, such as the Central Securities Depository. In order to overcome this shortcoming, the process of incorporating these new market developments has been initiated.

The Government, through the Ministry of Finance and National Planning, was actively involved in the process of finalising the consultative process on the new law before it could be presented to Parliament for approval. A Cabinet Memorandum proposing these changes has been prepared for onward submission to Cabinet for consideration.

Committee's Observations and Recommendations

Your Committee requests a progress report on the amendment of the *Securities and Exchange Act*.

PART III

LOCAL TOUR TO LUSAKA, COPPERBELT AND NORTH WESTERN PROVINCES

10.0 In order to appreciate what was obtaining on the ground, your Committee undertook tours to Lusaka, Copperbelt and North Western provinces. The objective of the tour was to enable the Committee verify some of the Executive's responses in the Action Taken Report on the unemployment situation in Zambia. Your Committee also wanted to verify part of the information that was provided by experts on the topical issue "Citizens Involvement in Economic Development".

In this regard, the Committee visited the Multi-Facility Economic Zones in Lusaka, Copperbelt and North Western provinces and held public hearings in Kitwe and Solwezi.

MATTERS ARISING FROM THE TOUR

10.1 Your Committee visited the following Multi-Facility Economic Zones (MFEZ):

- (i) Roma Industrial Park;
- (ii) Lusaka East Multi-Facility Economic Zone;
- (iii) Lusaka South Multi-Facility Economic Zone;
- (iv) Chambishi Multi-Facility Economic Zone; and
- (v) Lumwana Multi-Facility Economic Zone.

Brief profiles of the Multi-Facility Economic Zones visited

Your Committee was acquainted with the issues set out below from the Multi-Facility Economic Zones visited.

(i) Roma Industrial Park

Roma Industrial Park provides an ideal form of investment in residential, retail, commercial, warehousing and manufacturing sectors. Since its establishment US\$ 5.5 million has been invested in infrastructure development. Anyone investing not less than \$500 000 in the MFEZ's priority sectors was entitled to fiscal incentives in the Park. Fiscal incentives included several forms of tax exemptions and reductions.

Tour of MFEZ

Your Committee was taken on a brief tour of the surrounding area and main gates.

(ii) Lusaka East Multi-Facility Economic Zone

The Lusaka East MFEZ was set up in February, 2009 and covers an area of 5.7 square km². It will be built into a central business district about 2 km away from Kenneth Kaunda International Airport and will focus on multi-facilities for commercial, logistics, manufacturing, real estate and other businesses. A total amount of US\$4 million has since been invested in infrastructural development.

Only thirty people including contractors have since been employed. The Lusaka MFEZ has so far built three warehouses which were to be leased out for production purposes.

Tour of MFEZ

Your Committee was taken on a conducted tour of three warehouses.

(iii) Lusaka South Multi-Facility Economic Zone

The Lusaka South MFEZ site, was located within the Lusaka Forest Reserve No.26. The designated area is 2100 hectares measuring 7km by 3kms. The rest of the forest reserve of 4000 hectares, is now the new and twentieth national game park managed by the Zambia Wildlife Authority.

Since the start of the project, US\$ 15 million or K70 billion had been spent on the project, with major expense being on the completion of a 10km road project, surveying, designing and preparation of physical engineering plans and on fencing and securing of the Zone.

The Zone has received numerous applications from several companies. One of the companies known as *Alliance One* could accommodate up to 1400 employees once completed and fully operational.

Tour of MFEZ

Your Committee was taken on a conducted tour of the surrounding area.

(iv) Chambishi Multi-Facility Economic Zone

The Chambishi MFEZ, situated on the Copperbelt on Kitwe /Chingola road, covers an area of 41km² while the first stage of development is 11.7km². The core business to be developed in this Zone will be expanded from copper mining to processing, manufacturing, equipment supplying and engineering services.

Nine roads up to 6.2 km long in the central service area and lines of water supply, rainwater drainage, sewerage drainage, electricity and communications have been completed. Street lamps have been installed and are connected to electricity. The 330kv transformer substation with an investment of US\$27.8 million was put into use by the end of 2008 and a 66kv substation is ready. Water supply is capable to service the Zone enterprises.

Several companies have already started operations at the Zone. Among the Companies currently operating is a local citizen who has already invested in the Zone and will employ up to 35 employees.

Tour of MFEZ

Your Committee was taken on a conducted tour of the general service building, gate (cooperation anchor) and Standard workshops.



A local citizen standing opposite the Chairperson who has already invested in the zone addressing the Members of the Committee on Economic Affairs in one of the standard workshops at the Chambishi MFEZ



Members of the Committee on Economic Affairs at the main gate of the Chambishi MFEZ



Members of the Committee on Economic Affairs on a conducted tour of the general service building at the Chambishi MFEZ

Committees Observations and Recommendations

Your Committee observes the following:

- (i) the inability and lack of commitment of the Lusaka Water and Sewerage Company to provide water, in the MFEZs located in Lusaka;
- (ii) lack of commitment by ZESCO in providing electricity to the MFEZs located in Lusaka;
- (iii) road access from the Roma Industrial Park to the Kenneth Kaunda International Airport is incomplete;
- (iv) poor road network to enable easy access to the Kenneth Kaunda International Airport junction from the Lusaka East MFEZ;
- (v) cement and other materials to be used in construction are in short supply at the Lusaka East MFEZ;
- (vi) uncertainties arising from inconsistencies in government policies leading to loss of investor confidence at Lusaka East MFEZ;
- (vii) inadequate electricity supply to the MFEZs in Lusaka;
- (viii) inadequate capacity to sell plots due to lack of a legal entity at the Lusaka South MFEZ;
- (ix) inadequate finances for infrastructure development at the Lusaka South MFEZ;
- (x) illegal settlers encroaching at the Lusaka South MFEZ;
- (xi) lack of awareness and publicity among the local people about the MFEZs;
- (xii) poor Security at the Lusaka East and Chambishi MFEZ; and
- (xiii) main road (Kitwe/Chingola Road) is too narrow.

I view of the foregoing, your Committee recommends that:

- i. ZDA should liaise with the Road Development Agency (RDA) to ensure that the road from Roma Industrial Park to the Kenneth Kaunda International Airport is completed;
- ii. Government should allow the developers of the Lusaka East MFEZ to construct the Road leading up to the airport junction;
- iii. ZDA should liaise with the Lusaka Water and Sewerage Company to ensure that water supply was made available to the MFEZs located in Lusaka;
- iv. ZDA should ensure that ZESCO commits and ensures that electricity is adequately provided at the MFEZs in Lusaka;
- v. Ministry of Finance and National Planning should facilitate the commencement of operations by *Alliance one* as soon as possible.
- vi. the Government should ensure that the illegal settlers at the Lusaka MFEZ should be removed and relocated elsewhere;
- vii. the Ministry of Commerce, Trade and Industry should do more publicity other than the internet for all the MFEZs so as to attract more investments in the Country;
- viii. the Government should enhance security at the Zones through the Zambia Police as this will encourage investment;
- ix. the Kitwe/Chingola road should be widened and/or made into a dual carriage way;
- x. manufacturing industries that focus on value addition should be encouraged to invest in the MFEZ; and
- xi. employment of locals should be permanent and not casualised.

(i) **Lumwana MFEZ**

Your Committee was informed that Equinox had sold the Lumwana Mining Company to Barrick Gold Corporation. The new owners intended to exhaust the entire area for mining activities including the area where the MFEZ was currently sited. In this regard, the Corporation was requesting that they be given more land to enable them develop the MFEZ. However, they did indicate that they were not keen in providing infrastructure such as water and electricity at the MFEZ because they were of the view that they were already over taxed through mineral royalties, Council rates and taxes from the Zambia Revenue Authority (ZRA).

Your Committee was further informed that Lumwana Mine was mainly mining copper, with gold as a by-product and constituting less than 2% of the total production.

In order to ensure that it has a correct position on the matter, your Committee requested the position of the Government through the Ministry of Justice (MOJ), Ministry of Commerce, Trade and Industry, and the Ministry of Mines, Energy and Water Development. The findings of your Committee regarding the matter are set out below.

1. Ownership of the Lumwana Mining Company in relation to the MFEZ

Your Committee was informed that the Lumwana Multi-Facility Economic Zone was planned alongside the development of the Lumwana Mining Company, by Equinox Mining Resources and the Lumwana Multi-Facility Economic Zone, was accordingly declared under Statutory Instrument No.51 of 2010. In declaring the Lumwana Multi-Facility Economic Zone, Equinox Mining Resources submitted a Master Plan which was the basis of the Multi-Facility Economic Zone development by Lumwana Property Development Company, which was a wholly owned subsidiary of Equinox Mining Resources.

In July 2011, Barrick Gold Corporation acquired the entire shareholding of Equinox Mining Resources in Lumwana Mine, including Lumwana Property Development Limited and therefore, the responsibility for and rights in developing the Lumwana Multi-Facility Economic Zone lies with Barrick Gold Corporation.

The legal position therefore, is that Lumwana Property Development Company Limited is now 100% owned by Barrick Corporation by virtue of its ownership of the shares in Equinox Resources, which is the holding Company of Lumwana Property Development Company Limited.

2. Status of the Lumwana MFEZ arising out of the Change of ownership

Your Committee was informed that from the time of takeover of the Equinox shares, Barrick Gold Corporation has been taking stock of its mine development and has concentrated on exploiting its Malundwe and Chimiwungo deposits and in the process has indicated the challenges with regard to the development of the Multi-Facility Economic Zone set out below:

- (i) the current infrastructure may be in conflict with the future developments on the mine;
- (ii) the town layout and design may have to be revisited to take account of future developments;
- (iii) there are security concerns in accessing the Multi-Facility Economic Zone area and mine area through R1, cadastre unit;
- (iv) town welfare is also seen as an issue and it is difficult to attract enterprises with limited accommodation, office and shopping space; and
- (v) there has been a slow uptake of investors with only eight expressions of interest received from potential investors.

It is important to note that since the establishment of the Multi-Facility Economic Zone, the mine has since developed infrastructure which includes housing, electricity, telecommunications, roads and water and sewerage systems including waste disposal systems.

The new mine owners were in the process of completing a feasibility study on the relocation strategy of the existing mining support infrastructure including housing which affects the Multi-Facility Economic Zone development and were in this regard liaising with Zambia Development Agency and the Ministry of Commerce, Trade and Industry on the future development of the Multi-Facility Economic Zone.

3. Progress that has been made at the Lumwana MFEZ since commencement

Since commencement of the MFEZ, the developers had been putting up basic infrastructure which includes housing, electricity, telecommunications, roads, and water and sewerage systems including waste disposal systems. The development of MFEZ specific infrastructure was awaiting the completion of a feasibility study on the relocation strategy of the existing mining support infrastructure including housing which affects the Multi-Facility Economic Zone development.

4. Government's current position regarding the development of Lumwana MFEZ.

Government's position on the development of the Lumwana MFEZ was that this was necessary infrastructure for the industrialization of the country and North-Western province in particular. It was Government's expectation that the new mine owners and management would proceed as

planned with the development of the Lumwana MFEZ once the feasibility studies were completed and a way forward determined. Government through the Zambia Development Agency has since engaged the developers of the MFEZ through its Chief Executive Officer in exploring options for the MFEZ and providing support where it was needed in arriving at the way forward.

5. Minerals found at the Lumwana Mining Site

Your Committee was informed that the Malundwe and Chimiwungo deposits has a total measured and indicated resource of 269.4 million at 0.83% copper, 212 parts per million cobalt and 0.02 grams per tonne gold at a cut-off grade of 0.20% copper. Uranium was also present in discrete zones within the Malundwe and Chimiwungo resources.

There was also an inferred resource of 631.8 million tonnes at 0.64% copper, 51 parts per million cobalt and 0.01 grams per tonne. In addition, there was another resource of 43.57 million tonnes at 0.49% copper in the indicated and inferred classes at Chimiwungo North. This resource was not part of the current mine plan.

The mining license area also contained a uranium resource of 12.1 million tonnes at 695 part per million of uranium.

6. Mineral Production

Since commencement of production in 2009, Lumwana Mine has produced a total of 397,644 tonnes of copper as shown in the table below:

Year	Copper (tonnes)
2009	108,985
2010	146,690
2011	117,023
2012 (Jan to Apr)	24,946

Gold and cobalt were not reported to the Ministry because they were not of economic value.

Committee's Observations and Recommendations

Your Committee observes that:

- (i) from what your Committee discussed with the Chief Executive of Lumwana Mining Company, it is of the view that Lumwana Mining Company is unclear about the regulations and Laws regarding what was expected of them in the development of the Lumwana MFEZ;
- (ii) the Executive is admitting that Barrick Gold Corporation also took over the responsibility of developing the MFEZ, despite Barrick Gold Corporation being unclear about the services that it is supposed to provide at the Lumwana MFEZ; and
- (iii) the amounts of Gold and Cobalt produced are not reported to the Ministry because they are considered not to have economic value.

In view of the foregoing, your Committee recommends that:

- (i) in future the Permanent Secretaries of Ministry of Mines, Energy and Water Development, Ministry of Commerce, Trade and Industry and the Ministry of Justice should be called upon for oral submissions regarding the Lumwana MFEZ;
- (ii) Barrick Gold should state when exactly they will start developing the Lumwana MFEZ and give an update on the number and names of companies that have shown interest in the Lumwana MFEZ;
- (iii) ZDA should state clearly the role that the Lumwana Mining Company should undertake in the implementation and development of the Lumwana MFEZ; and
- (iv) the Government through the Ministry of Mines, Energy and Water Development should institute investigations into the gold and cobalt produced with the view to determine whether they have economic value or not.

PART IV

PUBLIC HEARINGS – COPPERBELT AND NORTH WESTERN PROVINCES

11.0 The objective of the public hearings was to enable the Committee verify part of the information that was provided by experts on the topical issue “Citizens Involvement in Economic Development”

11.1 Your Committee conducted public hearings in two districts namely: Kitwe and Solwezi with the following attendance:

- Kitwe - 15
- Solwezi - 57

CONCERNS RAISED BY STAKEHOLDERS

Citizens Economic Empowerment Commission

Your Committee was informed that, citizens have inadequate information on the Citizens Economic Empowerment Fund (CEEF), which was established under the Citizens Economic Empowerment Programme. In this regard, they have not benefitted from the Programme. Further, those who have access to information on the CEEF explained that they had also not benefitted from the CEEF because it was highly politicised and was mostly given to people that were close to the ruling party at the time the Funds were disbursed.

Furthermore, your Committee heard that it was very difficult for people to have access to the officers at the CEEC offices in these districts because they were understaffed and could not adequately attend to the large number of people who were trying to access the Funds. The stakeholders also raised concerns about the poor loan recovery which loan was supposed to be extended to other beneficiaries.

Mining Companies

Your Committee was informed that the locals have not benefited from the mineral royalties collected from the mines in Kansanshi and Lumwana. Further, the stakeholders submitted that local people were being paid less than foreigners for doing the same level of work at Kansanshi and Lumwana mines. Furthermore, the stakeholders submitted that Chiefs are excluded from consultative meetings regarding the mines in the area.

They also raised concern that contracts which could be performed by small scale miners were being given to foreigners and that the mining companies preferred to import their inputs even if they could be sourced locally.

Your Committee was also informed that schools were over enrolled and health facilities operated beyond capacity due to population increase as a result of the mining activities. Further, the local people have also been displaced from their homes to pave way for the Kalimbila mining activities and were given very little compensation. Furthermore, the environment is being degraded due to the increase in population arising from the mining activities and the small streams of Lumwana are being polluted.

Chambishi Multi- Facility Economic Zone (MFEZ)

Your Committee was informed that the locals did not have access to information on the Chambishi MFEZ. Further, Stakeholders submitted that the \$500,000 minimum investment threshold required to qualify for fiscal incentives was too high and denied them the opportunity to benefit from the economic development resulting from the activities at the Zone. Your Committee was informed that it was difficult for the locals to acquire the required minimum investment threshold because of the high interest rates being offered by microfinance institutions. Furthermore, commercial banks refuse to lend them money due to the perceived poor credit culture amongst Zambians.

Committee's Observations and Recommendations

Your Committee observes as follows:

- (i) contracts that can be performed by small scale miners are being given to foreigners;
- (ii) the Commercial banks have lost confidence in the local people hence most Zambians depended on micro finance institutions whose interest rates were very high;
- (iii) the \$500,000 threshold to qualify for fiscal incentives is too high;
- (iv) poor recovery of the loans disbursed by the CEEC that are supposed to be extended to other beneficiaries;
- (v) chiefs in the host communities are not consulted and respect is not awarded to the chiefs holding the land that has the minerals;
- (vi) all the mineral royalties collected from the mines in Kansanshi and Lumwana are sent to the Central Government treasury with nothing left for the hosting community;
- (vii) the people who were displaced from their homes to pave way for the Kalimbila mining activities got very little compensation from the investors;
- (viii) the Government is failing to implement issues of infrastructure and displacement of the people in the mining areas;
- (ix) local people are being paid less than foreigners for doing the same level of work at Kansanshi and Lumwana mines;
- (x) schools have over enrolled and health facilities are operating beyond capacity due to population increase arising from the mining activities;
- (xi) the mines are polluting the small streams of Lumwana;
- (xii) the environment is being degraded due to the increase in population arising from the mining activities;
- (xiii) inadequate information on access to the Citizens Economic Empowerment Fund (CEEF) because the Commission's offices are understaffed; and
- (xiv) the CEEF was highly politicised hence only benefited citizens who associated with the ruling party at the time the funds were disbursed.

In view of the foregoing, your Committee recommends the following:

- (i) ZDA must ensure that foreign investors are encouraged to partner with locals;
- (ii) the Government should be bolder in placing demands on multinational companies to source local inputs into their global chains;
- (iii) Zambians must be sensitized to cultivate a culture of paying their debts as this would benefit programmes such as the CEEF which was meant to be a revolving fund;
- (iv) Preferential Procurement, which is provided for in the *Citizens Economic Empowerment (CEE) Act no. 9 of 2006*, should be tied to the private sector as well, since it only seems to apply to Government tenders and orders;
- (v) there should be a deliberate policy to ensure that the small scale miners are protected;
- (vi) the Government should give Local people their own threshold;
- (vii) Part of the mineral royalties collected should be given to the local community in accordance with the *Mining and Minerals Development Act of 2008* section 136, which provides that there will be sharing of mineral royalties;
- (viii) the Zambia Environmental Management Agency (ZEMA) should look into the issue of pollution and garbage disposal including issuing sanctions against mining companies, which will not adhere to their directives;
- (ix) there was need to have established CEEC offices in the districts to allow citizens more access to information concerning empowerment programmes;
- (x) the Government should review and establish a comprehensive policy on resettlement and compensation of displaced people which should be strictly enforced;
- (xi) CEEC should have credit officers who can be able to evaluate projects and make recommendations to the Committees; and
- (xii) the Government must remove the CEEF from politics so that loans can be disbursed based on the viability of the project and this will enhance recovery of loans

PART V

12.0 CONCLUSION

Mr Speaker, your Committee wishes to extend its gratitude to you for appointing it to serve on your Committee on Economic Affairs and for the support rendered to them throughout the year.

It is indebted to all the stakeholders who appeared before it for their co-operation in providing the necessary memoranda and briefs.

Your Committee is very hopeful that the observations and recommendations contained in this Report will be favourably acted upon by the Executive.

Finally, Sir, your Committee wishes to express its appreciation to the Office of the Clerk of the National Assembly for the invaluable and tireless assistance rendered throughout its deliberations.

**June 2012
LUSAKA**

**Mr C W Kakoma, MP
CHAIRPERSON**

APPENDIX I

LIST OF OFFICIALS

National Assembly

Mr S M Kateule, Principal Clerk of Committees

Mr G Lungu, Deputy Principal Clerk of Committees

Ms M K Sampa, Committee Clerk (FC)

Ms M E Zimba, Assistant Committee Clerk

Mrs A S Lloyd, Stenographer

Mr R Mumba, Committee Assistant

Mr C Bulaya, Committee Assistant

**ADDENDUM TO THE REPORT OF THE COMMITTEE ON ECONOMIC AFFAIRS
FOR THE FIRST SESSION OF THE ELEVENTH NATIONAL ASSEMBLY**

The list of witnesses on page 10 should include the Zambia Association of Chambers of Commerce and Industry (ZACCI).