



**REPUBLIC OF ZAMBIA**

**REPORT**

**OF THE**

**COMMITTEE ON ESTIMATES**

**FOR THE**

**FIRST SESSION OF THE TWELFTH NATIONAL ASSEMBLY  
APPOINTED ON WEDNESDAY, 5<sup>TH</sup> OCTOBER, 2016**

*Printed by the National Assembly of Zambia*

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# **REPORT OF THE COMMITTEE ON ESTIMATES FOR THE FIRST SESSION OF THE TWELFTH NATIONAL ASSEMBLY APPOINTED ON WEDNESDAY, 5<sup>TH</sup> OCTOBER, 2016**

Consisting of:

Mr M Simfukwe, MP (Chairperson); Mr L A Lufuma, MP; Mr P Phiri, MP; Mr S K Kakubo, MP; Ms N M Subulwa, MP; Mr F C Chaatila, MP; Mr D Mumba, MP; Mr J Siwale, MP; and Mr M L Kafwaya, MP.

The Honourable Mr Speaker  
National Assembly  
Parliament Buildings  
P O Box 31299  
**LUSAKA**

Sir,

Your Committee has the honour to present its report on its deliberations for the First Session of the Twelfth National Assembly.

## **2.0. Functions of the Committee**

The functions of your Committee are as follows:

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

## **3.0. Meetings of the Committee**

Your Committee held twelve (12) meetings to study the *budgetary implications of fuel, electricity and agriculture subsidies; and fiscal decentralisation and the budget process in light of the amendments to the Constitution.*

#### **4.0. Report of the Committee**

The report of your Committee is divided into four (4) parts. Part I outlines the findings of the study on the *budgetary implications of fuel, electricity and agriculture subsidies*. Part II outlines the findings of the study on *fiscal decentralisation in Zambia and the budget process* while Part III presents outstanding issues arising from the consideration of the *Action-Taken Report on the Report of the Committee on Estimates for the Fifth Session of the Eleventh National Assembly*.

### **PART I**

#### **5.0. BUDGETARY IMPLICATIONS OF THE FUEL, ELECTRICITY AND AGRICULTURE SUBSIDIES**

During the *First Session of the Twelfth National Assembly*, your Committee resolved to study the *budgetary implications of fuel, electricity and agriculture subsidies*. The study followed the Government's decision to allow the procurement of petroleum products to be undertaken by the private sector and prices to be adjusted in line with market conditions; and to implement a phased removal of electricity subsidies. The Government also resolved to realign the implementation strategy of the Farmer Input Support Programme (FISP) and restrict the role of the Food Reserve Agency to procurement and management of strategic food reserves, in order to reduce pressure on public finances.

The removal of subsidies was part of the broad measures contained in the economic recovery programme designed by the Government dubbed "Zambia Plus" being implemented in collaboration with cooperating partners. The economic recovery plan was meant to restore fiscal fitness following Zambia's slowed growth in 2015 and 2016. In 2015, global economic conditions for growth deteriorated and the price of copper, which accounts for 77.0 percent of Zambia's export earnings, fell sharply. This exerted downward pressure on revenues, widening the fiscal deficit and reducing the value of exports thereby opening up a trade deficit.

In addition, Zambia experienced domestic pressures in the form of:

- i. recurring fiscal deficits which reduced the confidence in the economy;
- ii. reduced and delayed rainfall in 2015, which negatively affected agricultural output and farmers' incomes and lowered the water levels in reservoirs for power generation;
- iii. increased power outages due to a fall in electricity generation; and
- iv. furthermore, the strengthening of the United States Dollar in 2015 coupled with lower confidence in the economy put pressure on the Zambian Kwacha to the extent that the local currency depreciated by 41.0 percent against the United States Dollar. Against this background, most stakeholders advocated for the rationalisation of expenditure by the Government as a way of mitigating these economic challenges.

There were, however, mixed views regarding the expected benefits of the removal of the subsidies as one of the measures to restore fiscal fitness. While most commentators favoured the removal of subsidies, a case was made urging the Government to ensure that the same did not have adverse effects on the poor people.

In the light of these diverse and important views, and taking into account the fiscal constraints facing the country, your Committee resolved to study *‘the budgetary implications of fuel, electricity and agriculture subsidies’*. The objectives of the study were to:

- a. appreciate the application of the fuel, electricity and agriculture subsidies;
- b. analyse the proportion of the budget going to the fuel, electricity and agriculture subsidies;
- c. compare the benefits and costs of implementing the fuel, electricity and agriculture subsidies; and
- d. recommend the way forward.

In order to understand this important subject, your Committee interacted and received views from the following key stakeholders:

- i. Ministry of Finance (MoF);
- ii. World Bank;
- iii. Indaba Agricultural Policy and Research Institute (IAPRI);
- iv. Energy Regulation Board (ERB);
- v. Ministry of Energy and Water Development (MEWD);
- vi. Ministry of Agriculture (MA);
- vii. Zambia Association of Chambers of Commerce and Industry (ZACCI);
- viii. Bank of Zambia (BOZ);
- ix. ZESCO Limited;
- x. University of Zambia (UNZA);
- xi. Policy Monitoring and Research Centre (PMRC);
- xii. Zambia Institute for Policy Analysis and Research (ZIPAR);and
- xiii. Civil Society for Poverty Reduction (CSPR).

Realising that most of the witnesses were pointing to mining companies as key stakeholders in the study of the fuel and electricity subsidies, your Committee later invited the Zambia Chambers of Mines to respond to issues pertaining to their sector.

The findings of your Committee’s study are summarised hereunder.

## **5.1. GENERAL MACROECONOMIC AND FISCAL IMPLICATIONS OF THE FUEL, ELECTRICITY AND AGRICULTURE SUBSIDIES**

Your Committee was informed that the Government of Zambia had been facilitating fuel, electricity and agricultural subsidies. The aim of facilitating subsidies was to protect the poor and to sustain and enhance economic growth. Fuel, electricity and agriculture subsidies had increased in 2015 and 2016, and making up an ever growing portion of the budget thereby crowding out other expenditure.

### **5.1.1. Widening fiscal deficit**

Your Committee was informed that subsidies spent on energy and FISP had in many instances been more than the allocation in the budget and that the Treasury has had to re-allocate resources from other sectors or borrow to finance the unplanned expenditure and accumulated arrears. Table 1 below shows that FISP has been receiving supplementary budgets from 2011 to 2016. Further, fuel subsidies were implemented from 2011 to 2016,

except for 2012, when there was no supplementary provision.

Table 1: EXPENDITURE ON SUBSIDIES (2011-2016)

Year	Farmer Input Support Programme			Food Reserve Agency			Electricity Arrears			Fuel Arrears		
	Approved Amount (K'000)	Supplementary provision	Released Amount (K'000)	Approved Amount (K'000)	Supplementary provision (K'000)	Released Amount (K'000)	Approved Amount	Supplementary provision (K'000)	Released Amount (K'000)	Approved Amount (K'000)	Supplementary provision (K'000)	Released Amount (K'000)
2011	485,000	410,392	895,392	150,000	1,524,000	1,674,000	-	-	-	300,000	32,400	332,400
2012	500,000	340,402	840,402	300,000	-	300,000	-	-	-	-	-	-
2013	499,972	622,495	1,122,467	300,000	811,189	1,111,189	-	-	-	-	1,610,334	1,610,334
2014	500,000	955,726	1,455,726	1,013,331	531,456	1,544,787	-	-	-	-	307,085.00	307,085
2015	1,338,058	780,372	2,118,440	992,901	894,146	1,887,047	-	364,458	364,458	-	2,713,483	2,713,483
2016	1,003,551	900,000	1,903,551	750,000	160,340	910,340	-	1,013,863	1,013,863	1,155,600	2,701,115	3,856,715
<b>Total</b>	<b>4,326,591</b>	<b>4,009,387</b>	<b>8,335,978</b>	<b>3,506,232</b>	<b>3,921,131</b>	<b>7,427,363</b>	<b>-</b>	<b>1,378,321</b>	<b>1,378,321</b>	<b>1,455,600.00</b>	<b>7,364,417</b>	<b>8,820,017</b>

Source: Ministry of Finance

The expenditure on subsidies had contributed to the high deficit in the period 2013 to 2016. The budget deficit increased to 9.4 percent of GDP on the cash basis in 2015, from 6.5 percent in 2013. In 2016, the deficit on cash and commitment basis was expected to be around 3.0 percent and 10.0 percent of GDP, respectively. The high fiscal deficit pushed interest rates up and as such hampered lending to the private sector.

### 5.1.2. Increasing stock of arrears

Your Committee was informed that the Government faced difficulties in acquiring domestic and foreign financing to meet the growing spending pressures in 2016. The stock of arrears was estimated to have doubled to K20 billion in 2016, from approximately K10 billion in 2015. This put huge pressure on the private sector through high interest rates thereby making it difficult for it to pay its taxes, meet employee obligations, and service loans and, therefore, making it difficult to stay in business.

### 5.1.3. Growing inequality

Your Committee was informed that many of the subsidies provided by the Government were benefiting the rich as opposed to those who are in need. The rapid and sustained growth achieved from the early 2000s to 2014, was insufficiently inclusive and despite the economy doubling in size, the number of people living in poverty had only marginally decreased. In addition, the Zambian society has become more unequal since 2004, as the gap between the rich and poor has widened. Zambia's Gini coefficient increased from 0.52 in 2010, to 0.56 in 2015, showing that the rich have gained most from recent growth. Zambia's high inequality index of over 50 percent, as measured by the Gini coefficient, posed one of the major challenges for poverty reduction in Zambia as it eroded the gains associated with income or economic growth. The increase in inequality levels suggested that the Government expenditure was not playing a sufficiently redistributive role.

### 5.1.4. Committee's Observations and Recommendations

After carefully studying the submissions from the various stakeholders, your Committee makes the observations and recommendations set out hereunder.

#### 5.1.4.1. *Coordination between fiscal policy and monetary policy*

Your Committee notes that the large fiscal deficits and inefficiencies in Government spending made Zambia susceptible to macroeconomic instability. These have been partly attributed to lack of coordination between the fiscal and monetary policy. In 2015, fiscal policy was loose

and monetary policy had to shoulder the burden of adjustment. While inflation was tamed and exchange rate volatility reduced, this was at the cost of very tight liquidity putting a strain on the financial sector and business across the country.

In light of the above, your Committee recommends that there should be proper coordination between monetary and fiscal policies so that the two are complementing each other in order to maintain aggregate fiscal discipline and foster growth.

#### **5.1.4.2 Arrears clearance**

Your Committee is concerned with the accumulation of arrears in 2015, as they attracted interest costs thereby putting pressure on the budget. Arrears have also affected the broader economy by reducing the credit worthiness of Government suppliers, who have found it difficult to access credit and keep their businesses going. This, in turn, has negatively impacted on economic growth and employment creation.

Although the 2017 Budget has measures to reduce the stock, your Committee recommends that there is need for a more robust strategy to clear the arrears and reduce the domestic debt.

#### **5.1.4.3 Improve debt management**

Your Committee observes that the Government has not yet operationalised the debt strategy.

In this regard, your Committee recommends that the debt strategy be operationalised so that borrowing is not conducted in an *ad hoc* manner, but based on sound debt sustainability analysis, taking into account all the risks associated with the type, terms and conditions of borrowing and the costs of repayment. Further, borrowing decisions need to be clearly harmonised with spending priorities and set debt ceilings through an appropriate piece of legislation.

#### **5.1.4.4 Revenue mobilisation**

Your Committee observes that the country has been facing challenges of mobilising adequate domestic revenue to meet its developmental needs.

Your Committee recommends that the Government should strengthen efforts to improve domestic revenue mobilisation and meet the targets set in the budget. This may be done by putting up strategies to broaden the tax base by capturing the informal sector into the tax net and leveraging tax collection through enhanced deployment of new Information and Communication Technology (ICT). The Government should also promote easy-to-monitor cashless transactions through enhanced use of e-cards and/or e-platform in general.

## **5.2. Implementation of the Fuel Subsidies**

Your Committee was informed that since 2007, the Government had been responsible for fuel procurement. Zambia procured comingled petroleum feedstock for its refinery in Ndola which is transported through the 1,705 Km TAZAMA Pipeline. The Government also owned Indeni Petroleum Refinery in Ndola. Furthermore, the Government had been procuring finished petroleum products, mainly diesel and petrol, to supplement processed petroleum products at Indeni. The procurement of finished products was conducted through contracts

given to Oil Marketing Companies (OMCs) through tender processes.

Your Committee was informed that Zambia shifted from having some of the highest fuel prices in Africa in the mid-2000s to lower prices in 2008, supported by Government subsidies and reduced taxation. The fuel subsidy was instituted in order to offset the effect of the upward escalation of international oil prices at that time. This was a necessary step to keep the fuel pump price affordable and to sustain production primarily by industries for which fuel was a key input. Further, the measure was meant to protect the poor because an increase in fuel prices translated into higher transactions costs leading to increases in the general prices of goods and services.

Given the increased fiscal burden of the fuel subsidies, extensive consultations and discussions were undertaken in 2012, which culminated in the decision to remove the fuel subsidy in April, 2013. This meant that the procurement of fuel would be self-financing by allowing the Energy Regulation Board (ERB) to determine wholesale and pump prices based on the cost of each feedstock cargo received. The pricing model for feedstock took into account both fixed and variable costs. Fixed costs did not usually fluctuate and included freight; TAZAMA and Refinery fees; taxes; and downstream margins for oil marketing companies, dealers and transporters. Variable costs are a key driver of pump price changes, and they include global crude oil prices and the United States Dollar/Kwacha exchange rate. However, after taking the decision to remove fuel subsidies in 2013, the Government did not provide for subsidies in the budgets for 2013, 2014 and 2015, based on the understanding that these were going to be offset through the price adjustment mechanism. Regrettably, the Energy Regulation Board (ERB) failed to systematically adjust pump prices, which resulted in significant financing gaps leading to the accumulation of arrears. The Government's payment of these arrears effectively served as a subsidy on fuel prices, causing a huge drain on the budget.

Your Committee was informed that in 2014, the Government again made a policy decision to remove fuel subsidies as a way of migrating to cost reflective pricing of energy services and products. In this regard, the Minister of Finance indicated in his 2017 Budget Speech that the Government would disengage from procurement of finished petroleum products by 1st March, 2017, and allow private sector participation. This effectively meant that pump prices would change with variations in the market. The decision implied that periodic price adjustments were essential to ensure that consumers pay cost reflective prices to promote sustainable supply of petroleum products in the country.

### **5.2.1. Budgetary implications of fuel subsidies**

Your Committee notes that fuel subsidies had substantial budgetary implications. In 2016 alone, about ZMW1.2 billion was provided for in the budget for fuel subsidies. By the end of 2016, the Government estimated accumulated arrears of K2.5 billion on fuel, over and above the budget allocation of K1.2 billion. This was equivalent to 6.8 percent of the 2016 budget. In comparison, expenditures on drugs and medical supplies in the 2016 budget accounted for 1.4 percent of the budget, whilst the proportion allocated for social protection accounted for 2.4 percent.

In 2015, the accumulation of fuel arrears amounted to K2.7 billion, an amount equivalent to the proportion of the 2016 budget allocated to social protection. Prior to this, the Government spent K1.6 million in 2013, on fuel subsidies which was unbudgeted for at the expense of

other important budget lines such as drugs and medical supplies. In 2016, the accumulation of fuel arrears amounted to K3.9 billion which was equivalent to 7.0 percent of the budget for 2016. This allocation is higher than the allocation to Public Order and Safety at 3.5 percent, Environmental Protection at 0.3 percent, and social protection at 2.4 percent, of the 2016 Budget, respectively.

### **5.2.2. Costs and benefits of implementing the removal of fuel subsidies**

Your Committee notes that fuel subsidies had been one of the major contributors to the build-up of arrears in 2015 and 2016, as the Government did not always have sufficient funds for its importation. Further, fuel subsidies had benefited the well to do members of society and those largely in urban areas. Furthermore, the major challenge of liberalising procurement of fuel as was being envisaged in the 2017 Budget would have been the automatic adjustment of the pump price of fuel. In this regard, if Zambia got to a situation whereby the exchange rate was unstable, the country would experience frequent changes in the pump prices. This would have implications on the well-being of the people, particularly if the exchange rate continued to depreciate as was the case in 2015 and 2016. This is the case because the depreciation of the Kwacha directly increases the price of fuel consumed by households and indirectly increases the prices of goods and services using fuel as an input.

Conversely, this situation might be different if the Kwacha appreciated considerably or the International oil prices dropped; in which case, the price might reduce on the local market. In addition, the removal of fuel subsidies may lead to an increase in the prices of essential commodities which would adversely affect the lives of the ordinary poor Zambians.

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

After carefully studying the submissions from the various stakeholders, your Committee makes the observations and recommendations set out hereunder.

#### **5.2.3.1. Gradual removal of subsidies**

Your Committee observes that the Government has made a decision to remove fuel subsidies. It is of the view that given the prevailing economic conditions in the country, the decision to remove subsidies is timely. It notes that fuel subsidies have both been inefficient and inequitable. They encouraged overconsumption of fuel, delayed the adoption of energy-efficient technologies, and crowded-out high-priority public spending, including on social protection. In addition to the mining sector, fuel subsidies also tend to benefit higher income groups who tend to consume more fuel and electricity. The 2014 Energy Sector Report by the Energy Regulation Board (ERB) indicated that on average, the mining and retail sector together consumed over 70.0 percent of the petroleum products.

Your Committee is, however, also aware that a one-off removal of the subsidies may have adverse consequences on the lives of ordinary poor people through direct increase of petroleum products for cooking and lighting and indirectly, through increased prices of essential goods and services.

In this regard, your Committee recommends that the Government should cautiously implement the removal of subsidies by ensuring that maximum benefits accrue to the country without adversely affecting the poor.

### **5.2.3.2. Monitor the activities of the private sector**

Your Committee observes that the Government intends to allow the participation of the private sector in the procurement of petroleum products. However, your Committee is worried that if not properly regulated, the private sector may increase the pump prices of fuel beyond the reach of the ordinary Zambians because of their inherent profit maximisation motive. Further, your Committee is worried that the private sector may not be able to build an efficient distribution network to ensure that fuel reaches all parts of the country including the remote areas.

In this regard, your Committee recommends that there is need to ensure that the Energy Regulation Board becomes well positioned to monitor fuel prices charged by the private sector suppliers and their plans to expand the distribution network as the Government disengages from the procurement of fuel.

### **5.2.3.3. Scale-up social protection programmes**

Your Committee observes that the removal of fuel subsidies will admittedly have adverse effects on the lives of the poor people and those who live in the urban areas and depend on fuel for lighting and use public transport.

In this regard, your Committee recommends that in order to appropriately deal with challenges of poverty, the Government should scale-up social protection programmes from the accrued savings from the removal of subsidies. These social protection programmes include *social cash transfers, food security packs, women's development programmes and home grown feeding programmes in schools.*

### **5.2.3.4. Review the benefits of Indeni**

Your Committee observes that the cost of petroleum products in Zambia is generally high. This can be attributed in part, to high taxes and to the structural design of Indeni which refines comingled crude feedstock. According to experts, this structural problem, coupled with the long distance from the coast, was primarily responsible for the high cost of fuel in Zambia.

In addition, your Committee is aware that a new refinery purely based on Zambia's petroleum needs, might be too small to compete with efficient new refineries coming on-stream around the world.

In the light of the structural design problems of Indeni and the worldwide transition towards large-scale and more efficient oil refineries, your Committee recommends that the Government should review the benefits of continuing to operate Indeni Refinery in Zambia.

### **5.2.3.5. Enhance transparency in national fuel procurement**

Your Committee observes that there is limited transparency in the national fuel procurement process. Increasing the availability and transparency of energy subsidy data was essential in overcoming some of the challenges related to reform. The supply of fuel in Zambia is fraught with inefficiencies and if resolved can reduce the cost of supply and prices.

In this regard, your Committee recommends that the national procurement process should be more transparent.

### **5.3. Implementation of Electricity Subsidies**

Your Committee was informed that the electricity sub-sector was dominated by ZESCO Limited, a state-owned company owning the major electricity generation, transmission, distribution and supply infrastructure in the country. Other players in the market included the Copperbelt Energy Corporation Plc (CEC), Kariba North Bank Power Extension Corporation Limited (KNBE), Lunsemfwa Hydro Power Company Limited (LHPC), Maamba Collieries Limited (MCL), Itezhi-Tezhi Power Company Limited (ITPC), Ndola Energy Power Company Limited (NECL), North-Western Energy Corporation Limited (NWEC) and Zengamina Power Limited (ZPL).

Your Committee was informed that the major form of electricity subsidies could be explained from the tariff structure that had prevailed over the years. During the first and second Republics, the Government had a policy of providing cheap electricity which was viewed as a driver of economic activities. In this regard, the Government provided resources to support the maintenance and expansion of ZESCO's assets. However, it had not given much attention to the low and uneconomic tariffs because demand for electricity was low, resulting in surplus generation. Low electricity demand was, in part, due to low economic activity.

There was a turn-around in the economy after the liberalisation of the economy and the country experienced rapid increase in the demand for electricity and the country moved from a position of being an electricity surplus producer to a deficit position. In line with the liberal policies of the Government at the time, the Government discontinued subsidising the sector but failed to allow ZESCO to liberalise its tariffs, making it difficult for ZESCO Ltd to raise its own funds for the maintenance and expansion of its assets.

#### **5.3.1. Cost of Service Study**

Your Committee was informed that the Energy Regulation Board (ERB) commissioned a Cost of Service Study (CoSS) in 2007. The Report recommended a migration towards a cost reflective tariff. A multi-year tariff application was, therefore, approved by the Energy Regulation Board in 2007, that was aimed at ensuring that the ZESCO tariff was hiked to the recommended levels. Regrettably, adjustments had not been consistent over the years and as such, ZESCO tariffs had not been increased to the recommended level. By 2015, the average tariff still stood at 6c/kwh.

#### **5.3.2. Mining companies electricity tariffs**

Your Committee was informed that the bulk of ZESCO's revenue came from non-retail customers who were mainly mining companies. The electricity tariffs for these companies were governed by the power purchase agreements. These power purchasing agreements giving generously low and uneconomic tariffs were part of the broad incentives by the Government at the time to attract investment and, therefore, could not be easily adjusted. Each company had a cost of supply agreement with the Government specifying the price that it would pay, but there was limited transparency as to how much each of the mines was paying.

Attempts to migrate these mining companies to cost reflective tariffs have been challenged in the courts of law. As long as the tariff differential existed, the Government would continue to meet the cost of the difference in the tariffs through a subsidy.

### **5.3.3. Emergency power imports**

Your Committee was informed that the cost of the subsidy had substantially increased with reduced power generation from the Kariba Hydro Power Plant following low water levels caused by inadequate rainfall. At present, approximately 95.0 percent of generation capacity was linked to hydropower plants; hence the electricity supply was heavily dependent on water. The overdependence of the sector on water put the country at risk in the event of drought as was evidenced in 1991 and 1992 when low water levels reduced generation. Regrettably, the country has had to face the similar situation in 2015 and 2016.

In order to moderate the effect of the shortfall in electricity generation and sustain economic growth, the Government undertook to import emergency power from within the region. The importation of power, however, had been at a high cost, when compared to the tariffs being charged by the electricity utility company, ZESCO Limited. Consumers were charged an average tariff of US Cents 6/kwh while the importation cost ranged between US Cents 14/kwh to US Cents 18.4/kwh. Under these agreements, the Government was meeting the bulk of the power import bill. The power purchase agreements that ZESCO Limited had entered into for the purpose of importing emergency power are shown hereunder.

- a. ZESCO-Aggreko for the supply of 148MW of electricity at a generation tariff of about US Cents 18.43 per kilowatt-hour from September, 2015, to December, 2016.
- b. ZESCO-EDM of Mozambique for the supply of up to 150 MW of power at US Cent 14 per kilowatt-hour from January, 2016, to December, 2017.
- c. ZESCO-Eskom of South Africa for the supply of between 50MW to 300MW of emergency power at a tariff range of US Cents 5.00 to US cents 16.26 per kilowatt-hour from February, 2016, to March, 2017.
- d. ZESCO-KARPower for the supply of 100MW of electricity at a generation tariff of about US Cents 16.7 per kilowatt-hour from February 2016, to December, 2016.

### **5.3.4. Low investment in power generation**

Your Committee was informed that the lack of cost-recovery from tariffs paid by mining and non-mining customers, along with other problems in the power sector, had resulted in low investment in generation. Prior to the 360MW Kariba North Bank Extension that was completed in 2015, the last plant to be commissioned was the Kariba North Bank in 1977.

### **5.3.5. Budgetary implications of the electricity subsidies**

Your Committee was informed that Zambia was considered to have the lowest electricity tariffs in the region, a situation that had discouraged private sector investment in the sector. Lack of investment in power generation infrastructure coupled with drought weather conditions experienced in the region in recent years, had resulted in significant power shortages, prompting the Government to embark on the importation of emergency power to sustain the country's economic activities. In 2015, the Government spent over K364.5 million for emergency electricity imports. The expenditure, which was unbudgeted for, was expected to be around K1.3 billion by end-2016 thereby significantly contributing to the projected

fiscal deficit in 2016. In addition, about K662 million had been provided for electricity subsidies in the 2017 budget.

From 2012 to-date, the Government had spent an average of K550 million on ZESCO power rehabilitation activities. The Government spent money on financing ZESCO's investment cost when ZESCO could have raised its own funding through a cost reflective tariff. The money the Government was expending could be used on other needy areas such as education and health.

### **5.3.6. Cost and benefits of the removal of subsidies**

Your Committee was informed that Zambians, especially those living in the rural areas, had limited access to electricity. The 2015 Living Conditions Household Survey revealed that only 31.4 percent of households were connected to the national grid, but this was dominated by households in urban areas with 67.3 percent of them connected to the grid while only 4.4 percent of rural households were connected. Apart from discouraging investment in the electricity sector, subsidy-supported low electricity prices accrued to richer segments of the urban population at the expense of connecting more poor households to the grid. Hence, the move to achieve cost reflective tariffs meant that energy poverty, a situation whereby household lack access to clean energy, would be perpetuated. The policy of achieving universal access to clean energy in Zambia would be undermined as electricity access would only be to a few.

Zambia was said to have cheaper electricity tariffs compared to many other countries in the region and yet electricity was locally perceived to be expensive. This was so because electricity pricing was benchmarked against the United States Dollar. The implication of this was that although the cost of service could be fixed at 7c/kwh, this was not the case in Kwacha terms because the country's currency had been depreciating overtime. Therefore, each time the currency depreciated, there was a corresponding need for more Kwacha to meet the fixed Dollar rate. The loss in the purchasing power of the Zambian currency had a major impact on the cost of the pricing of electricity in Zambia. The removal of subsidies, therefore, meant that households that were connected, mainly in urban areas, would experience an increased cost of living due to the increase in electricity tariffs. Households would therefore substitute the consumption of electricity with biomass fuels such as charcoal. In addition, the increase in electricity tariffs may have an effect on the cost of goods and services as it is one of the major inputs in production.

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

After carefully studying the submissions from the various stakeholders, your Committee observes and recommends as set out hereunder.

#### ***5.3.7.1 Cushion the adverse effects of the removal of electricity subsidies***

Your Committee observes that the one-off removal of subsidies will have adverse effects on the lives of ordinary Zambians particularly the poor people who have access to electricity. The removal of tariffs may also lead to high costs of production translating into increases in the cost of goods and services.

In view of the recent removal of subsidies, your Committee recommends that the Government should put in place measures to protect the poor and vulnerable such as

maintaining a lifeline tariff of electricity and enhancing various social protection interventions like social cash transfer, the school feeding programme and increasing budgetary allocation to payment of benefits to pensioners.

#### ***5.3.7.2 Expedite the process of the cost of service study***

Your Committee observes that the findings of the cost of service study will be important in determining what the cost reflective tariff is in Zambia. Regrettably, this process has taken longer than is necessary raising concerns as to the basis that ZESCO Limited is using to request for an upward adjustment of tariffs. As long as the findings of the study are not known, it may be unfair to ask consumers to pay a little more than they are paying as a way of migrating to cost reflective tariffs.

In light of the above, your Committee recommends that the Government should expedite the process of undertaking the cost of service study. The study will allay fears by some sections of society that increasing tariffs will make consumers pay for some of the inefficiencies of ZESCO Limited.

#### ***5.3.7.3. Reviewing the operations of ZESCO Limited***

Your Committee observes that the Minister responsible for finance has announced plans to review the operations of ZESCO Limited which should ensure that operational inefficiencies are addressed.

Your Committee, therefore, urges the Government to expedite the review of the operations of ZESCO Limited.

#### ***5.3.7.4. Promote alternative sources of energy***

Your Committee observes that the country has been facing serious challenges of load-shedding partly exacerbated by poor practices such as leaving the lights and appliances on when not in use, and use of energy inefficient appliances and incandescent light bulbs.

In this regard, your Committee recommends that the Government should mount a robust campaign to educate people on energy efficient measures of using electricity such as switching off lights when they are not in use and replacing inefficient incandescent light bulbs with more efficient alternatives such as compact fluorescent lamps (CFLs). The Government should also implement a programme to migrate cooking and heating services to alternative energy sources like Liquefied Petroleum Gas (LPG) and solar. The use of LPG should be promoted in Zambia through incentivising supply, widening distributional channels, as well as, sensitising consumers of the benefits and safety measures.

#### ***5.3.7.5 Enhance access to transmission lines***

Your Committee observes that currently, independent power producers have to sell their power to ZESCO Limited even if they wanted to sell power to another company. This is because ZESCO Limited has monopoly over transmission and distribution lines.

In this regard, your Committee recommends that the Government should expedite reforms in the sector aimed at creating an established electricity trading market where players are freely

able to buy and sell electricity. Access to transmission lines with non-discriminatory rules and regulations governing the operation of the open access regime would inspire confidence in all the players that they would receive fair treatment. Independent Power Producers should be able to sell power directly to another company by paying ZESCO Limited a wheeling fee to transmit power.

#### **5.4. Implementation of Agriculture Subsidies**

Your Committee was informed that in 2002, the *Fertilizer Support Programme (FSP)* was established to provide inorganic fertilizer and hybrid seed to selected beneficiary farmers. The programme was administered through farmer cooperatives and was not voucher based as a number of private sector firms were contracted to import and supply inputs to participating farmer cooperatives. In 2009, the FSP was renamed as the *Farmer Input Support Programme (FISP)*, which continues to run to the present day. The major policy shifts under FISP included the reduction from eight to four bags of fertilizer per beneficiary farmer and inclusion of other crops which raised the number of beneficiaries. The FISP distribution system, objectives and eligibility criteria remained relatively unchanged compared to that of FSP, with the main exception being that the minimum capacity for maize cultivation was reduced from 1 hectare to 0.5 hectare.

In addition to FISP, during the 2002/03 crop marketing season, the Food Reserve Agency (FRA) was established with a view to ensuring national food security. The mandate of the FRA is to maintain strategic reserves and to be a buyer of last resort. The reserves held by FRA had been used as a buffer stock to cushion grain price variability and to provide liquidity in the grain market. Over the years, the FRA had engaged more actively in the market by purchasing quantities of maize far exceeding its prescribed target to be held as strategic food reserves.

##### **5.4.1. Budgetary implications of the agriculture subsidies**

Your Committee was informed that the costs of implementing FISP had been escalating since 2012. In 2012, the Government allocated K500 million for FISP, but spent K340 million over and above the allocation. The trend continued overtime leading to the over-expenditure of K780 million in 2013 and K956 million in 2014 contributing to the growing fiscal deficit. One explanation given for the high expenditure was that the cost of inputs increased with the depreciation of the kwacha given that the bulk of inputs were imported.

According to the submission by the Ministry of Agriculture, from 2014 to 2016, the majority of the resources allocated to the Ministry of Agriculture went towards Personal Emoluments (PEs), FISP and purchase of strategic food reserves through the Food Reserve Agency (FRA). The allocation to FISP and FRA as a percentage of the total Ministry budget in 2014, accounted for 49.9 percent and in 2015 it accounted for 56.7 percent. In 2016, it accounted for 73.6 percent while in 2017 it accounted for 69.9 percent. Other key programmes such as Research and Development (R&D) and the provision of extension services combined were only allocated 2.8 percent in 2014, 1.0 percent in 2015 and 2.9 percent in 2016.

In 2013, the amount released for the FRA was nearly four times higher than the budgeted amount. The immediate implications of these budgetary discrepancies included resources being drawn from core activities and directed towards supplementing subsidy budgets. Ultimately, the implications on these core activities would be receipt of less funding than was

allocated initially, thereby affecting their efficiency and effectiveness in meeting planned objectives for the year.

Your Committee notes that the disparities between approved estimates and actual releases suggested that the agricultural budget only offered a rough guide of spending priorities. The total amounts spent on FISP and FRA between 2013 and 2016, was more than K10.4 billion. (The releases in 2016 were for the first ten months of the year). Although no research had been done to establish the right size of the FISP, your Committee was advised that the current FISP size was on a higher side.

Furthermore, the facilitation of the subsidies had put at risk the maintenance of foreign exchange reserves because the importation of fuel and electricity and the procurement of some of the inputs for the agricultural subsidy required payment to be undertaken in foreign currency.

#### 5.4.2. Costs and benefits of the FISP and FRA subsidies

The costs and benefits of FISP and FRA as summarised below.

##### 5.4.2.1 Farmer Input Supply Programme

Your Committee was informed that the increase in the number of beneficiary farmers had improved access to affordable agricultural inputs by small-scale farmers. Table 2 below shows the increase in number of beneficiaries from 120, 000 in 2002/2003 season to 1,000,000 in the 2014/2015 season.

Table 2: FISP Beneficiaries

Agriculture Season	Quantity of Fertiliser (MT)	No. of beneficiaries
2002/2003	48,000.00	120,000
2013/2014	188,311.60	900,000
2014/2015	208,235.75	1,000,000
2015/2016	208,235.75	1,000,000

Source: Ministry of Agriculture

Maize production increased from 601, 606 metric tonnes in the 2002/03 agriculture season when FISP commenced to 2,873,052 MT in the 2015/16 agriculture season (See Table 3).

Table 3: Maize Production Trends for the previous three (3) Agriculture Seasons

Agriculture Season	Expected Production (MT)	Yield Rate (MT/Ha)
2002/2003	601,606	1.05
2013/2014	3,350,671	2.36
2014/2015	2,618,221	1.75
2015/2016	2,873,052	2.10

Source: Ministry of Agriculture

In addition to an increase in maize production, the area planted and area harvested had also increased as more fertilizer had been distributed to a larger number of beneficiary farmers

during the subsidy period. As a result, the provision of subsidised inputs to farmers through FISP had contributed significantly to an increase in maize production over the years. Further, the programme had undergone several reviews that had seen the introduction of other crops such as groundnuts, sorghum, cotton, soya beans and common beans in an effort to promote agricultural diversification.

Your Committee was informed that the increase in maize production during the fertilizer subsidy period had been achieved at a huge cost to the Treasury. In terms of agricultural productivity, the traditional FISP failed to take into account the variability of soil fertility and climatic conditions in the country. The implementation of FISP had resulted in significant increases in area planted for maize over the years at the expense of other crops such as rice, groundnuts, cotton, mixed beans, virginia and burley tobacco. This had negatively impacted crop diversification.

#### **5.4.2.2. *The Food Reserve Agency***

Your Committee was informed that maize purchased through FRA had contributed to safeguarding national food security and had also contributed to price stability of maize and mealie meal for consumers. In addition, the maize prices set by the Agency had over the years proved attractive, especially in outlying areas where the private sector did not reach, which had acted as a stimulus for economic activity in outlying areas. Therefore, farmers had responded to an increase in the FRA price by increasing maize production.

Your Committee was informed that although maize prices had benefited large-scale farmers and a small number of relatively better off small-holders who sell to FRA, the increase in mealie meal prices had affected both rural and urban consumers and small-holder farmers who are net buyers of maize. FRA's activities had also largely impacted negatively on private sector participation in maize marketing. The purchase prices by the FRA which had usually exceeded market prices had driven some private actors out of the market. Further, the FRA had purchased the bulk of the maize on the market dampening demand for traders or commercial farmers as the commercial mills lobby for subsidised maize from FRA. This move by the FRA had reduced competition in the wholesaling sector and concentrated the maize supply chain around a Government-led marketing system. Furthermore, the FRA's selling of maize at subsidised prices to commercial millers later in the year did not only give comparative advantage to millers that access subsidised maize, but also created price uncertainty in the maize market. These factors had been discouraging the commercial farming sector from producing maize.

The studies by IAPRI show that in 2011, FRA bought maize from farmers at \$270 per MT and sold it to millers at \$180 per MT resulting in a 50.0 percent loss to the Government. In 2013, according to the Ministry of Agriculture, the FRA was buying maize at K65 per 50kg bag and selling to millers by less than K5 the purchase price.

#### **5.4.3. E-voucher implementation and reforms**

Your Committee was informed that the Ministry of Agriculture launched the e-voucher pilot project in thirteen (13) districts during the 2015/16 agricultural season with an initial target of 241, 000 beneficiary farmers. A total of 241,695 cards were produced and 234,643 were distributed to selected and verified beneficiaries, representing 97.1 percent of the targeted number. The over 7,000 cards not distributed were due to a number of reasons, among them

the use of names of deceased farmers, non-existing farmers, relocations and religious beliefs against the use of VISA cards among some community members.

Your Committee was informed that from the FISP e-voucher baseline survey conducted by the Zambia National Farmers Union (ZNFU) and the Indaba Policy Research Institute (IAPRI) in 2015, it was established that the Pilot contributed to increasing private sector participation in input distribution to the farmers. It was also observed that agro dealers in the pilot districts stocked a diverse range of inputs in their shops and farmers were able to access inputs of choice on time and in nearby agro-dealer shops.

Following the successes that were posted in the pilot phase, the Government had since scaled-up the e-voucher programme to thirty-nine (39) districts extending to all provinces during the 2016/2017 agricultural season and targeting a total of 602,521 farmers. The e-voucher had enabled farmers to practice crop diversification and improve management practices by widening the range of inputs farmers were able to purchase. However, the implementation of the e-voucher system, especially after the roll-out, had also experienced challenges such as delayed delivery and activation of e-cards; rising fertilizer prices due to the depreciation of the Kwacha; farmers surrendering non-activated e-cards to agro dealers to access inputs in advance, this led to some farmers losing out as some agro-dealers redeemed the cards in the absence of farmers and proximity to participating commercial banks.

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

After carefully studying the submissions from the various stakeholders, your Committee makes observations and recommendations set out hereunder.

##### **5.4.4.1. Restructure FISP**

Your Committee observes that despite its shortcomings, FISP had been acting as a safety-net for a good number of farmers. Removing FISP completely would, therefore, be detrimental to poverty alleviation efforts of the country. Further, FISP had also been contributing to the bumper harvest that the country had enjoyed in the recent past. It's discontinuation without replacing it with another form of farmer support intervention could have adverse impact on the food security of the country. This notwithstanding, there was an urgent need to restructure FISP in order to realise the set objectives and have a marked dent on poverty reduction.

In light of the above, your Committee recommends that the Government should redesign FISP to suit the various categories of beneficiaries. Those who will need to be supported by the *Cash Transfer* should be migrated to it and those who need to be weaned off, appropriate programmes should be introduced to facilitate the weaning off. FISP should then be reconfigured in such a way that beneficiaries are provided with sufficient inputs to enable them grow and stand on their own.

##### **5.4.4.2. Review the beneficiaries of the FISP**

Your Committee observes that the provision of inputs under the FISP had been uniform across all target beneficiaries. While research has shown that targeted beneficiaries were not at the same level of productivity, the application of the subsidy has not taken into account the capacity of the beneficiary farmers.

Your Committee recommends that the Government should undertake a thorough audit of the beneficiaries to determine their wealth status. This exercise will assist Government to determine the nature of support that should be given to various categories of farmers; and should establish who the right candidates for FISP are. Those who may not be the right candidates for FISP should be targeted for other social protection programmes such as the *Cash Transfer Programmes* and the *Food Security Pack*, among others. Those who will be ready to graduate out of these programmes should be moved to suitable programmes meant for emergent farmers.

#### **5.4.4.3. Roll-out of the e-voucher**

Your Committee observes that studies suggest that implementing input subsidies through the e-voucher system can effectively address many of the problems that are facing the traditional FISP. The policy pronouncement that FISP will be provided through the e-voucher system in the 2017-18 farming season is essential to cut down on wastage associated with the traditional FISP. FISP had been maize centred, thereby, undermining Zambia's ability to diversify to achieve sustainable and inclusive agricultural growth as well as to become the region's food basket. The benefits of FISP had accrued mostly to the larger and relatively already well-off households with very limited impact on yields and poverty reduction. Consequently, rural poverty had remained high at above 75 percent for over two decades. It observes that the e-voucher would promote agricultural diversification; promote effective targeting; ensure timely access to inputs by smallholder farmers; and help minimise administrative burden and costs, thereby reducing direct Government involvement in input procurement, importation and in-country distribution.

In light of the above, your Committee recommends that the Government should fully roll-out the e-voucher system to all parts of Zambia and closely monitor its implementation especially in remote areas.

#### **5.4.4.4. Sensitisation of the key stakeholders on the e-voucher**

Your Committee observes that some of the stakeholders are still apprehensive about the importance of the e-voucher system in the implementation of FISP. This has led to the e-voucher facing a lot of resistance within the system.

In this regard, your Committee recommends that the Government must mount a robust sensitisation campaign on the importance of migrating from the conventional FISP to the e-voucher type of FISP clearly highlighting the savings that will accrue to the Treasury and attendant benefits such as crop diversification and effective targeting.

#### **5.4.4.5. Review the role of the Food Reserve Agency**

Your Committee observes that the FRA was established to be a buyer of last resort and to purchase strategic food reserves. It is concerned that FRA's mandate has grown over time to include purchasing crops beyond the required amounts and has actively been engaged in the market thereby crowding out the private sector.

In light of the above, your Committee recommends that the FRA should seek to facilitate market growth and make every effort to leverage private sector investments. In addition, it

recommends that the FRA's role should be limited to its legislated mandate of purchasing strategic reserves, and should stick to modest prescribed quantities and areas of purchase.

#### **5.4.4.6. Clearing the arrears for both FISP and FRA**

Your Committee observes that the Government has been carrying over arrears pertaining to FISP and FRA.

In this regard, your Committee recommends that in the short-term the Government should focus on clearing the arrears attributed to the FISP and FRA. That is because farming needs to be treated like a business by the Government and efforts are needed to ensure that the FRA pays farmers on time for them to prepare and invest in the next season.

#### **5.4.4.7. Promote other drivers of agriculture growth**

Your Committee observes that there is more focus on FISP and FRA at the exclusion of other key programmes. Spending on FRA and FISP has been done at the expense of broad based expenditure on key drivers of agricultural growth such as rural infrastructure, roads, rail, and telecommunication; agricultural research and development; market information; irrigation; and institutions that foster the development of effective markets and complementary services such as agricultural extension and credit.

Your Committee recommends that in addition to reforming the FISP and FRA, the Government should promote key programmes such as research, extension services and increase investments in irrigation.

## **PART II**

### **6.0. FISCAL DECENTRALISATION AND THE BUDGET PROCESS IN ZAMBIA IN LIGHT OF THE AMENDED CONSTITUTION**

Your Committee resolved to study *fiscal decentralisation and the budget process* during the First Session of the Twelfth National Assembly. The decision to undertake the study was inspired by the provisions in the *amended Constitution of Zambia* regarding the devolved system of governance. One such provision in the Constitution is Article 147 (1) which states that: *'the management and administration of the political, social, legal and economic affairs of the State shall be devolved from the national government level to the local government level'*. The study was also informed by the Revised National Decentralisation Policy which stipulates in policy measure 6.1.2.3 that: *'The Government shall decentralise with matching resources, some of its functions to the district, which shall perform these functions through democratically elected councils. The councils will raise part of their own revenue and receive grants from central treasury and line ministries to perform the devolved functions'*. These provisions have been re-enforced by objectives (c) and (d) of *National Planning and Budgeting Policy*; which are to: *'facilitate more participatory and decentralised development planning and budgeting processes'* and *'to enhance budget credibility'*, respectively.

Your Committee notes that the provisions highlighted above call for a shift in the budget process from being completely driven by Central Government to devolution of certain functions to local authorities and entrench the consultative process. With these new provisions in place, it is anticipated that the consultative process with the key stakeholders

will be clearly outlined, giving the time lines for consultations and publication of necessary budgetary information. The link between Central Government and local government would be clearly outlined thereby avoiding duplication and conflict of responsibilities.

In light of the above, your Committee resolved to study *'fiscal decentralisation and budget processes in Zambia in light of the Constitutional amendments.'* The objectives of the study were to:

- a. appreciate the budget process in Zambia in light of the amended Constitution;
- b. get an update regarding the progress towards fiscal decentralisation;
- c. appreciate the relationship between local government and Central Government in the budget process;
- d. explore the relevance of a separate legal framework to govern the budget process; and
- e. recommend the way forward.

In order to understand this important subject, your Committee invited the following key witnesses:

- i. Ministry of Finance (MOF);
- ii. World Bank;
- iii. University of Zambia (UNZA);
- iv. Policy Monitoring and Research Centre (PMRC);
- v. Zambia Institute for Policy Analysis and Research (ZIPAR);
- vi. Economics Association of Zambia (EAZ); and
- vii. Civil Society for Poverty Reduction (CSPR).

The findings of your Committee are summarised hereunder.

### **6.1. Decentralisation in Zambia**

Your Committee was informed that the Government of the Republic of Zambia embarked on the Public Service Reform Programme (PSRP) in 1993, to redress the declining standards of public services at both central and local government levels. The programme comprised three main components, namely: the restructuring of the Public Service; improvement of human resource management; and the decentralisation of the Local Government System. As part of the efforts to strengthen the Local Government System, the Government adopted and launched the National Decentralisation Policy in 2002 and 2004, respectively. The Policy went under review in 2013. Through this Policy, the Government intended to make the Local Government System more efficient and responsive to local demands by devolving some functions, authority and resources currently under the Central Government to Local Government.

### **6.2. Fiscal decentralisation and the budget process in Zambia**

Your Committee was informed that fiscal decentralisation referred to the division of fiscal responsibilities between central government and sub-national governments. It involved the transfer of expenditure and revenue roles and responsibilities from central government to lower levels of government with a view to creating an optimal fiscal environment that allowed both central and sub-national governments to provide public goods and services in line with the subsidiarity principle. The subsidiarity principle basically states that nothing

should be done by a larger and more complex organisation which can be well undertaken by a smaller and simpler organisation. Without appropriate fiscal empowerment, the autonomy of sub-national governments cannot be sustained and, in this way, the full potential of decentralisation may not be realised.

Your Committee was informed that the *Constitution (Amendment) Act No. 2 of 2016* provides for a system of devolved governance under a two tier level of Government, which is national and local government. It establishes the autonomy of each level of Government and spells out the concurrent and exclusive functions of the national, provincial and local government. These constitutional provisions are supported by *the Local Government Act* and the *Decentralisation Policy*, which among other things, provide for local authorities' financing arrangements and the institutional framework for decentralisation.

### **6.3. Intergovernmental Fiscal Architecture relations**

Your Committee was informed that the successful implementation of the *National Decentralisation Policy* would require a comprehensive Intergovernmental Fiscal Architecture (IFA) in order to provide a stable, predictable, and transparent fiscal framework. The IFA framework is essential to guide, match and integrate the allocation of expenditure functions, the assignment of revenue resources, the design of intergovernmental fiscal transfer system and the framework for local level borrowing and debt management. The ultimate objective is to promote responsive and accountable governance and improve the equitable, efficient and accountable delivery of public services. The IFA in Zambia focused on the four pillars of fiscal decentralisation as the key building blocks. These are the:

- a. identification of the local level *expenditure assignment*;
- b. assignment of local revenue sources;
- c. operationalisation of the central-local intergovernmental *transfer system*; and
- d. framework to guide local government *borrowing and debt management*.

These four pillars are discussed in turn hereunder.

#### **6.3.1. Expenditure assignment**

Your Committee was informed that the expenditure assignment entailed identifying who does what, that is, Central Government or local authorities, in terms of expenditure functions. The functions to be devolved are clearly outlined in *Annex II of the Constitution of Zambia* which is at Appendix II of the Report.

#### **6.3.2. Revenue assignment**

Your Committee was informed that revenue assignment entailed identifying the revenue sources for each tier of the Government to support the execution of the respective expenditure responsibilities. The assignment of revenue responsibilities should be done in a manner that did not erode the Central Government's fiscal role of redistribution and fostering macroeconomic stability. This notwithstanding, most of the councils in Zambia had a limited revenue base and mainly relied on land rates, property rates and valuations to raise revenues. However, these rates had been eroded by inflation over time due to lack of regular adjustments in keeping with changing economic fundamentals.

In this regard, efforts were being made to review the *Rating Act*. Further, the *Valuation Roll* would also be revised to modify its implementation with a focus on conducting mass valuations as opposed to valuing one property at a time. A committee spearheaded by Cabinet Office had been formed to consider these issues.

### **6.3.3. Transfers**

Your Committee was informed that transfers were grants from Central Government to local authorities aimed at addressing financial imbalances across the tiers of Government and were determined through the annual budget process. These grants could take the form of *conditional* or *unconditional grants* and equalisation grants.

Your Committee was informed that the Local Government Equalisation Fund (LGEF) in Zambia forms the principal grant to local authorities. The LGEF was meant to supplement financing of Councils for the performance of their expenditure functions. The level of the grant given to each Council was dependent on the population residing within the jurisdiction of each Council, adjusted by poverty levels thereby ensuring an equitable allocation of funds across Councils.

Your Committee was informed that the Local Government Equalisation Fund had been actualised through *the Local Government Amendment Act No. 12 of 2014* and was enshrined in Article 163 of the Republican Constitution. The *Local Government Equalisation Fund* provides for the appropriation by Parliament of not less than 5.0 percent of the total amount projected to be collected as income taxes for the Republic for that financial year to support local governments and service delivery at the local level.

### **6.3.4. Borrowing authority**

Your Committee was informed that the common approaches to controlling borrowing by sub-national governments included prudential borrowing by sub-national governments contingent on capital markets' willingness to provide financing. This would be after assessing the local authority's credit worthiness. The other approach was through the enforcement of borrowing limits either through legislation or any other feasible means. For developing countries like Zambia, satisfactory results were more likely to be achieved through the second approach which is based on Central Government control because of the following:

- a. the capital market is not fully developed to guarantee prudential lending to local authorities;
- b. moral hazard questions associated with an easier way of raising financing would arise, at the expense of strengthening own revenue mobilisation efforts;
- c. some forms of debt accumulated by local authorities were not necessarily through direct borrowing, but through failure to meet certain financial obligations such as non-payment of statutory and contractual obligations; and
- d. Central Government's scope to handle the fiscal risks associated with uncontrolled borrowing by local authorities was limited.

In light of the above, local authorities in Zambia were currently not allowed to contract external debt due to its overarching implications on the country's macroeconomic variables. They were, however, allowed to contract domestic debt in form of goods and services. This had led to the accumulation of domestic arrears, over the years, which had culminated into

heavily indebted councils. Local authorities were highly indebted in-terms of unpaid salary arrears before harmonisation of salaries and conditions of service; and the statutory commitments such as contributions to the National Pension Scheme Authority, Local Authority Superannuation Fund and the Zambia Revenue Authority.

In order to prevent the situation from deteriorating further, the Government had been providing a restructuring grant to councils, which was aimed at clearing retirement and retrenchment packages and arrears to suppliers of goods and services and statutory obligations such as Pay-As-You-Earn and pension contributions. These efforts were necessary for the restoration of the credit worthiness of councils and the subsequent enhancement of their financial capacity, which would enable effective execution of the devolved functions.

#### **6.4. Planning and budgeting**

Your Committee was informed that the *Planning and Budgeting Policy* was already in place and the Treasury intended to table the *Planning and Budgeting Bill* during the First Session of the Twelfth National Assembly. The enactment of the *Planning and Budgeting Bill* would enable integration of national planning and annual budgeting processes with greater results orientation. It would also facilitate more participatory and decentralised development planning and budgeting, strengthen the National Assembly's oversight over the allocation and use of public finances, enhance budget credibility and strengthen accountability.

Currently, the Government prepared and presented the national budget annually to Parliament for approval. The annual budget preparation starts in the first quarter of each year with the preparation of the *Medium-Term Expenditure Framework (MTEF)*, which is driven by the National Development Plan. A concept paper was prepared whose purpose was to seek guidance from Cabinet on developmental issues and budget principles that required attention over the medium-term. After Cabinet approved the concept paper, a Green Paper was prepared and the various stakeholders were consulted in the process. The Green Paper is a consultative document drawn from the macroeconomic and fiscal frameworks, outlining Government's development objectives in a three year horizon. Once the MTEF was prepared and approved by Cabinet, ceilings on revenues and expenditures were published and an invitation was sent for submissions of tax and expenditure proposals from all the stakeholders to be considered in the national budget.

#### **6.5. Bench-Marking Visit to Ghana on Fiscal Decentralisation**

Your Committee undertook a study visit to Ghana from 11<sup>th</sup> to 19<sup>th</sup> March, 2017, in line with the topical subject '*fiscal decentralisation and the budget process.*' The study was undertaken under the auspices of the European Union Support to the National Assembly of Zambia Project. The objective of the study was to accord your Committee an opportunity to learn from Ghana's budget process in a decentralised system of governance. Your Committee interacted with the Finance Committee of the Parliament of Ghana, Ministry of Finance of the Republic of Ghana, Ghana Revenue Authority (GRA), Institute of Fiscal Studies (IFS), and the Audit Service of Ghana. The findings of your Committee are summarised below.

##### **6.5.1. Comprehensive Public Financial Management Legislation**

Your Committee learnt that Ghana has a comprehensive public financial management piece of legislation which was developed through a consultative process. The law covers a wide range of financial matters of the country including: responsibilities and roles for public financial management, macroeconomic and fiscal policies, budget preparation, approval and management, contingent fund, sinking fund, accounting and audit, cash management and public debt including borrowing by local government authorities and reporting requirements of local government authorities.

#### **6.5.2. Earmarked funds**

Your Committee learnt that Ghana has earmarked funds in the budget to agriculture, education, and health which are administered by local government authorities. In addition, a minimum of about 5 percent of the budget of Ghana is earmarked to local authorities through the District Assemblies Common Fund.

#### **6.5.3. Extent of fiscal decentralisation**

Your Committee learnt that Ghana has been implementing a decentralised system of governance with 216 district assemblies. The councils have authority to raise internal funds such as property rates, rent from property and levies. However, your Committee learnt that with regards to fiscal decentralisation, although Ghana has demarcated the fiscal functions of the local authorities, it has not yet been fully operationalised.

#### **6.5.4. Financial administration and regulations**

Your Committee learnt that the *Financial Administration and Regulations* empowers the Minister responsible for finance to not later than six months, before the end of each financial year, issue a budget circular detailing the timetable for the preparation and submission of the Government's macro-economic policy statement and budget for such period as determined by the President in accordance with Article 179 of the Country's Constitution and which is followed by all departments.

#### **6.5.5. Implementation of the Integrated Financial Management and Information System**

Your Committee learnt that Ghana has fully rolled out the Integrated Financial Management and Information System (IFMIS) which is a wholly automated budget system, and expenditure can easily be tracked.

#### **6.5.6. Submission of the Report of the Auditor-General**

Your Committee learnt that the Report of the Auditor-General on Public Accounts is submitted directly to Parliament within six (6) months after the end of the financial year. The Auditor-General is the Head of the Ghana Audit Service.

#### **6.5.7. Sector analysis of the budget**

Sector parliamentary committees consider and study in detail programme based budget documents of Ministries, Departments and Agencies (MDAs) and submit reports to the House for consideration and approval of the respective MDA's estimates.

#### **6.5.8. Finance Committee of Parliament**

Your Committee learnt that the Finance Committee of the Parliament of Ghana consists of twenty-five (25) Members. The Committee scrutinises all Bills related to finance and the economy as a whole. The Committee also scrutinises loan agreements. It monitors the foreign exchange receipts and payments in and out of Ghana through the Bank of Ghana. Whilst Committees are considering sector budgets, the Finance Committee considers the budget for Cabinet Office, Ghana Revenue Authority, Ministry of Finance and the Office of the President. The Finance Committee considers the Appropriation Bill and submits its report to the House for consideration and approval.

#### **6.5.9. Annual budget**

The Minister responsible for finance is required, in consultation with the relevant stakeholders, to prepare the proposed annual budget not later than **1st October** of each financial year, and submit the proposed annual budget to cabinet for approval not later than the **15th of October** of each financial year. Cabinet is then required, not later than the **30th of October** of each financial year, to communicate to the Minister, the decision of Cabinet on the proposed annual budget. The Minister is then required, on behalf of the President, to lay before Parliament not later than the **15th of November** of each financial year, estimates of the revenues and expenditure of the Government, the annual budget, for the following financial year.

#### **6.5.10. Budget Calendar**

The Budget Calendar presents a summary of activities to be undertaken with timelines to ensure effective coordination, finalisation and submissions of the Government's macro-economic policy statement to Parliament.

#### **6.5.11. Fiscal strategy document**

The Minister responsible for finance is required, not later than the **end of May** of each financial year, to prepare and submit to Cabinet for approval, a Fiscal Strategy Document.

#### **6.5.12. Salary negotiations for public sector**

The Minister responsible for employment in consultation with the Minister responsible for finance is required to ensure that salary and other compensation negotiations in respect of the public sector for the ensuing financial year are completed not later than the **end of April** of the current financial year.

#### **6.5.13. Guidelines for preparation of annual budget**

The Minister responsible for finance is required to circulate copies of the guidelines to each covered entity not later than the **30th of June** of every year. Covered entities referred to: (a) the Executive, Legislature and Judiciary; (b) constitutional bodies; (c) ministries, departments

agencies and local government authorities; (d) the public service; (e) autonomous agencies; and (f) statutory bodies.

#### **6.5.14. *Mid-year review***

The Minister responsible for finance is required, not later than the **31st of July** of each financial year, to prepare and submit to Parliament a mid-year fiscal policy review.

#### **6.5.15. *Debt management strategy***

The Minister responsible for finance is required, **not later than December** of the preceding year, to review the Medium-Term Debt Management Strategy and submit the strategy to Cabinet for approval.

#### **6.5.16. *Key activities prior to approval of the budget***

A post-budget workshop is organised for Members of Parliament just after the Minister of Finance has presented the budget speech to enable them gain understanding of the Budget before commencement of Parliamentary debate.

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

After carefully studying the submissions from the various stakeholders on fiscal decentralisation and the budget process including lessons learnt from the study tour to Ghana, your Committee observes and recommends as set out hereunder.

#### **6.6.1 *Enactment of the Budgeting and Planning Bill***

Your Committee observes that Zambia has been lagging behind in budgetary reforms mainly because of the absence of a robust and comprehensive piece of legislation governing the budget process.

Drawing lessons from Ghana where such a piece of legislation has been successfully enacted which gives timelines for presentation of key documents and entrenching the consultative process and provides for the establishment under Parliament of an office responsible for public financial management oversight, your Committee recommends that the Minister responsible for finance presents this important piece of legislation to Parliament as a matter of urgency. Your Committee is aware that the Government has made repeated assurances on the floor of the House regarding the presentation of this piece of legislation.

#### **6.6.2 *Expedite the implementation of Fiscal decentralisation***

Your Committee observes that the full implementation of decentralisation, and by extension fiscal decentralisation, has taken longer than is necessary. Your Committee is of the view that the preconditions, particularly the enactment of the new Constitution, for the full implementation of this process are in place. Your Committee is also aware that some works in this regard have already commenced.

In view of the above, your Committee recommends that Government should expedite the implementation of decentralisation and indeed fiscal decentralisation in line with the amended Constitution of the Republic of Zambia.

### **6.6.3 Amend the Public Finance Act**

Your Committee observes that devolved ministries or institutions will continue to be warrant holders for resources earmarked for devolved functions until otherwise notified.

In this regard, your Committee recommends that the Government should present the *Public Finance Act* for amendment in order to provide for, among other things, the appointment of Controlling Officers at District level. There is further need to ring-fence funds earmarked for devolved functions and put in place punitive measures to ensure compliance.

### **6.6.4 Revise the Intergovernmental Fiscal Architecture**

Your Committee observes that the revised Intergovernmental Fiscal Architecture (IFA) has not been approved by Cabinet. The IFA is important in guiding fiscal decentralisation in Zambia regarding the assignment of roles to local authorities. Further, your Committee observes that the budgets for councils are scrutinised and approved by the Minister responsible for Local Government and yet resources will now flow from other line ministries to councils.

In this regard, your Committee recommends that there is need to revise *the Intergovernmental Fiscal Architecture* to provide for fiscal roles of councils and to amend *the Local Government Act* to address the role of the Ministry of Local Government in the budget process for councils. Your Committee also recommends that planning and budgeting in local authorities should be aligned with the provisions of the National Planning and Budgeting Policy and the proposed budgeting and planning bill.

### **6.6.5 Amend the Local Authorities legislation and Financial Regulations**

Your Committee observes that borrowing by councils is guided by the provisions of the *Local Authorities Financial Regulations* and the *Local Government Act*.

In view of the review of the IFA, your Committee recommends that there is need to revise the *Local Authorities Financial Regulations* and to *amend the Local Government Act*. This will culminate in the design and formulation of specific borrowing regulations for councils aligned to the amended Intergovernmental Fiscal Architecture. The amended IFA should provide guidance on intergovernmental fiscal transfers, enhancement of local revenues and borrowing by Councils.

### **6.6.6 Dismantling of local authorities' debt**

Your Committee observes that most of the Councils are heavily indebted through none remittance of statutory obligations to the Zambia Revenue Authority (ZRA), National Pensions Scheme Authority (NAPSA) and the Local Authority Superannuation Fund (LASF) including huge accumulated arrears to various utility companies and suppliers of goods and services. The debt has negative implications on the effective implementation of fiscal decentralisation.

In light of the above, your Committee recommends that the Government should make adequate budgetary provision towards the dismantling of arrears and settling of debts owed by councils. The dismantling of the debt will give enough fiscal space to councils to implement key programmes of infrastructure development and provision of necessary services.

#### **6.6.7 Limited Revenue Base**

Your Committee observes that one of the major challenges facing councils is limited revenue base. This is despite most of the councils being endowed with many natural resources creating potential for local taxes. The small revenue base can, in part, be attributed to lack of progressive strategies to tap in the apparent potential such as the exclusion of some entities from paying rates on properties, particularly the newly constructed structures. Your Committee notes that one of the reasons for the failure by councils to capitalise on the booming construction industry has to do with challenges associated with the implementation of the *Ratings Act*, particularly non-updating of Valuation Rolls.

Your Committee, therefore, urges the Government, through the Ministry of Local Government and Housing, to ensure that councils become proactive in coming up with progressive strategies for broadening their revenue base. In addition, your Committee urges the review of the *Ratings Act* to facilitate regular property valuation.

### **PART III**

#### **7.0. CONSIDERATION OF THE ACTION-TAKEN REPORT ON THE REPORT OF THE COMMITTEE ON ESTIMATES FOR THE FIFTH SESSION OF THE ELEVENTH NATIONAL ASSEMBLY**

##### **7.1. Performance Based Management**

###### ***Previous Committee's Recommendation***

Your previous Committee had recommended that performance based management should be fully implemented supported by necessary legislation.

###### ***Response by the Executive***

The Government responded that on 13th January, 2016, His Excellency the President Mr. Edgar Chagwa Lungu launched the Performance Based Contract System for the Public Service. In 2014, when the last submission of the initial layman's draft Bill on Strategic and Performance Management was sent to the Ministry of Justice for consideration, it was returned to facilitate further consultations and adhere to the instruction that a consultant be hired to review the Bill. Government had been unable to find a suitable consultant to undertake the assignment. This notwithstanding, the draft layman's Bill had been redrafted and was currently undergoing consultation and would be re-submitted to the Ministry of Justice once the consultative process had been concluded and subsequently to consent for decision.

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

*Your Committee resolves to request for a progress report on the matter. Your Committee notes further that the programme to implement Performance Based Management has been ongoing for a considerable period of time. Therefore, failure to find an appropriate consultant should not be used as an excuse for failure to implement this important programme which will enhance efficiency in the public service.*

### ***Previous Committee's Recommendation***

On the same subject of performance based management, your previous Committee had recommended that there was need for political leadership in implementing performance based management in view of the strong resistance by serving Government officials. In order to ensure accountability, all public officers should be required to sign performance based contracts clearly stipulating necessary sanctions to be meted out for failure to perform.

### ***Response by the Executive***

The Government responded that Performance Based Contract System was launched by His Excellency the President Mr. Edgar Chagwa Lungu which showed the highest level of commitment from the political leadership and most Ministers had made commitments to ensure that the system was rolled out within their ministries and agencies. During the launch, His Excellency the President directed that the system be rolled out throughout the entire Public Service and that all Statutory Boards enter into Performance Contracts with their respective ministries and the Boards with their Senior Management. In addition, the System was being rolled-out in local authorities country-wide. The Performance Based Contract System was supposed to affect each and every employee in the Service of Government directly or indirectly. During the launch, his Excellency the President directed that two consecutive poor performance reviews for an officer would be grounds for separation from the Public Service to provide room for other deserving Zambians. Once enabling legislation was prepared, this would galvanise all efforts and enhance accountability within the Public Service by all institutions and respective officers.

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

*Your Committee notes the commitment by the President. However, it resolves to get a progress report regarding the roll-out of the system throughout the entire Public Service and the need for all Statutory Boards to enter into Performance Contracts with their respective ministries and the Boards with their Senior Management.*

## ***7.2. Industrialisation and Export Diversification***

### ***Previous Committee's Recommendation***

Your previous Committee had recommended that the Government should promote export oriented industrialisation. To this effect, it recommended that the Government should come up with pragmatic and effective implementation of export diversification measures to increase and broaden the supply of foreign exchange. Diversification would also make the economy more resilient to external shocks. In addition, the Government should develop and roll-out robust industrialisation strategies that would capitalise on the comparative and competitive advantages of the economy in order to enhance the value of exports.

### ***Response by the Executive***

In response, the Government explained that it was necessary to enhance efforts towards export diversification and Government sees a strong link between industrialisation and export diversification. It is growth in industrial production that would grow Zambia's domestic and international trade. The Government, through the Ministry of Commerce, Trade and Industry was approaching the issue of diversification at policy and programme as detailed below.

#### **(a) Industrialisation**

The Government recognises that if the economy was to grow and become an industrialised nation by 2030, there was need to promote growth in different productive sectors of the economy. In this regard, the Government was implementing the Industrialisation and Job Creation Strategy where priority sectors such as agriculture, manufacturing and tourism had been identified as key drivers towards the national industrialisation agenda. Emphasis of interventions at programme level focus on value addition to local resource endowments, most of which were from the agriculture sector. Other interventions at strategic level included promoting domestic and foreign direct investment into sectors that involve value addition such as manufacturing.

The Government explained further that it was in the process of revising the Industrial Policy that would provide specific strategic interventions aimed at transforming Zambia from a producer and exporter of primary products into a net exporter of value added goods utilising local primary resources.

#### **(b) Diversification of Exports**

Zambia had been predominantly copper exporting, with the commodity accounting for more than 70 per cent of exports. Government realised that in order to reduce dependence on exports of copper which was a wasting resource susceptible to price fluctuations, there was need to promote Non-Traditional Exports (NTEs).

In this regard, the Government was implementing programmes aimed at promoting the growth of NTEs both in terms of value, volume and diversity, as well as, diversifying the markets and promoting penetration of Zambian products into these markets. Among the interventions implemented include the following:

- i. export promotion activities such as market research and trade missions;
- ii. engaging in market access negotiations, for instance the recently signed Bilateral Agreements between Zambia and Congo DR and Angola respectively where the country will have duty free-quota, unrestricted market access for selected products into these two countries; and
- iii. interventions to enhance market penetration such as dealing with Non-Tariff Barriers that might impede our ability to sell our goods into these markets.

Further, the Government was in the process of revising the Trade Policy in order to align it with the Industrial Policy so as to ensure export promotion of value added products. The Government, would also be formulating an export strategy which should provide for interventions to grow the country's export trade

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

*Your Committee resolves to get an update regarding the revision of the Industrial Policy to provide for specific strategic interventions aimed at transforming Zambia from a producer and exporter of primary products into net exporter of value added goods utilising local primary resources. It further resolves to get an update on the revision of the Trade Policy and the formulation of the Export Strategy.*

### **7.3. Enhance the Monitoring of the Balance of Payments**

#### ***Previous Committee's Recommendation***

Your previous Committee had recommended that the Government should put in place measures to improve monitoring of the Balance of Payments to minimise illicit financial outflows. The Government should continue to build capacity of ZRA officials to enable them to fight such vices as transfer pricing and tax planning and be able to effectively collect adequate revenues. Further, the Government should present to Parliament, legislation for enactment to fight these vices and be more proactive by placing inspectors at mining plants.

#### ***Response by the Executive***

The Government responded that the Financial Intelligence Unit has been put in place as the sole designated Agency responsible for the receipt, requesting, analysing and disseminating of the disclosure of suspicious transaction reports. The Unit also analyses and evaluates suspicious transaction reports and information in order to determine whether there was sufficient basis to transmit reports for investigation by the law enforcement agencies or a foreign designated authority.

In terms of improving tax administration at the ZRA, the Government had continued to enhance capacity and skills in tax auditing. These efforts had been focused on addressing transfer pricing, base erosion and profit shifting. The Government had been pursuing bilateral and multilateral collaborations for exchange of information, updating of legislation to modernise laws and documentation rules applied to transfer pricing and enhance training in tax auditing, including collaboration with other authorities to enable transfer of tax audit knowledge and skills through “learning by doing approach”.

Further, the Government had been piloting the implementation of the Electronic Cargo Tracking System (ECTS). This was aimed at facilitating real time monitoring of goods in transit and those for export and mitigate the revenue leakage arising from cases associated with transit fraud and false exports. The Government would also continue to implement tax payer education campaigns aimed at encouraging compliance, deterring tax avoidance and evasion. This would be complemented by stiffening penalties.

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

*Your Committee is aware that the contribution of the mining taxation to the total revenue has remained low, not least with the exemption of some mines from paying certain taxes. Your Committee is also aware that mining operations are sophisticated and as such, Zambia may not have adequate capacity to maximise tax collection from the mines. In this regard, it resolves to get an update regarding the placement of inspectors at mining plants. It also resolves to get an update regarding the effectiveness and adequacy of the newly established unit at the Zambia Revenue Authority in terms of placement of the human necessary resources with appropriate skills mix.*

#### **7.4. Managing the Electricity Crisis**

##### ***Previous Committee's recommendation***

Your previous Committee had recommended that the Government should urgently promote investment in the energy sector, including alternative sources of energy in order to achieve sustainable electricity supply. Further, the Government should expedite the migration to cost-reflective tariffs as a way of promoting investments in the energy sector.

##### ***Response by the Executive***

The Government responded that Zambia's long term development plan was anchored on the Vision 2030 whose vision for the energy sector was to achieve universal access to clean, reliable and affordable energy at the lowest total economic, and financial, social and environmental cost. The energy sector was one of the national priority sectors. The Government had thus provided incentives in form of tax exemptions and concessions for companies that wish to invest in the energy sector in a quest to making it more attractive for private participation and new investments. The incentives were aimed at reducing the cost of developing power plants and attracting more Independent Power Producers thereby increasing generation capacity in Zambia.

Further, the Government was committed to increasing the use of renewable energy and increasing the contribution of renewable energy in the national energy mix by way of increased deployment of renewable energy technologies in diversifying the sources of power generation and to ensure sustainable supply of electricity. To this end, the following were being implemented:

##### **a. Development of Solar Power Plants**

Government was targeting to develop 300MW of solar power. Three companies had since made direct bid in the first phase which should result in the development of 150MW of the 300MW.

Additionally, the Government planned to procure 600 MW of solar power through the Industrial Development Corporation (IDC). The President of the Republic of Zambia, on 7th May, 2016, inaugurated two sites to accommodate the first 100 MW of power under Round one (1) of Zambia Scaling Solar Project at the Lusaka South Multi Facility Economic Zone. Further, the Government was currently, with the help of the World Bank, developing a National Renewable Energy Resource Map focusing on solar and wind. This map would provide the Government and private investors with information on the country's resource potential and to guide investments on suitable locations and quantities of the renewable resources available in Zambia. The activity was expected to be completed in 2017.

Furthermore, the Government was committed to ensuring that tariffs for all customer categories migrate to cost reflective levels in order to attract new investment in the electricity sector, guarantee security of supply and increase accessibility. In so doing, the Government recognised the fact that a phased approach to achieving cost reflectivity would avoid tariff shocks and further public discontent. The Government was, therefore, in the process of conducting a detailed cost of service study that would determine the cost of generating, transmitting, distributing and supplying electricity to various customer categories so as to update the previous cost of study whose framework was currently being used for tariff determination.

## **b. Development of the Renewable Energy Feed in Tariff (REFIT) Strategy**

The Government had concluded the development of the Renewable Energy Feed in Tariff (REFIT) Strategy. The REFIT dictates, among other issues, the tariff (resource specific) of power developed from renewable resources taking cognisance of the fact that renewable power development was more costly. This would enable power producers to offload their power at a higher cost than the prevailing tariff of power from Hydro resources. It was anticipated that this would spur increased private power investments.

## **c. Demand Side Management of Power**

The Government had banned the importation and local supply of incandescent bulbs. This was with the view of promoting efficient use of electricity, thereby, freeing up megawatts that can be used in other areas of the economy. Further, a tender had been issued for the supply of 4 million LED bulbs to be distributed by ZESCO Limited at no charge. It was hoped that the use of the 4 million LEDs would free-up about 200MW of power as had been forecasted by assessments on the impact of efficient power utilisation.

## **d. Energy efficiency in the industry**

The Zambian industry had for a long time not been guided on the efficient use of power. Plans were underway to compel the industry to operate at a load factor of not less than 0.92 and that any institution found operating outside this mandate would face punitive measures as elaborated in the regulation.

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

*Your Committee notes that the recent power challenges arising from declining water levels should be a wake-up call on the need to diversify energy sources. It is also concerned that, like in the past, the improvement in the rainfall pattern will lead to complacency among relevant authorities. It, therefore, resolves to request a progress report on the various initiatives that the Government is implementing regarding this matter.*

## **8.0. CONCLUSION**

Your Committee wishes to pay tribute to all the stakeholders who appeared before it and tendered both oral and written submissions. Your Members also wish to thank you, Mr Speaker, for affording them the opportunity to serve on your Committee during the First Session of the Twelfth National Assembly. Your Committee also appreciates the services rendered by the Office of the Clerk of the National Assembly. Your Committee is very hopeful that the observations and recommendations contained in this Report will go a long way in improving the economy of Zambia.

## **APPENDIX I**

### **List of Officials**

Mr S C Kawimbe, Principal Clerk of Committees  
Ms M K Sampa, Deputy Principal Clerk of Committees  
Mr M F Kateshi, Revenue and Expenditure Analyst  
Mr S Mtambo, Budget Analyst (Macroeconomics)  
Ms A Phiri, Typist  
Mr C Bulaya, Committee Assistant  
Mr M Chikome, Committee Assistant  
Mr D Lupiya, Parliamentary Messenger

## APPENDIX II

### Local Authorities exclusive functions

- Pollution control
- Building regulations
- Child-care facilities
- Electricity
- Fire fighting services
- Local tourism
- District airports, Aerodromes and Airships
- District planning
- District health services
- District public transport
- District public works only in respect of the needs of Districts in the discharge of councils responsibilities to administer functions specifically assigned to them under the Constitution or other law
- Levies, tariffs and tolls
- Pontoons, ferries, jetties, piers and harbours, excluding the regulation of international and national shipping and matters related thereto
- Storm water management systems in built-up areas
- Trading
- Water and sanitation services limited to potable water supply systems and domestic waste-water and sewage disposal systems
- Veterinary services, excluding regulation of the veterinary profession
- Vehicle licensing
- Abattoirs
- Ambulance services
- Archives
- Libraries
- Liquor licensing
- Museums
- Local spatial planning
- Cultural matters
- Recreation and amenities
- Sport
- Roads and traffic automation and maintenance
- Amusement facilities
- Billboards and the display of advertisements in public places
- Cemeteries, funeral parlours and crematoria
- Local cleansing
- Control of public nuisances
- Control of undertakings that sell liquor to the public
- Facilities for the accommodation, care and burial of animals
- Fencing and fences
- Licensing of dogs
- Licensing and control of undertakings that sell food to the public
- Local amenities
- Local sport facilities
- Markets

- Local parks and recreation
- Local roads
- Noise pollution
- Ponds
- Public places
- Refuse removal, refuse dumps and solid waste disposal
- Street lighting
- Traffic and Parking
- Gardens and landscaping