REPORT

OF THE

PLANNING AND BUDGETING COMMITTEE

ON THE

THE EFFECTS OF ILLICIT FINANCIAL FLOWS ON THE BUDGET AND ITS SUSTAINABILITY

FOR THE

SECOND SESSION OF THE THIRTEENTH NATIONAL ASSEMBLY

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FOREWORD

Honourable Madam Speaker, the Planning and Budgeting Committee has the honour to present its Report for the Second Session of the Thirteenth National Assembly. The functions of the Committee are set out in Standing Order No. 195 of the National Assembly Standing Orders, 2021.

In line with its Programme of Work for the Second Session of the Thirteenth National Assembly, the Committee undertook a study on "*the effects of illicit financial flows on the budget and its sustainability*". In order to acquaint itself on the topic of study, the Committee sought written submissions from different stakeholders, who were later invited to make oral submissions based on their written memoranda and make clarification on issues arising there from. The list of the stakeholders is at Appendix II of the Report. The Committee held ten meetings to consider the topical issue.

The Committee's Report is organised into two parts: Part I highlights the Committee's findings from its deliberations on the tropical issue, including findings from the tours. Part I further presents the Committee's observations and recommendations thereon and its findings from the foreign tour to the Austrian Parliament. Part II reviews the Action Taken Report on the Committee's previous Report for the First Session of the Thirteenth National Assembly.

Madam Speaker, the Committee is grateful to the stakeholders who tendered both written and oral submissions. It also wishes to thank you, for affording it an opportunity to undertake the study on the effects of illicit financial flows on the budget and its sustainability. Gratitude further goes to the Office of the Clerk of the National Assembly for the assistance and counsel throughout the Committee's deliberations.

Mr Fred Chibulo Chaatila, MP
CHAIRPERSON

June, 2023
LUSAKA

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List of Acronyms and Abbreviations

8NDP	Eighth National Development Plan
GDP	Gross Domestic Product
IFFs	Illicit financial flows
UNECA	United Nations Economic Commission for Africa
UNCTAD	United Nations Conference on Trade and Development
UNODC	United Nations Office for Drugs and Crime
LEAs	Law Enforcement Agencies
SADC	Southern African Development Community
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
FIC	Financial Intelligence Centre
PACRA	Patents Companies Registration Agency
NGOs	Non-governmental Organisations
CoSS	Cost-of Service Study
NTR	Non-Tax Revenue
SOEs	State-Owned Enterprises
MPSAs	Ministries Provinces and Spending Agencies
PPP	Pubic Private Partnership

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1.0 COMPOSITION OF THE COMMITTEE

The Committee consisted of: Mr Fred Chibulo Chaatila, MP (Chairperson); Ms Jean Chisenga, MP, (Vice-Chairperson), MP; Mr Machila Jamba, MP; Amb Robert K Kalimi, MP; Mr Koonwa Simunji, MP; Mr Brian Kambita, MP; Gystave Saka Chonde, MP; Mr Davison Mung'andu, MP; Mr Peter Phiri, MP and Mr Lloyd Lubozha, MP.

PART I

THE EFFECTS OF ILLICIT FINANCIAL FLOWS ON THE BUDGET AND ITS SUSTAINABILITY

2.0 BACKGROUND TO THE STUDY

Public resource mobilisation is an important and indispensable strategy that any given government has to use in its implementation of investment, poverty reduction and public service provision. As espoused in the Eighth National Development Plan (8NDP), the Government of the Republic of Zambia sought to restore macroeconomic stability so as to raise Real Gross Domestic Product (GDP) growth, as well as attain fiscal and debt sustainability to improve the livelihoods of the Zambian people, especially the vulnerable. However, every year, huge sums of money were reported transferred out of developing countries, illegally, through illicit financial flows (IFFs) which took away resources that could be used to finance the much-needed public services such as health; education; transport and communication.

IFFs had become a major concern for governments and international development agencies, and Zambia was no exception. According to Global Financial Integrity, IFFs referred to money that was illegally earned, transferred or utilised. IFFs were also defined as illegal movements of money or capital from one country to another. Recognising the gravity of IFFs, the United Nations Economic Commission for Africa (UNECA), together with the United Nations Conference on Trade and Development (UNCTAD), with the cooperation of the United Nations Office for Drugs and Crime (UNODC), in October, 2020 released a Conceptual Framework for Statistical Measurement of IFFs out of Africa. IFFs threatened countries' abilities to achieve the 2030 Agenda and the Sustainable Development Goals, by diverting resources from sustainable and inclusive development, particularly in resource -constrained African countries.

While there was no piece of legislation in Zambia that dealt exclusively with or defined what IFFs were, several pieces of legislation had definitions and provisions that criminalised activities that drove IFFs. In addition, the Government had recognised that IFFs were on the increase and that there was need for cases involving IFFs, particularly financial and economic crimes, to be tried in a more expeditious manner through the establishment of purposed fast track courts.

IFFs had a crippling effect on societies and economies not only in Africa but also at a global scale. According to a report by UNCTAD an estimated US$ 88.6 billion left Africa as illicit capital flight. Furthermore, according to the Report of the High-Level Panel on IFFs from Africa, copper accounted for 80 percent of IFFs in Zambia, while the nation accounted for about 65 percent of IFFs in the African continent.

It was for this reason that the Planning and Budgeting Committee undertook a study on *the effects of IFFs on the budget and its sustainability.*

3.0 OBJECTIVES

The objectives of the study were to:

(i) appreciate the legal and policy framework governing IFFs;
(ii) understand the scope and magnitude of IFFs in the country and its root causes;
(iii) appreciate the role of various actors in curbing IFFs;
(iv) appreciate the challenges faced, if any, by institutions mandated to abate IFFs; and
(v) recommend the way forward.

4.0 SUMMARY OF SUBMISSIONS FROM STAKEHOLDERS

The submissions of the stakeholders are summarised below.

4.1 Legal Framework

The Committee was informed that the Government of the Republic of Zambia had enacted laws and established institutions to prevent and combat IFFs. Stakeholders submitted that the national legal frameworks that were aimed at combating IFFs, mirrored international standards such as the UN Convention against Corruption; the African Union Convention on Preventing and Combating Corruption; and the Southern African Development Community (SADC) Protocol on the Fight against Corruption, all of which Zambia had ratified. They further informed the Committee that the Government had enacted the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) legislation to deal with money laundering; financing of terrorism; forfeiture and seizure of proceeds of crimes; prevention of corruption; fraud; and financial crime among others. The Committee learnt that AML/CFT legal framework covered *inter alia* legislation to combat IFFs not limited to those listed below.

(i) Financial Intelligence Act, No. 46 of 2010

The Act provided for the establishment; powers; functions; administration; and operational framework for the Financial Intelligence Centre (FIC). The Act also provided for the prevention of money laundering; terrorist financing and other serious offences.

(ii) Prohibition and Prevention of Money Laundering (Amendment) Act, No. 44 of 2010

The Act *inter alia*, criminalised money laundering and imposed penalties for the offence. It also provided for the prevention of the offence and for the seizure and forfeiture of property that related to money laundering.

(iii) Anti-Terrorism Act No. 21 of 2007

Section 20 of the Act, criminalised financing of terrorism and provided for the suspension of dealings relating to money or other property due to, owing, belonging to or held on behalf of a suspect charged with an offense under the Act or relating to terrorism.

(iv) Forfeiture of Proceeds of Crime Act, No. 19 of 2010

The Act provided, *inter alia* for forfeiture of property tainted with commission of any serious offence. The offence may include money laundering; terrorist financing, and corruption. The Act also stipulated that "property included money located in Zambia or elsewhere.

(v) Public Interest Disclosure (Protection of Whistle-blowers) Act No. 4 of 2010

The Act provided for disclosure of conduct inimical to public interest in both public and private sectors. It was also created a framework for the reporting, investigating and ultimately prosecution of complaints of corrupt and irregular practices.

(vi) Anti-Corruption Act, No. 3 of 2012

The Act provided for the existence of the Anti-Corruption Commission which was mandated to prevent and take necessary and effective measures for the prevention of corruption in public and private bodies. The Act further provided for the prevention; detection; investigation; prosecution; and punishment of corrupt practices and related offences.

(vii) Mutual Legal Assistance in Criminal Matters Act, Chapter 98 of the Laws of Zambia

The Act provided for the implementation of treaties for mutual legal assistance in criminal matters. It allowed for mutual international assistance in criminal matters between Zambia and foreign states (States that were party to a treaty with a primary purpose of providing mutual legal assistance in criminal matters on request for such assistance).

(viii) Criminal Procedure Code, Chapter 88 of the Laws of Zambia

The legislation provided for the general procedure for the prosecution of criminal offences, which might include money laundering; corruption and financial crimes. It also provided for the procedure for conducting searches and seizure of property associated with the commission of crimes.

(ix) Banking and Financial Services Act, No.7 of 2017

Sections 64 and 168(2) of the Act provided that the Bank of Zambia may issue directives to the banks with a view to freeze accounts of individuals or organisations involved in financial crimes.

(x) Companies Act, No.10 of 2017

The Act, *inter alia,* provided for disclosure of persons behind the company, such as shareholders, directors and beneficial owners. In this regard, the Patents and Companies Registration Agency (PACRA),may be contacted in accordance with section 36 of the *Financial Intelligence Act No. 46 of 2010,* to provide details of individuals behind a Company, where there was suspicion of commission of financial crimes.

(xi) Non-Governmental Organisations Act, No. 16 of 2009

Stakeholders submitted that Non-Governmental Organisations (NGOs),may be used as vehicles for money laundering and terrorist financing. In this regard, under the Act, the Registrar of NGOs, may request any registered non-governmental organisation to furnish within a stated period the source of funding; a list of office bearers; or any committee; or governing body and such accounts; returns and other information, as the Minister may by statutory instrument prescribe.

(xii) Penal Code Act, Chapter 87 of the Laws of Zambia.

The *Penal Code Act* established a code of criminal law in Zambia and outlined criminal offences and their corresponding punishments.

4.1.1 Adequacy of the Legal Framework

The Committee was informed that despite the above subsisting rigorous pieces of legislation, none of them dealt exclusively with or defined IFFs. They merely criminalised the activities that drove IFFs. Stakeholders submitted that the pieces of legislation were not aligned to holistically address how and in which court financial and economic crimes were to be prosecuted.

The Committee was further informed that the legal and regulatory framework to monitor; supervise; and effectively implement strategies to combat IFFs was inadequate. The Committee also learnt that Zambia had no legal provisions to regulate the implementation of targeted financial sanctions to financing of proliferation.

4.2 Policy Framework

The Committee learnt that in 2022, Cabinet approved the National Anti-Money Laundering and Countering Terrorism and Proliferation Financing Policy. The Policy was a precursor to set a clear direction for the effective combating of money laundering; terrorism financing and proliferation financing. Other policy frameworks applicable to curb IFFs included those listed hereunder.

(i) Accounting and Auditing Sector Reporting Guidelines 2019.
(ii) Banking Sector Reporting Guidelines 2019.
(iii) Bureau de Change Reporting Guidelines 2019.
(iv) Capital Market Reporting Guidelines 2019.
(v) PACRA Suspicious Transaction Reporting Guidelines 2015.
(vi) Zambia Development Agency Suspicious Transaction Reporting Guidelines 2015.
(vii) Anti-Money Laundering and Combating the Financing of Terrorism General Guidelines 2017.

4.2.1 Adequacy of the Policy Framework

While acknowledging that the Government had launched the National Anti-Money Laundering and Countering Terrorism and Proliferation Financing Policy, stakeholders informed the Committee that there was no National Policy aimed at ensuring that confiscations of criminal proceeds; instrumentalities; and property of corresponding value, were executed as a priority for the relevant Law Enforcement Agencies(LEAs). Furthermore, there was an absence of the policy framework to ensure efforts were focused on predicate crimes identified as high risk in the National Risk Assessment, as well as cases where proceeds of crime had moved to foreign countries.

4.3 Institutional Framework

With respect to the institutional framework, the Committee was informed that this comprised policy bodies; LEAs; statutory agencies; supervisory authorities; reporting entities and inter -agency working groups. The institutional framework included but not limited to the entities listed hereunder.

(a) Anti-Money Laundering Authority (AMLA)/Counter Financing Terrorism (CFT)

Anti-Money Laundering Authority (AMLA)was the AML/CFT policy making body established under section 3 of the *Prohibition and Prevention of Money Laundering Act, No 14 of 2001.* The Committee was informed that AMLA was chaired by the Attorney General and the other Members that included the Governor of the Bank of Zambia; the Commissioner General of the Zambia Revenue Authority (ZRA); the Inspector General of Police; the Commissioner - Drug Enforcement Commission (DEC); and the Director General of the Anti-Corruption Commission (ACC). The mandate of the AMLA was to provide general or specific policy directives and to advise the Government on measures required to prevent and detect money laundering in the Republic of Zambia.

(b) The National Task Force of Senior Officials on AML/CFT

The Committee was informed that Cabinet set up the National Task Force, which was comprised of senior officials on AMLA/CFT. The overall mandate of the Task Force was to coordinate AML/CFT matters among key stakeholders with a view to improving the effectiveness of existing policies to combat money laundering, financing terrorism and other serious offences.

(c) The Financial Intelligence Centre

The Committee learnt that FIC was established to be the sole designated agency responsible for coordinating the receipt; requesting; analysis; and dissemination of suspicious transactions and report to LEAs and other foreign designated authorities, pursuant to the *Financial Intelligence Act, No.46 of 2010.*

(d) Law Enforcement Agencies

The Committee was informed that LEAs included but were not limited to the under listed institutions.

i) The Zambia Police Service.
ii) The Zambia Security Intelligence Service.
iii) The Immigration Department.
iv) The Drug Enforcement Commission.
v) The Anti-Money Laundering Investigations Unit.
vi) The Anti-Corruption Commission.
vii) The Zambia Revenue Authority.

(e) The National Prosecution Authority (NPA)

The National Prosecution Authority (NPA), was one of the stakeholders of the AML/CFT and was the principal authority for all prosecutions in Zambia. NPA also housed the Office of the Director of Public Prosecutions (DPP). Stakeholders submitted that all prosecutors in Zambia drew their authority to prosecute from the DPP, pursuant to section 82 of the *Criminal Procedure Code, Chapter 88 of the Laws of Zambia.*

(f) The Judiciary

The Committee learnt that the Judiciary was considered to be a relevant stakeholder on AML/CFT related issues, as it provided efficacy to the process by being an impartial arbiter in proceedings.

(g) Other Government Agencies

These included agencies such as the Auditor General, Ministry of Defence and Registrar of Societies among others.

4.4 Causes of Illicit Financial Flows in Zambia

Stakeholders highlighted some of the causes of IFFs in Zambia as set out hereunder.

(i) Commercial transactions

Stakeholders submitted that by and large, the main causes of IFFs were commercial transactions such as tax evasion, which was an illegal practice where a person, organisation or corporation intentionally and wilfully avoided to pay their tax obligations. The other, was mis-invoicing, which was undervaluing exports and over valuing imports. The Committee learnt that over 40 per cent of Zambia's copper exports were invoiced to Switzerland. However, Switzerland never recorded any imports from Zambia. Furthermore, although there were significant exports to China, unfortunately the value of Zambia's exports to China was under recorded. Consequently, Zambia lost US$ 34 billion through mis-invoicing between 2005 and 2018.

The Committee also learnt that the existence of tax havens in certain jurisdictions facilitated firms shifting of profits between countries.

Smuggling of natural resources through illegal exploitation of natural resources such as gold; cobalt; uranium; timber; emeralds; diamonds; manganese; and wildlife, which were exported abroad illegally, also caused IFFs.

(ii) Criminal Drivers

The Committee was informed that organised criminal activities were also a source of IFFs. Some of these included but were not limited to money laundering and external borrowing, where the Government would contract loans which politically connected individuals siphoned through kickbacks, padded procurement contracts and diversion of funds to other countries for safe keeping; smuggling; human trafficking; drug trafficking and arms dealing; and transnational organised crime, involving groups or networks of individuals working in more than one country.

(iii) Government Corruption

The Committee was informed that corruption was regarded as the second most prevalent form of IFFs. Stakeholders submitted that corruption was mostly perpetrated by public sector officials through public procurement and public investments. Others were bribery; abuse of office; and theft of state assets.

(iv) Lack of Beneficial Ownership Information

The Committee learnt that most of the multinationals, especially those involved in extractives had opaque company ownership which encouraged tax evasion; poorly negotiated contracts; and diversion of funds for private gain leading to loss of revenue. Stakeholders submitted that foreign firms were using law firms to disguise beneficial owners to facilitate IFFs through externalisation of resources.

(vi) Other causes included but were not limited to the following:

i) lack integrity on the part of the citizens and business entities;
ii) large presence of an informal sector;
iii) lack of simplicity in the tax legislations;
iv) porous borders and lack of currency detection machines, that allowed for untracked movement of people that would be involved in physical cross-border transportation of cash into neighbouring countries;
v) weak regulatory enforcement regimes;
vi) loopholes in the set-up and capacity of key institutions in the fight against IFFs; and
vii) interference by prominent influential persons in the operations of key institutions in the fight against IFFs.

4.4.1 Impact of Illicit Financial Flows on the Fiscus (Budget and Revenue Loss) for the Past Ten Years

Stakeholders informed the Committee that IFFs generally led to lower Government tax revenue. IFFs also contributed to higher budget deficits and debt as the Government sought to cover the financing gaps. The Committee learnt that in an environment where Government borrowing was high, interest rates tended to increase and raised production costs, which in turn resulted into higher prices for consumers. Other stakeholders submitted that in instances where lost tax revenue was in foreign currency, the accumulation of foreign exchange reserves was also undermined.

Other stakeholders submitted that IFFs owing to crime; corruption; and tax evasion cost Zambia US$ 8.8 billion approximately 23 per cent of the Government revenues at US$ 4.3 billion in 2011. The stakeholders added that the total estimated average loss in IFFs in the 2012 to 2022 was K248 billion (US$ 14.6 billion), which was equal to Zambia's public debt stock, as at 31st December, 2021. Other stakeholders informed the Committee that IFFs made Zambia vulnerable to external financing and dependency on grants. Consequently, high debt service constrained the budget and its credibility. This implied that during the period under review, the Government would have not borrowed had it contained the levels of IFFs. In addition, the Government would have doubled its spending on social sectors such as health, education, environmental protection, housing and community amenities, and social protection.

The Committee learnt that IFFs also affected the economic sectors such as agriculture; manufacturing; energy; tourism and mining, which continued to receive meagre allocations to foster an inclusive and robust economic transformation and job creation.

However, to the contrary, some stakeholders from the mining sector informed the Committee that they were not aware of any IFFs and therefore, they could not estimate the impact of the vice on the economy. Conversely, others submitted that effects of IFFs led to loss of confidence in investments in the mining sector, as credible and potential investors sought for investment opportunities in other jurisdictions for fear of poor investment climate.

Notwithstanding the above, the Committee learnt that the Zambia Revenue Authority collected revenue from enforcement activities such as scanner operations, detention and seizure of illegally traded goods and domestic tax audit assessment, without which the revenue would have been lost.

4.4.2 Roles performed by various actors in curbing Illicit Financial Flows

The Committee was informed that there were a number of players who had varying roles to help curb IFFs. Some of the roles included but were not limited to the ones discussed below.

(a) Investigation

Some of the players were mandated to undertake investigations of all suspected acts of corruption and to apply for forfeiture of any property associated to IFFs. Others were mandated to investigate all allegations of tax evasion and other tax offenses committed under various tax laws.

(b) Prosecution

Persons suspected to have committed acts of corruption were prosecuted and subjected to civil proceedings before the courts of law, with an aim to confiscate any property connected to acts of corruption, and forfeit to the state.

(c) Education

Some of the players undertook public awareness programmes through television and radio programmes. Others educated reporting entities on their roles to detect, deter and prevent money laundering, terrorist financing and other financial crimes.

(d) Freeze Bank Accounts

The Committee learnt that some of the players were mandated to effect freezing orders on banks accounts where there were reasonable grounds of suspected IFFs, to avert loss of funds suspected to be proceeds of crime.

(e) Licensing of Financial Service Providers

The Committee was informed that one of the ways criminals facilitated IFFs, was to own, control or manage a commercial bank. To prevent this, BoZ, had developed effective market entry screening tools and other controls that prevented criminals and their associates from holding or being the beneficial owners of a significant or controlling interest in financial institutions.

4.4.3 Mechanisms used by various actors to detect and combat illicit Financial Flows

A number of mechanisms were used by the various players to help detect and combat IFFs. Some of the mechanisms included those listed below.

(a) To help detect and curb IFFs, FIC complied and published reports of suspicious transactions. This helped to expose movement of funds that were suspicious. This in turn helped LEAs to investigate.
(b) The Auditor General conducted audits on public transactions to help identify IFFs by public officials, who manipulated processes to benefit themselves.
(c) The use of whistle-blowers and informants was one of the most effective tools in detecting suspicious transactions and possible corrupt activities.
(d) FIC collaborated with local, regional, and LEAs, supervisory authorities and other competent authorities.
(e) FIC was a member of Egmont Group, which gave the country a platform to exchange information and knowledge on IFFs and fostered cooperation amongst member Financial Intelligence units across the world.
(f) There was need to be transparent with respect to costs incurred by entities engaged in exploration of various minerals. Furthermore, the companies involved were expected to avoid any bribery in their quest to obtain the necessary permits. In addition, quantities extracted for valuation were declared for tax purposes.
(g) At the stage of production and processing of minerals, the Ministry of Mines and Mineral Development had to determine the production costs. Furthermore, there was need to ensure that the produced quantities were accurately declared, as this was to be used to determine the taxes to be paid. Notwithstanding this, there was still a risk of smuggling at production stage, as companies could camouflage the production.

4.4.4 Best Practices in curbing Illicit Financial Flows

(a) Strengthened Institutional and Legal Frameworks

Stakeholders informed the Committee that IFFs manifested in different forms and to detect and combat them was not easy. The Committee was further informed that installing strong institutional and regulatory framework was key. Stakeholders also submitted that, Zambia could draw lessons from Botswana, whose mining policies and legal framework were in line with the aspirations of the 2009 adopted Africa Mining Vision (AMV). The goal of AMV was to promote transparency, equitable and optimal exploitation of mineral resources to underpin broad-based sustainable growth and socio-economic development.

The Committee learnt that Botswana had signed a Double Taxation Agreement, which entailed that income from immovable property in Botswana, which included a mine, an oil gas, well and any other place of extraction or exploitation of natural resources, were to be taxed.

(b) Improving Cooperation

Stakeholders submitted that strengthening of institutions dealing with IFFs, including the Zambia Revenue Authority, LEAs and prosecuting entities, was key to fighting IFFs. The Committee learnt that global efforts in improving transparency to combat IFFs included "arm's length principle"; country by country reporting; beneficial ownership; and automatic exchange of information and asset recovery. The Committee was informed that beneficial ownership was a frontier issue in transparency. Stakeholders further submitted that hidden ownership of companies only bred corruption and distrust.

(c) Political Commitment and Leadership

There was need for political commitment and leadership, effective regulation of trade and movement of natural resources, and providing easy access to information relating to registered business names and companies.

(d) Coherent Law Enforcement

India had adopted and signed up the Automatic Exchange of Financial Account Information between jurisdictions to allow exchange of financial account information automatically at regular intervals with the holder's home country. The Committee also learnt that in the United Kingdom, various LEAs were put together in a Proceeds of Corruption Unit. This was to provide a coherent law enforcement platform to tackle cases involving money laundering resulting from corruption of officials in developing countries and bribery involving UK based companies or nationals.

4.5 Challenges faced by the various players in abating illicit financial flows

i) Opaque Corporate Structures

The Committee was informed that the prevalence of front companies, shell companies, nominees, or other means to conceal the true beneficial owners of assets, was one of the greatest loopholes in the fight against IFFs. The Committee learnt that information about the beneficial owners was lacking as the law did not make it mandatory to submit the details.

ii) Low and insufficient funding

Stakeholders submitted that most LEAs were underfunded. This negatively affected investigations, enforcement, and sensitisation. Low funding led to lack of appropriate infrastructure in the Judiciary, which in turn affected the quick and efficient disposal of IFFs cases. Furthermore, judges and magistrates shared court rooms and this led to continued adjournments.

Other stakeholders submitted that low funding also affected the Office of the Auditor General's effectiveness to contribute to the fight against IFFs as it failed to acquire skilled personnel and working tools such as computers and motor vehicles.

The Committee was also informed that the Ministry of Mines and Minerals Development was unable to effectively conduct regulation and to collect data as it lacked both the state-of-the-art technology and skilled manpower. Furthermore, the Ministry failed to have a countrywide foot print and was unable to conduct frequent inspections due to lack of capacity.

iii) Inadequate technical capacity to effectively investigate IFFs

The Committee was informed that most of the institutions established to detect and curb IFFs, had limited capacity to address emerging trends and methods of IFFs. Stakeholders submitted that most often, criminals involved in illicit activities were usually ahead of the LEAs and the legal framework.

The Committee was also informed that IFFs were characterised by secrecy. However, the institutions mandated to manage the early warning systems so as to unearth possible avenues for IFFs, were operating with outdated technology and were not receiving the urgent financial support required to modernise their equipment and systems.

iv) Lack of data and database

The Committee was informed that there were no official consolidated Government estimates of IFFs in the country, as the country often depended on data collected by other organisations, which could be quite limiting and not validated. Stakeholders submitted that collecting of data on illicit activities was inherently difficult and this was exacerbated by an absence of regional cooperation on data and enforcement related to IFFs, which was limited in Africa. The Committee learnt that there was no central data system to monitor financial flows in Zambia. Consequently, there were delays in dissemination of information from LEAs, which adversely impacted the effective tax investigations.

v) Lack of National Strategy and plan to curb IFFs

Stakeholders submitted that due to the absence of a national strategy on IFFs, there was limited inter-agency cooperation and coordination. The Committee learnt that there was no permanent inter-agency working group solely dedicated to curb IFFs.

vi) Absence of a National Beneficial Ownership Register

The Committee learnt that verifying information provided by clients, especially those involving foreign entities was difficult. Changes to beneficial ownership structures and information, were always fast paced and ahead of Zambia's legislative and systems review.

vii) Dependence on extraction of natural resources

The Committee was informed that Zambia depended largely on the extraction of natural resources for her exports and tax revenue. Notwithstanding this, the sector was very prone to the generation of IFFs through transfer mispricing, secret and poorly negotiated contracts, overly generous tax incentives and under invoicing. Stakeholders submitted that poor regulation and lack of capacity to manage the resources led to high IFFs.

viii) Limited capacity to raise funds and manage IFFs

Stakeholders submitted that the capacity to raise funds and manage IFFs was constrained. As a result, to make up for revenue losses, the Government would either increase taxes on compliant taxpayers or turn more heavily to indirect taxation.

ix) Lack of a system that facilitated coordinated efforts in information sharing across countries

Stakeholders submitted that due to the international nature of IFFs, information exchange between local and foreign institutions was essential in curbing the vice. However, the global financial architecture lacked a well-coordinated system of information exchange among institutions. As a result, there were difficulties in acquiring evidence from foreign jurisdictions whenever cases involved multiple jurisdictions.

x) Fragmented legal framework

Stakeholders submitted that while there were varying pieces of legislation, there were numerous weaknesses that made the country susceptible to IFFs, resulting in weak enforcement of the subsisting laws.

xi) Existence of a cash economy

The Committee was informed that the existence of high cash usage and lack of transaction limits that required enhanced due diligence, made tracking of financial transactions difficult.

4.6 Recommendations and way forward

In order to enhance efforts and effectively detect, and combat IFFs, the stakeholders were of the view that the Government needed to undertake pragmatic measures. They, therefore, made their commendations set out below.

(i) The Government should enact a single comprehensive law designed to specifically govern financial and economic crimes. This would make it easier, not only for the courts and LEAs but also citizens, to clearly identify and set parameters of what constituted economic offences. Consequently, this would make it easier to prosecute such offences.

(ii) The Government should, as a matter of urgency, establish mandatory public registers that disclosed the beneficial ownership of trust funds and companies to allow IFFs to be easily traced and make it harder for people to benefit from the proceeds of corruption.

(iii) As a matter of urgency, there was need to develop a national strategy and plan to curb IFFs and complement the National Anti-Money Laundering and Countering Terrorism and Proliferation Financing Policy.

(iv) The Government should form inter-agency working groups solely dedicated to curbing IFFs and to promote joint investigations amongst LEAs on cases involving IFFs.

(v) The Government must enhance and automate information sharing among LEAs for easier tracing and monitoring IFFs.

(vi) The Government must ensure that the LEAs were equipped with the additional financial resources to enable them tackle the scourge through increased human resource capacities and infrastructure among others.

(vii) There was need to introduce a transaction threshold on wire transfers.

(viii) There was need to create awareness among people living in border areas on illicit financial crimes and other border crimes; create and recruit border patrol officers.

(ix) There was need to create a framework that linked financial flows to under laying economic activity that generated the cash flows.

(x) There was need to strengthen the role and participation of civil society organisations and the media in exposing IFFs.

5.0 TOURS

In order to augment its study, the Committee undertook local tours to Southern, Copperbelt and North-Western Provinces. The major findings of the Committee were as presented below.

5.1 Tour of the Borders

The Committee toured three border posts namely; Chirundu One Stop Border Post, Mokambo Border and Kasumbalesa Border Post. During the tour of the border posts, the main stakeholders included the following: Zambia Revenue Authority (ZRA); Zambia Police; Ministry of Agriculture; Ministry of Mines and Mineral Development; Ministry of Livestock and Fisheries; Office of the President-Special Division; Drug Enforcement Commission; Department of Immigration; Road Transport and Safety Agency; Zambia National Service; Zambia Army; and Cross Border Association members.

5.1.1 Tour of the Chirundu One Stop Border Post

The Committee was informed that Chirundu border was the largest border in the country but lacked reinvestment by the Government. The Committee also learnt that goods and trucks leaving Zambia were not scanned on the Zambian side, meaning that their first point of contact was on the Zimbabwean border. In this regard, Zambia only scanned and inspected trucks entering the country. The Committee was further informed that for both Zambia and Zimbabwe, all trucks and goods being exported were not inspected from the country of export but import. However, there was no representation of Zambian officers from all relevant agencies on the Zimbabwean border to inspect goods leaving Zambia as the case for Zimbabwe which had officers on the Zambian border. The following were the main findings of the Committee.

(i) Zambia did not have a full representation of critical and relevant Government agencies to assure financial flow and to help curb IFFs as compared to Zimbabwe which had a full complement of staff.

(ii) While the ZRA systems were interlinked inland, ZRA's declaration's system at Chirundu was not interlinked with other countries and therefore, ZRA had to depend on the declarations by individuals.

(iii) Chirundu border did not have a baggage scanner and that officers could not afford to open each parcel to ascertain the contents.

(iv) In as much as there was a scanner for the trucks, the processing time was very slow and therefore, not all trucks were scanned as officers depended on risk management to select the trucks to be scanned. Furthermore, officers were using a mobile scanner as the fixed scanner was faulty.

(v) While joint operations were conducted among the various agencies, there was poor information sharing; and insufficient transport, human resources and funding, among others. Furthermore, a number of agencies and Ministries either only had one staff or none at all, stationed at the border.

(vi) The Committee learnt that a number of inspections and export certificates were done and issued from Lusaka, while the officers stationed at the border had no authority to inspect such consignments.

(vii) The Committee learnt that there were a lot of illegal activities in the Lower Zambezi National Park.

(viii) The Lower Zambezi National Park had a number of airstrips which were neither monitored nor managed by the State.

5.1.2 Tour of Mokambo Border

After holding a stakeholders' meeting and touring Mokambo Border Post, the following were the major findings of the Committee.

(i) Mokambo border was one of the gateways into the Democratic Republic of Congo (DRC) and was the longest unfenced border line in Zambia.

(ii) The border facilitated movement of goods in transit and for export to the DRC. However, the road to the Border was in a deplorable state.

(iii) There were a number of travellers from DRC, who entered through the border in transit to other countries, carrying large amounts of dollars. According to section 41(A) *of the Customs and Excise Act, Chapter 322 the Laws of Zambia,* persons carrying more than US$ 5000 or its equivalent were expected to make currency declarations. The Committee was informed that in the first quarter of 2023, US$ 4, 556,950 was declared. However, ZRA did not have the requisite equipment to ensure that no money was smuggled into and out of the country.

(iv) The Committee was informed that there were a number of challenges affecting the operations of the border. These included the following:

a) there were no health port services at the border;
b) low staffing levels for the Department of Immigration leading to failure to collect required revenue targets;

c) the Border was too porous and there were many un-gazetted routes leading to the DRC;
d) inadequate transport for the various departments operating from the border;
e) encroachments were rampant;
f) while commercial traders were catered for with regard to issuance of export permits, there were export permits issued to small scale traders who opted to trade through smuggling;
g) there were no banking facilities, no bureau de change and consequently, travellers depended on local money changers; and
h) slow clearance of goods by DRC contributed to congestion at the border.

5.1.3 Tour of Kasumbalesa Border Post

After holding a stakeholders' meeting and touring Kasumbalesa Border Post, the following were the major findings of the Committee.

a) The Border Post was the second busiest in the southern region. On average. 1,000 trucks were cleared per day, with a park yard capacity of 1850 trucks.
b) The trucks carrying high value minerals were the main imports through Kasumbalesa Border Post from the DRC.
c) The border was synonymous with heavy congestion mainly due to the slow processing and intake of trucks on the DRC border post.
d) The border was under a concession from 2011 to 2023 and was handed back in March, 2023. However, the management of the automated traffic management system was still under the ambit of the concessioner who was based in Israel. In addition, ZRA had continued to collect border crossing fees which led to non-tariff barriers. Furthermore, there was rampant trans-shipping leading to loss of revenue.
e) While ZRA monitored the in and out flow of currency exceeding US$ 5000, there was no mechanisms at the border that compelled travellers to declare their funds as this was done on a voluntary basis. This notwithstanding, there was no system to link declarations into the financial sector and also to determine how much funds were exiting the country. The Committee learnt that as at end of April, 2023, 1,117 declarations amounting to US$ 151, 246,705 had been made.
f) There were limited financial institutions such as bureau de change resulting in illegal money changers.
g) Absence of critical Government agencies whose mandate could directly be linked to ensuring financial flows and to curb IFFs.
h) The border was too porous and that the no-man's land was used for illegal trade and illicit activities.
i) Lack of electronic cargo tracking systems.

j) Lack of transport at the border and no sufficient staffing levels.
k) The Ministry of Green Economy was not fully involved in the export of timber as there was lack of coordination on the proper management and export of timber.
l) There was uncoordinated export of small livestock and there were no export permits issued.
m) There were three exotic forest reserves that where domiciled closer to DRC. The Committee was informed that people from DRC were illegally harvesting timber. The timber was used to make charcoal which was later exported to South Africa through Zambia.

5.2 Tour of the Mines

The Committee held meetings with the Management teams of Lumwana Mine, Kansanshi Mine Plc and Konkola Copper Mines and thereafter toured the three mines respectively.

5.2.1 Tour of Lumwana Mine

The Committee was informed that Lumwana Mine started its operations in 2008. Lumwana's copper ore body had a low copper grade of 0.4 per cent and that its operations were dependent on efficiency other than volumes of production. In 2021, Lumwana produced 242 million tonnes of copper. The Company had continued to invest in explorations, in three different sites so as to sustain the life of the mine to 2042. The Committee was also informed that from inception Lumwana had contributed US$ 8.4 billion to the Government and that US$ 1.5 billion was through mineral royalty taxes. The Committee learnt that Lumwana only sold copper concentrates and not pure copper. The concentrates were sold to the various smelters domiciled in Zambia.

The major findings of the Committee were as follows:

a) the main product mined at Lumwana was copper in as much as elements of uranium were found as impurities;
b) the Company had no off-shore accounts and that all its products were sold to local smelters at a spot price determined by the largest copper smelters;
c) the Company had recorded loss after tax between 2012 to 2020 and only started to record profits after 2021;
d) the Company still owed lenders out of the US$ 7 billion as initial capital outlay;
e) there were high levels of theft of copper cables which were sold on the black market as scrap;
f) there was no physical presence of the various Government agencies at the mine. The relevant agencies merely received reports or conducted spot checks on a monthly or quarterly basis. Management requested the

Committee to seek for more from ZRA regarding production declarations and the company's tax adherence; and

g) the mine was 100 per cent owned by Barrick Gold.

5.2.2 Tour of Kansanshi Mine Plc

The Committee was informed that Kansanshi Mine commenced it operations in 2005. Kansanshi was an open pit mine which depended on drill and blast technique. The Committee was informed that in 2014 the mine had commenced expansion operations which were later abandoned. When the new site is completed, the life span of the mine will be extended by 25 years. The Committee was informed as follows:

a) Kansanshi mine produced gold dore, which was sold to the Bank of Zambia;
b) between 2005 and 2021,Kansanshi had paid a total of US$ 5billion in mineral royalty taxes and corporate tax. It was envisaged that after the completion of the expansion project, the mine would pay US$ 1 billion in taxes with copper prices perked at US$ 3.40/ pound;
c) there were rampant thefts that needed the Government's intervention; and
d) the main cost driver for the mine was diesel which was required to operate the various mining equipment.

5.2.3 Tour of Konkola Copper Mine

The Committee held a meeting with the Management of Konkola Copper Mines (KCM) and toured some parts of the mine to familiarise itself with the operations of the mine and appreciate the operational challenges. The Committee was informed that KCM was both an underground and open pit mine with a reserve of over 14 million tonnes of copper ore. The Committee also learnt that at KCM the minerals mined were copper and cobalt; and that KCM was one of the wettest mines in the world. KCM pumped about 360 000 cubic litres of water daily at a cost of US$ 5 million. KCM operated in four mines namely; Konkola, Nchanga, Nampundwe and Nkana with a copper grade of 3 per cent. The major findings of the Committee were as outlined below.

a) The mine was taken over by Vedanta Resources Plc in 2004, which had committed to revamp the operations of the mine with a capital investment of US$ 1 billion in 2018 but this was never actualised.
b) Prior to 2014, KCM was producing 120 000 tonnes of copper per year with a profit declaration of US$ 200 to US$ 300 million dollars, which had plummeted and the Government was losing revenue due to low production.
c) In 2014, Vedanta changed the business model of the mine from core mining to processing of concentrates bought from other mines.

Furthermore, the investor had concentrated on investing in the smelter plant, which was to be used to smelt concentrates from KCM. Unfortunately, Vedanta never invested in neither exploration nor actual mining and focused on smelting concentrates from other mines and also from KCM's dumped concentrates.

d) For over 20 years, KCM did not undertake actual mining. 70 per cent of copper produced was for other mines, while 30 per cent belonged to KCM whose production had plummeted from 120 000 tonnes per year to 95 000 tonnes per year. This resulted in issuance of a Default Notice to Vedanta by the Ministry of Mines and Minerals Development for failure to implement the mile stones committed to in the investment plan. This consequently led to the liquidation of the mine.
e) There was poor and lack of consistent reviews and monitoring of the operations of the mine by the Ministry of Mines and Minerals Development. Due to this, exploration and investment in projects such as Drying Konkola Deep Mining Project were abandoned. This gave the mine only 2 years of operations which were dependant on processing the dumped concentrates.
f) The Company was failing to break even and required US$ 1.2 billion capital investment staggered over a 10 year period. This was well outlined in the Sustainability Plan which was submitted to the Government.
g) In 2007, the Government had issued a mining licence to Sensele Mines to mine within KCM's mining area.
h) There was rampant encroachment of KCM's mine and highly syndicated illegal mining.
i) KCM was still under liquidation and a liquidator had been appointed. The Government also engaged Rand Merchant Bank of South Africa to help source for capital for the mine.

6.0 COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS

The Committee observes, with concern, the prevalence of IFFs in the economy. Most IFFs take place in the mining sector through mis-invoicing; under-pricing of the copper; undeclared minerals, among others. The Committee finds it unacceptable that fifty-eight years after independence, Zambia has not fully benefited from the mineral wealth which has been the cash-cow and bread-basket for the country. The Committee is saddened that mineral exports recorded by the Zambia Revenue Authority and by recipients, such as China and Switzerland are always different and that the country lacks the capacity to track the minerals from the mines to the various final destination. The Committee further observers that this is exacerbated by failure to undertake geological survey and mapping of the mineral wealth.

While noting that the mining sector is a panacea to the country's quest for diversification, this has not come to fruition. The Committee is saddened that mineral wealth is a wasting asset and the country continues to get a raw deal.

In light of this and acknowledging Governments resolve not to continue depending on the mines but on other sectors, such as; tourism, agriculture and manufacturing, the Committee strongly recommends that the Government must ramp up its efforts to manage the mines. The Government must ensure that dividends emanating from the mines must firstly benefit Zambians then the investors. The Committee further recommends that the Government should consider limiting the mining activities in green fields, not until there is sufficient capacity to mine and sell the minerals to the betterment of the citizens.

The Committee also recommends as follows.

(i) Invest in Geological survey and mapping

The Committee observes that the Government has not invested in geological survey and mapping of the mineral wealth. The Committee further observes, with concern, that the Government depends on foreign entities to undertake the mineral mapping.

The Committee, therefore, recommends that as a matter of urgency, the Government should invest in geological survey and mineral mapping.

(ii) Expedite the formation of the Mines and Minerals Regulatory Commission

The Committee observes with concern that many of the IFFs occur in the mining sector, a situation exacerbated by having the Ministry of Mines and Minerals Development, as both the regulator and policy marker. Consequently, this has led to poor monitoring and regulation of the sector.

In this regard, the Committee urges the Government to expedite the establishment of the Mines and Minerals Regulatory Commission, which should superintend over the Ministry of Mines and Minerals Development and related matters.

(iii) Invest in laboratory services, technology and monitoring capacity of the Ministry of Mines and Mineral Development

The Committee observes that the Ministry of Mines and Minerals Development is not present throughout the country, as there are only six mining bureaus. This has led to increased illegal mining activities, which aid IFFs. The Committee observes that the Ministry only tests samples of minerals for export, as opposed to examining the whole consignment earmarked for export. The Committee further observes, with concern, that the Ministry's X-ray fluorescence machines only examine the surfaces of the samples.

The Committee strongly recommends that the Government should ensure that the Ministry of Mines and Minerals Development has presence throughout the mining value chain and the country at large. The Committee further recommends that the Government should ensure that the Ministry invests in block-chain technology, drones, and inductively coupled plasma.

(iv) Enact a single comprehensive law to govern financial and economic crimes

The Committee observes that the legal framework consists of numerous pieces of legislation that individually speak to different economic crimes, without comprehensive legislation to govern economic crimes in Zambia. Furthermore, the isolated pieces of legislation are not aligned holistically to address how and in which court, financial and economic crimes may be prosecuted.

The Committee, therefore, recommends that as a matter of urgency, the Government should enact a single law designed to specifically govern financial and economic crimes. The Committee is of the view that this will make it easier, not only for law enforcement agencies and the courts to investigate and prosecute, but also for the citizens to clearly identify and set parameters of what constitutes economic offences.

(v) Strengthen institutional collaboration or establish an Apex Institution for economic crimes

The Committee notes that there are a number of institutions mandated to curb and abate IFFs. However, the Committee observes with concern that there is limited collaboration among the institutions resulting in them working in silos. The Committee takes cognisance, of the fact that FIC has a mandate to develop and implement an effective anti-money laundering and countering terrorism and proliferation financing compliance programme; and to provide intelligence information to other LEAs. However, FIC has no mandate to arrest offenders.

In light of this, the Committee strongly recommends that the Government should enhance collaboration among all investigative wings and financial institutions involved in detecting and abating IFFs. The Committee is also of the considered view that it will be progressive to have an apex institution whose mandate is to focus on economic crimes, through detecting, investigation and arrest.

(vi) Review of the *Anti-Corruption Act. No 3of 2012*

The Committee observes with concern, that section 68 of the *Anti-Corruption Act, No. 3of 2012,* provides indemnity to an accused person who offers to surrender any proceeds of crime and offers to be a state witness. The Committee is concerned that this provision creates room for abuse by people who deliberately acquire assets and funds at the expense of the Zambian people but end up not facing the wrath of the law.

The Committee, therefore, recommends that the Government should review the *Anti-Corruption Act, No. 3of 2012,* to ensure that culprits do not take advantage of the law, knowing they will get away with economic crimes using the indemnity provision in the Act. Therefore, the section must be amended to provide for a minimal sentence.

(vii) Enact a law to prohibit exportation of copper ores and copper cathodes

The Committee observes, with concern, that Zambia exports more of copper ores and copper cathodes, which often are commingled with other precious metals which are not valued for tax purposes due to lack of capacity and modern technological equipment to determine the full composition of the copper ores and cathodes.

In light of the above, the Committee recommends that the Government should consider enacting a law to limit exportation of copper ores and copper cathodes. The Government should also put in place a framework to promote establishment of local infrastructure to process minerals. This will ensure that copper ores and cathodes are fully processed so as to avert the loss of revenue for the undeclared minerals and also create employment for Zambians.

(viii) Enforce the law on beneficial ownership

The Committee observes that the *Companies Act, No. 10 of 2017*, *inter alia*, provides for disclosure of persons behind formation of the company such as shareholders, directors and beneficial owners. The Committee, further takes note that section 2 of the *Financial Intelligence Centre Act, No.46 of 2010,* recognises the Patents and Companies Registration Agency, as the supervisory authority over all companies in Zambia. However, some companies incorporated prior to the enactment of the *Companies Act,* have not fully complied with its provisions.

The Committee, therefore, recommends that the Government should enforce the provisions of the *Companies Act*on the disclosure of beneficial ownership information. The information should be updated regularly and should be placed on the public record. In addition, the Committee recommends that declarations should also be required of all parties entering into Government contracts.

(ix) Expedite the Roll-out of Biometric National Identity Cards

The Committee observes, with concern, the delayed roll-out of the issuance of biometric national identity cards, which has had a ripple negative effect on the tax register. This is because the Green National Registration Card is susceptible to forgery and duplication and therefore, can easily be used in the commission of economic crimes which aid in IFFs.

The Committee, therefore, urges the Government to expedite the roll-out of the issuance of biometric cards. The Committee further urges the Government to ensure that all national registration offices in the country are renovated to house the equipment for biometric cards.

(x) Develop a National Policy on the management of private airstrips to curb smuggling

The Committee observes, with serious concern that Zambia continues to lose natural resources and wildlife through smuggling. The Committee further observes that minerals and wildlife are airlifted using privately owned planes. This has been exacerbated by inaccessibility to most of the private owned airstrips; lack of national presence of the Ministry of Mines and Minerals Development; and poor game management.

The Committee, in this regard, recommends that the Government should, as a matter of urgency, come up with a policy on the management and monitoring of private airstrips. In addition, the defence and security forces should increase inspection of light aircrafts and drones belonging to foreign countries. They should also increase monitoring of aerodromes in rural parts of Zambia that are close to game parks and mining areas.

(xi) Enhance regulatory and enforcement capacity of authorities

The Committee notes that while there are numerous pieces of legislation to detect and combat economic crimes, that lead to IFFs, there are isolated efforts among the enforcement agencies. The Committee observes that numerous reports are released on money laundering and economic crimes without much benefit from either the investigations or enforcement to bring all culprits to book. The Committee further observes that LEAs lack the requisite capacity to investigate, prosecute and adjudicate on financial crimes.

The Committee, therefore, recommends that the Government should strengthen the Anti-Corruption Commission; Auditor General’s Office’s; Financial

Intelligence Centre; Zambia Revenue Authority; and all other Government agencies and institutions mandated to monitor and fight corruption and tax evasion. The Committee further recommends that substantial technical and financial support should be provided to track cases and enhance prosecution.

(xii) Modernise the operations of investigative wings and enhance capacity

The Committee observes that the fight against IFFs is a complex undertaking and that perpetrators are often a step ahead of the investigative wings. This is exacerbated by the fact that most of the investigative wings do not have state-of the-art equipment to track and monitor financial transactions and detect IFFs.

In light of the above, the Committee recommends that the Government should ensure that there is adequate and continuous support in terms of technological advancement and human resources to be able to undertake complex financial investigations. The Committee further recommends that the Government should ensure that investigative wings operate independently without undue political interference.

(xiii) Interlink of the Scanners at the Chirundu one stop Border

The Committee observes with concern that in as much as the one stop border post is meant to enhance speed and efficiency, non-inspection of goods and trucks exiting Zambia on the pretext that they have been cleared from Lusaka creates a loop-hole for smuggling and breeds corruption as there is no self-check of what is done in Lusaka and verified at the point of exit. The Committee further observes with concern that the scanners domiciled on the Zambian border and the Zimbabwean border are not interlinked.

The Committee recommends that the Government should invest in another scanner, to scan goods and trucks exiting Zambia or should ensure that the two scanners on the two sides of the border are interlinked so that officers from the Zambian side are able to verify what is declared on the documents in comparison to the actual goods.

(xiv) Installation of Baggage Scanners at borders

The Committee observes that there are no baggage scanners at Chirundu, Mokambo and Kasumbalesa borders. Officers from ZRA and other agencies fail to physically inspect individual luggage due to brevity of time. The Committee further observes that this creates a loop-hole for people to conceal and smuggle items such as illegally earned money.

In light of this, the Committee recommends that as a matter of urgency, the Government should install baggage scanners at the three border posts.

(xv) Installation of Modern and state-of-art Scanner at Chirundu border

The Committee observes that the scanner installed at Chirundu operates at a slow pace. Consequently, not all trucks are inspected and scanned as ZRA officers use risk management to select which trucks must be scanned so as to avoid prolonged delays and eventually cause unnecessary congestion. The Committee observes that selection of trucks to be scanned is a serious loop-hole for corruption and concealing of exports. The Committee also observes that the scanner was damaged by a certain transporter.

The Committee recommends that the Government should invest in a modern scanner to enhance speed and ensure that all trucks are scanned. The Committee further recommends that in the short term, the Government should invest in a dry port to provide parking space. In addition, the Committee recommends that the insurance company should expeditiously repair the scanner.

(xvi) Prioritise Funding to the Departments domiciled at borders

The Committee observes with concern that the agencies operating from the borders are operating below the required staff establishment due to insufficient funding. While acknowledging that the resource envelope is constrained, the Committee is of the considered view that the Government should prioritise funding of the various departments at the three borders and ensure that all departments are fully functional to assure financial flow and curbing of IFFs.

(xvii) Establish the border line demarcations between Zambia and DRC

The Committee observes with concern that Mokambo and Kasumbalesa borders are too porous and lack well defined demarcations. As a result, smuggling is rampant. The Committee also observes that the no-man's land at both borders has been encroached and structures built thereon. Furthermore, numerous illegal activities are being undertaken at both borders.

In this regard, the Committee recommends that to curb smuggling, and properly define the no-man's land, the Government should, as a matter of urgency, ensure that proper demarcations between the two countries are properly defined. In addition, wall-fence parameters should be built; and security cameras installed to enhance security. The Committee also recommends that in the short to medium term, the Government should provide sufficient transport and manpower for enforcement activities.

(xviii) Establishment of Parking Yards at border posts

The Committee observes that while ZRA is working on improving efficiency through state-of-the-art equipment and use of online platforms, there is huge congestion of trucks at both Mokambo and Kasumbalesa as there are no parking yards.

The Committee, therefore, recommends that the Government should engage the private sector to invest in parking yards for trucks to park while waiting for customs formalities. The financial sector should also be engaged to provide banking facilities. The Committee also recommends that the Government should consider charging demurrage on the trucks that exceed the five days period provided for transit trucks.

(xix) Decentralise issuance of export permits

The Committee observes that the issuance of export permits is centralised and that lack of a facility for issuance of permits to small scale traders leads to rampant smuggling. The Committee in this regard recommends that the Government should decentralise issuance of export permits.

(xx) Expedite rehabilitation of the Mokambo Road

The Committee observes that the poor state of the road leading to Mokambo Border results in congestion at the border. This is exacerbated by the slow clearance of goods by the DRC counterparts.

The Committee, therefore, recommends that as a matter of urgency, the Government should expedite rehabilitation of the road and also engage the DRC Government to improve the processing time.

(xxi) Enhance supervision and presence of the Ministry of Mines and Minerals Development at mines

The Committee observes with concern that the relevant Government agencies among them ZRA, Ministry of Mines and Minerals Development, do not have a permanent presence at Lumwana mine. The Committee also observes that these only rely on monthly and quarterly reports that are issued by the Mine Management.

The Committee, therefore, recommends that to enhance transparency and integrity with regard to production outputs and revenue generated vis-à-vis taxes that are paid, the Government should ensure that it has a permanent presence at Lumwana mine.

(xxii) Prioritise Funding to the Ministry of Mines and Minerals Development

The Committee observes with reservation that from 2006 to 2023, Lumwana has not liquidated its debt on the initial capital outlay of US$ 7 billion. The Committee also finds it awkward that between 2012 and 2020 the mine recorded losses after profit, but continued to operate. Conversely, while owing its creditors, the mine is conducting explorations for further expansion without recording any stabilisation which should culminate in enhanced tax declarations. The Committee further observes that there is lack of pro activeness on the part of the Ministry of Mines and Minerals Development as it does not conduct proper reviews and monitoring of the operations of the mines vis-à-vis commitments signed to by investors.

The Committee strongly recommends that the Government should rigorously invest in capacity building and data collection to ensure that the Government is up to date with productions reports and tax declarations. The Committee further urges the Government to capacitate the Ministry of Mines and Minerals Development and to ensure that it enhances its role in the mining sector and is not a mere spectator.

(xxiii) Clamp down on the sale of copper cables as scrap

The Committee observes with concern the rampant theft of copper cables, which are later sold as scrap. The Committee further observes that these thefts are increasing the cost of production for the mines.

In this regard, the Committee recommends that the Government should consider issuing a Statutory Instrument that prescribes what kind of scrap should be sold on the market with the exclusion of copper cables.

(xxiv) Empower Zambians to manage the mines and depend on home grown solutions

The Committee observes that KCM is wholly being managed by Zambians without the help of any investor or equity partner. The Committee observes that from 2019, KCM has undertaken measures that can help to revamp the actual mining as opposed to depending on the smelter plant and feed from other mines; and dumped concentrates that were previously mined. The Committee observes that KCM requires US$ 1.2 billion to turn around its operations.

In light of this the Committee recommends that the Government should focus on empowering the Zambians to manage the mine and not to bring back Vedanta nor any other investor. The Committee is of the considered view that considering that Vedanta had defaulted on the provisions of the mining licence, the Default Notice should be enforced. The Committee urges the Government to promptly source for funds, even from the local market as the case is for the Lusaka-Copperbelt dual carriage way. The Committee further recommends that the Government must ensure that the KCM begins to operate expeditiously to regain the lost revenue.

(xxv) Clamp illegal mining and regulate the establishment of smelter plants

The Committee observes with serious concern the lack of Government's resolve to crack down the illegal mining operations at KCM. The Committee observes that the on-going encroachments and illegal mining activities which are well syndicated and mechanised, are a time bomb and may result in failure to professionally manage the mines. The Committee also observers that there is a ready market for the illegal miners and that the mined copper ores are refined by private smelters dotted along Kitwe - Chingola road. The Committee also observes that copper produced from the private smelters is exported without the due declarations of taxes and those who sell the concentrates do not transact using the established financial systems.

The Committee strongly recommends that the Government should amend the *Mines and Minerals Development Act No. 11 of 2015*, to provide stringent measures on the establishment of smelter plants. Furthermore, the Act should make it mandatory for people who export minerals to show proof of the source of the minerals being exported, failure to which such consignments should be confiscated. The Committee further recommends that the Government should consider clamping down smelter plants that have been wrongly established especially in residential areas.

7.0 FOREIGN TOUR TO AUSTRIA

In line with its Programme of Work, the Committee undertook a peer to peer study tour to the Austrian Parliament under the auspices of the European Union through the NIRAS Support to the National Assembly of Zambia II. The objective of the study visit, to the Austrian Parliament by the Planning and Budgeting Committee was to learn how the Austrian Parliament held its Government to account in respect of the budget cycle. The Committee sought to learn practical lessons from the Austrian experience which could be implemented in Zambia on the Committee's oversight on the budget process.

The Committee interacted and had meetings with the following:

i. the Deputy Secretary General of the Austrian Parliament;
ii. the Head of the Parliamentary Budget Office;
iii. the Federal Performance Management Office;

iv. the Court of Audit;
v. the Federal Ministry of Finance;
vi. the Members of the Budget Committee of the National Council;
vii. the Fiscal Advisory Council;
viii. the Democracy Workshop of the Austrian Parliament; and
ix. the Members of the Bilateral Parliamentary Group-Austrian Sub-Saharan Africa.

After extensive engagements with key officers of the Parliament of Republic of Austria, some Members of the Austrian Budget Committee and other relevant institutions in the budget process as listed above, the delegation's findings are highlighted hereunder.

7.1.1 National Council of the Austrian Parliament

The delegation was informed that the Austrian Parliament was bi-cameral with one dominating chamber -the National Council which had 183 members and the Federal Council which had sixty-one members. The electoral system was based on proportional representation. The delegation was informed that the National Council had exclusive competence in budget matters.

The Minister of Finance prepared the budget bills and the Government presented the drafts to the National Council. The National Council was also responsible for the Medium-Term Expenditure Framework (MTEF) and the Federal Finance Act.

The delegation was informed that the MTEF and the national budget were approved by Parliament. Therefore, the MTEF was binding on the Executive as the case was in Kenya, South Africa and Uganda.

The delegation was also informed that Austria had promulgated a new budget law which gave the National Council more reporting requirements and had authority to amend the financial and also the performance information in the draft budget. In addition, the Members of Parliament were given budget documents before the Minister of Finance had presented the Budget Speech.

7.1.2 Parliament and the Budgeting Process

The Federal Law together with the budget statement and the personnel plan were prepared and approved ten weeks before the fiscal year at the latest. Within the year, reports on budget execution, obligations, evaluation of performance of the budget were submitted to Parliament.

The Minister of Finance presented the Budget Speech to Parliament and the Federal President attended the event. After the presentation of the budget, there was no immediate debate by the Members.

The delegation learnt that a day after the Budget Speech, there was the First reading which was premised on broad general debate on government policy and the Minister could take the floor at any time to respond to Members.

Thereafter, the draft budget was referred to the Budget Committee at the end of the debate. The Budget Committee then held public hearings, of experts nominated by the Parliamentary group. The Parliamentary Budget Office also prepared an analysis of the budget in general.

The delegation was also informed that the Committee held debates on the budget chapters (heads) for five days with the Minister of Finance and the respective line Ministers. The delegation learnt that the Committee could amend the budget bill in any way.

At second stage, the report of the Budget Committee was considered and the debate was structured according to the budget chapters. Thereafter, the Annual Budget and the MTEF were voted with a simple majority.

7.1.3 The Parliamentary Budget Office

The delegation learnt that the Parliamentary Budget Office (PBO) of the Republic of Austria was set up to support Parliament's oversight on the budgetary process. The delegation was informed that, unlike the PBO in Kenya, Uganda and the United States of America, the PBO of the Republic of Austria was not established by an Act of Parliament, thereby, compromising its independence to a certain extent. The Head of the PBO in Austria advised on the importance of working towards ensuring that the PBO was established through the legal framework. The key tasks of the PBO were as set out hereunder.

a) Supporting the Budget Committee in the form of written expertise, analysis and short studies on budgetary matters presented by the Government in accordance with the Federal Organic Budget Act, such as the draft fiscal framework and budget, budget execution reports, performance reports, debt reports and subsidies reports.
b) Preparing (short) studies upon request of Members of the Budget Committee.
c) Supporting other parliamentary committees regarding impact assessment of new legislation.
d) Consulting Parliament on performance budgeting and the effective equality of women and men.
e) Participation of the Head of PBO in all meetings of the Budget Committee as permanent expert.
f) Participation in all meetings of the Fiscal Council and the Productivity Board in an advisory function.

g) Publication of all products under the PBO on Parliament's homepage of their website.

i. Capacity of the Parliamentary Budget Office

The success of the PBO depended in part on the capacity of its members of staff. The PBO in the Parliament of the Republic of Austria had a total of eight members of staff with six highly qualified experts with qualifications in economics, fiscal policy and law; and two assistants for data processing, report writing and general support services. These were exposed to high-quality training with on-going knowledge exchange with peer institutions. They also implemented staff exchanges /with the Court of Audit, Central Bank, Institute of Economic Research and the Austrian Statistics. At the time of the visit, two members of staff were on attachment to the Congressional Budget Office in the United States of America and the Irish Research Council in Ireland.

ii. Independence of the PBO

The delegation learnt that in as much as the independence of the PBO of the Parliament of the Republic of Austria was not enshrined in the legal framework, it was established under the principles of independence and non-partisanship. Some of the principles were:

a) the PBO was to work independently and ensure high-quality expertise;
b) the PBO would submit its analyses to all political parties;
c) the PBO would require no approval procedure for its analysis and information for the Budget Committee and Members of Parliament; and
d) the PBO would ensure transparency

The PBO published its products on the homepage of the Austrian Parliamentary website. The production and publishing of the research material and papers did not require approval by Management. The PBO had a stringent quality assurance and a peer-to-peer review research process. This notwithstanding, the PBO faced challenges associated with lack of a legal framework and therefore, envisioned to have all these processes provided for in the law.

The delegation was also informed that the PBO produced written expert analyses and short studies on all budget-related draft documents to parliament which included the following:

a) the MTEF;
b) the Annual Federal Finance Act (Budget) and each of the 35 Budget Chapters;

c) the documents in connection with the European Semester such as the Annual Growth Survey, Austrian Stability Programme and the National Reform Programme;
d) studies upon request by Members of the Budget Committee; and
e) support the Budget Committee to control budget execution, including analysis of monthly reports on budget execution, performance reports, subsidy reports; reports on liabilities, financial debt and public enterprises.

7.1.4 Sector Budget Analysis

The delegation was informed that considering that the Budget Committee was responsible for the national budget, in doing so, sector budget analysis was conducted by way of changing the composition of the Budget Committee. This was implemented by nominating Members with expertise in the policy areas associated with each budget chapter. During these debates, the Federal Minister of Finance and the responsible line Ministers had to be present.

7.1.5 Performance Budgeting

The Government of the Republic of Austria had been implementing performance budgeting. Performance budgeting included the entire spectrum of all government functions. Therefore, in terms of oversight, Parliament decided on outcomes and outputs as part of the annual budget bill. Performance budgeting and outcome orientation was established as an integral part of the parliamentary debate. The following documents on performance management were part of the parliamentary agenda:

a) performance information and in this context also gender budgeting was part of the annual budget documents and of the strategic report accompanying the MTEF;
b) impact assessment was part of the documents for all drafts of new legislation presented by the Government (also impacts regarding equality of women and men); and
c) yearly evaluation reports by the Performance Management Office on internal evaluations of performance budgeting and impact assessment of new legislation/major projects.

7.1.6 Gender-Responsive Budgeting

The Government of Republic of Austria had been implementing gender-responsive budgeting. In doing so, it ensured that all headings, chapters or clusters had an objective on gender-responsive budgeting. Consultation of Parliament on performance budgeting and the effective equality of women and men (gender budgeting) was part of the mandate of the PBO. The analysis of the national budget by the PBO always included a comprehensive section on performance budgeting and gender-responsive budgeting.

7.1.7 Federal Ministry of Finance

The delegation was informed that the Federal Ministry of Finance was responsible for the preparation of the budget. The budget framework focused on three federal administrative States, namely; the Federal Government, State Government and the Local Governments. Each level of Government had its own specific competencies or areas of responsibility but all of them were governed by the budget law.

The delegation learnt that the budgetary legal framework was informed from two fronts. There were rules set by the European Union and these where premised on ensuring stability and growth. On the other hand, the internal rules were anchored on stability and set limits with respect to; structural deficit to growth domestic product, expenditure growth, and debt quota reduction.

The delegation was informed that there were four budgetary functions namely; Government policy function, Economic policy function, Legal function and Financial function. These were guided by four budget principles enshrined in the constitution. The principles were, focus on outcomes, transparency, efficiency, and true and fair view.

7.1.8 Budget Committee of the National Council

The delegation was informed that there were forty-three committees in the Austrian Parliament. Each Committee had not less than twenty members. The delegation learnt that the Budget Committee looked into every ministry's budget performance so as to tighten budget control. The Budget Committee interacted with the various Ministers to appreciate their budgets in relation to the ministries objectives vis-à-vis interpreted in figures. The Budget Committee received monthly statements from the Ministry of Finance on tax performance and expenditure. In addition, quarterly reports were submitted on any budget virements

7.1.9 Austrian Court of Audit

The Austrian Court of Audit (ACA) was one of the institutions involved in the budget process. Its main roles were to ensure sound financial management, promote transparency and accountability and prudent use of public resources. The delegation learnt that the ACA was 260 years old, and championed the efficient spending of public resources. The ACA also audited ministries polices and their financial statements. The delegation learnt that the ACA also prepared its own financial statements for the various ministries to check for consistency. The ACA then submitted the Federal Annual Report to the National Council.

The delegation also learnt that the ACA could at any time, in writing or directly, request for any information it deemed necessary as well as the submission of all books and records of accounts and other materials (such as business documents, contracts, pieces of correspondence) related to accounting from the bodies responsible for the budget management of the Federation, and, also had direct access to the IT–applications related to the budget management of the Federation.

7.1.10 Austrian fiscal advisory council

The Austrian Advisory Council was one of the institutions under the Austrian institution's framework. The Council was under the ambit of the Austrian Central Bank and received its financial support from the Central Bank. The delegation was informed that the Council had seven Members of staff. The delegation learnt that the Council was a fiscal watchdog and worked in conjunction with the Federal Ministry of Finance. The Council was mandated to give independent advice and recommendations to the Ministry of Finance on matters to do with economic forecasts, fiscal stability, and public finance. The delegation learnt that it was necessary to have an entity responsible for analysing the impact of any law on the different economic sectors, albeit Austria did not have such an institution.

7.1.11 Democracy workshop of the Austrian parliament

The delegation was informed that the Democracy Workshop unit under the Austrian Parliament was created in 2007 and its main role of was to make the Austrian Parliament more accessible. The delegation learnt that following the change of the voting age to 16 from 18, Parliament began to run a programme for the children, young adults and apprentices and the target age group was 8 to 18. The objectives of the workshop were to teach what Parliament was about and to teach the attendees on how to express themselves on governance issues, among others. In this regard, all the schools ran programmes where school going children visited Parliament during the school holidays and attended three to five workshops.

7.1.12 Bilateral parliamentary group Austria sub-Saharan Africa

The delegation interacted with the Members of the Austrian -sub-Saharan Africa group to appreciate efforts being undertaken to strengthen the parliamentary friendships. The delegation learnt that the Austrian Parliament had forty-four friendship groups which were a platform to enhance parliamentary diplomacy. The delegation was informed that the Austria sub-Saharan Africa would consider including the Zambian Parliament on its friendship groups, funds permitting and when authority was granted.

Committee's Observations and Recommendations

Arising from the findings and considering the Zambian context, the delegation makes the recommendations as set out hereunder.

a) Independence of the PBO

The Committee observes that independence is one of the hallmarks of the effective operations of the Parliamentary Budget Office. The Congressional Budget Office of the United States of America, the Ugandan Parliamentary Budget Office and the Kenyan Parliamentary Budget Office are established by the law. Although the Austrian PBO is not established under the law, the process of law reform in this regard in that country is underway. This notwithstanding, the PBO in Austria had been striving to operate independently following a resolution of the House. The products of the PBO are not subject to approval by Parliamentary administration and neither are their publications.

The Committee recommends that the National Assembly of Zambia should move towards making the PBO independent to ensure objectivity and transparency.

b) Sector Budget Analysis

The Committee observes that, sector budget analysis has been identified as one of the effective tools of ensuring effective participation of parliament in the approval process of the national budget. This approach is being implemented in the Austrian Parliament including the Parliaments of Uganda and Kenya.

In this regard, the Committee recommends that the Standing Orders should be amended to enhance the role of Committees in the approval process of the national budget in the Zambian Parliament.

c) Capacity of the members of staff of the PBO and Planning and Budgeting Committee

The Committee observes that the work of the PBO is usually demand driven and, therefore, the quality of staff need to inspire confidence in the Members and general members of the public. The level and quality of expertise in the Austrian PBO like most PBOs is very high. The Austrian PBO carefully recruits highly qualified staff, some from multilateral institutions such as the International Monetary Fund World Bank and Ministry of Finance, among other entities; and ensures that they are highly motivated.

Therefore, the Committee recommends that that in order to instil confidence in this Office and to ensure the effective role of the PBO in the budget approval process, the recruitment of new officers in the Zambian PBO should be highly competitive and that capacity enhancement for staff under the PBO and those managing the Planning and Budgeting Committee should be heightened.

d) Performance Budgeting

The Committee observes that in the recent past, most countries including Zambia and the Republic of Austria are implementing Output Based Budgeting (OBB) which is closely related to performance management. However, while the OBB is accompanied by performance management, this has not been fully implemented in Zambia. This is partly because the Zambian Parliament through the Planning and Budgeting Committee and other sector Committees have not asserted itself in requesting for performance reports at budget presentations as is the case with the Republic of Austria. The Committee therefore, recommends that that considering that Zambia is now fully implementing the OBB, Committees of Parliament should request for performance reports from various Ministries, Provinces and Spending Agencies.

e) Twinning of the two Parliaments

In order to ensure that the PBO in Austria stays on course with global socio-economic developments, the PBO in Austria has established the practice of exchange of staff with key institutions such as the Ministry of Finance, the Central Bank, the Institute of Economic Research and the Austrian Statistics. They have also been working closely with their counterpart Parliaments in the Organisation for Economic Co-operation and Development including the Congressional Budget Office of the United States of America. It was also learnt that there are plans by the Austrian Parliament of twinning with the PBO of Kenya. The twinning proposal was extended to the delegation on the possibility of including the Zambian PBO on the programme. Noting the importance of information sharing, the Committee recommends that Management explores the possibility of twinning with the Parliament of Austria for both the PBO and the Planning and Budgeting Committee.

PART II

8.0 CONSIDERATION OF THE ACTION TAKEN REPORT

8.1 Consideration of the Action Taken Report on the Report of Committee on maximising domestic revenue mobilisation vis-à-vis non-tax revenue amidst high public debt obligations for the First Session of the Thirteenth National Assembly

i) Policy Consistency

The previous Committee had observed that frequent changes to the mining fiscal regime, including mineral royalty, discouraged investment, thereby limiting the sector's growth potential. The Committee had recommended that the Government should prioritise designing of a predictable and stable mining fiscal regime that should be hinged on empirical evidence and benchmarked against industry best practices, while ensuring that the mining sector contributed a fair share to domestic revenue.

Executive's Response

The Executive responded that it was cognisant of the fact that, a stable and predictable mining fiscal regime would signal stability in the mining sector and encourage new investments that would result in growth. In this regard, the Government had launched a new National Minerals Resources Development Policy, to enhance transparency and accountability in the administration of the mining sector and to enhance the oversight and regulation of the sector, through the establishment of a mining regulatory commission. The Mines and Minerals Commission would oversee and regulate sector contributions and improve Government revenue collections from the sector.

In addition, the Ministry of Mines and Mineral Development, was undertaking the review of the *Mines and Minerals Development Act, No. 11 of 2015,* to provide for consistency and stability in the mining tax regime.

Committee's Observations and Recommendations

Notwithstanding the Government's commitment to ensuring a stable and consistent mining fiscal regime, the Committee reiterates its previous recommendation and observes that the mining sector performed poorly in the fourth quarter of 2022. The Committee urges the Government to expedite the reforms and to ensure that it only implements targeted incentives, as opposed to wholesale incentives that target all players in the sector. The Committee resolves to keep the matter open and will await a progress report.

ii) Balance between Non-Tax Revenue enhancement and citizen's welfare

The previous Committee had observed that while there was need to increase the share of Non-Tax Revenue (NTR) to total domestic revenue and GDP, most sources of NTR such as fees, charges and fines, among others, tended to overburden citizens and consequently had negative implications on the ordinary Zambians. The Committee had, therefore, recommended that in its quest to enhance NTR, the Government must strike a balance between revenue enhancement and safeguarding the welfare of ordinary Zambians.

Executive's Response

The Executive reported in the Action Taken Report, that it had taken note of the recommendation to balance between enhancement of non-tax revenue collection and safeguarding the welfare of the ordinary Zambian citizens. The Government would ensure that factors such as affordability; inflation; service delivery alternatives; and service efficiencies were considered when pricing Government services. The Executive further reported that when collecting non-tax revenue, the primary goal of the Government was to ensure that service delivery was citizen-centric, seamless and hustle free.

Committee's Observations and Recommendations

The Committee observes that in as much as the Government has taken note of the previous Committee's recommendation, service delivery is not seamless and hassle-free, as most citizens are struggling to get most of the public goods and services without impediments. In this regard, the Committee resolves not to close the matter and urges the Executive to provide researched information on how service delivery is being done among the various sectors. The Committee will await a progress report.

iii) Measures to increase the contribution of revenue from the mining sector

The Committee previously had acknowledged the fact that although the re-introduction of mineral royalty, as a deductible expense for corporate income tax assessment purposes, was associated with revenue loss, the measure was envisaged to spur investment in the sector, thereby creating jobs and increasing revenue in the form of taxes in the long run. This notwithstanding, the Committee had recommended that in order to hedge against further revenue loss, as a result of transfer pricing and other illicit financial flows, the Government should invest in capacity building for institutions responsible for the auditing of mining companies in order to safeguard against vices that eroded both tax and NTR.

Executive's Response

The Executive reported that the tax base erosion and profit shifting had become a global challenge on revenue mobilisation. In order to collaborate with other countries to address revenue leakages through base erosion and profit shifting, Zambia was a member of the OECD/G20 Inclusive Framework on base erosion and profit shifting. As such, the Government would fully implement the base erosion and profit shifting minimum standards to curtail base erosion and profit shifting challenges. Furthermore, the Government would augment transfer pricing audits following the revision of transfer pricing regulations and issuance of documentation rules in 2018. The Executive fully agreed with the Committee's observation and recommendation that capacity building was paramount to safeguarding the revenue base from undue tendencies of international capital flows.

Committee's Observations and Recommendations

The Committee notes the strides made, but, observes, with concern, the failure by the Executive to fully implement capacity building to give enough confidence that the institutions charged with the responsibility of supervising companies mining, have sufficient proven capacity to safeguard against vices that erode tax and NTR.

In this regard, the Committee strongly urges the Government to ramp up its efforts to ensure that the country has personnel with requisite skills comparable to would-be investors in the mines. The Committee resolves to await a progress report on the matter.

iv) Standardisation of Data Computation and Reporting

The previous Committee had noted, with serious concern, the significant disparities in data relating to NTR from various MPSAs and the Zambia Statistical Agency. This was primarily because of misclassification of the composition of NTR. This distortion in data had the potential to affect policy formulation, and made it difficult to benchmark with other countries. In this regard, the Committee had strongly urged the Government to adopt uniform classification criteria and ensured that all MPSAs strictly adhered to the criteria. The measure would eliminate the disparities and would correctly inform policy formulation.

Executive's Response

The Executive reported that it had taken note of the recommendation to ensure that data relating to non-tax revenue between MPSAs and the Zambia Statistical Agency had no disparities. To avoid the disparity, the Government would re-emphasise to MPSAs to use standardised data computation and report format as stipulated in Government Finance Statistics Manual, an internationally recognised statistical reporting framework.

Committee's Observations and Recommendations

While noting the Executive's commitment, the Committee resolves to await a progress report on the actual implementation of the previous Committee's recommendation which should stipulate a reconciliation report of MPSAs which would have been assessed to ensure they are either using the standardised date or not. The Committee will await a progress report.

v) Strengthen supervision of State-Owned Enterprises

The previous Committee had observed that SOEs remained a critical source of employment, public service provision, and socio-economic development. However, the underperformance of these institutions had led to continued transfer of funds from the Treasury to sustain their operations. This had denied the Treasury the opportunity to collect profits and dividends, as well as interest that could have been earned if that money had been invested elsewhere. In light of this, the Committee had strongly recommended that the Government should undertake a comprehensive review of the general performance of SOEs and develop robust reforms to improve the efficiency in the operations and performance of SOEs.

Executive's Response

The Executive reported that the Government was undertaking the following measures to improve the monitoring and supervision of SOEs:

a) SOEs Reforms

A draft revised SOEs Policy had been developed awaiting approval from Cabinet Office. The SOE policy would improve efficiency and effectiveness in the monitoring and supervision of SOEs and Statutory Corporations and facilitate the creation of value for money Government investments. The Policy would ensure that targets were developed that would be used on which SOEs would be appraised.

b) Performance of SOEs

Guidelines on Governance, Supervision and Performance Monitoring of SOEs, were developed and were in place, awaiting printing, launching and sharing with SOEs on the shareholder expectations. The guidelines would define the roles of the shareholders and administrative Ministries to avoid overlapping of functions.

c) Appointment of Boards

The process of appointing Board Members had continued and an update of a database for all Board SOEs and Statutory Bodies was being undertaken. Further, the Ministry of Finance and National Planning, through its SOEs draft policy and guidelines, was clear on the roles of the shareholders, Boards and Management, including that of line Ministries.

Committee's Observations and Recommendations

The Committee observes the strides made and resolves to await a progress report on the implementation of the draft SOEs Policy and also the launch of the Guidelines on Governance, Supervision and Performance Monitoring of SOE.

vi) Facilitate a Conducive Business Environment for the Manufacturing Sector

The previous Committee had observed that in as much as NTR was an important source of income for Zambia, the large component of statutory fees, such as workers' compensation fees; penalties and other licence fees and permits, was increasingly becoming a serious cost for doing business in the manufacturing sector and consequently, a disincentive. Further, the high cost of doing business in the manufacturing sector negatively affected the competitiveness of local products against foreign products in domestic and export markets. In light of this, the Committee had strongly recommended that in order to provide a conducive business environment, the Government should revise and streamline the structure and requirements of statutory licenses and permits in order to ease business set up and continuity, especially for small, and medium enterprises.

Executive's Response

The Executive reported that the Government, through the Business Regulatory Review Agency, had been streamlining the structure and requirements of statutory permits and licenses for the business community, including the Micro, Small and Medium Enterprises.

The Agency was established to provide efficient, cost effective and accessible business licensing system and to provide interventions to guide regulatory agencies when regulating and licensing business activities in accordance with a law under their mandate. The aim was to create a conducive business environment and reduce the cost of doing business among business enterprises including the Micro, Small and Medium Enterprises

The Executive further reported that to reduce the cost of doing business, there was need to rationalise the number of statutory licenses and permits that were needed to operate in the manufacturing sector. This measure would result in a more favourable business environment. To further support business growth and expansion, Government would amend the *National Pension Scheme Act, Cap 256 of the Laws of Zambia,* to make the penalty regime less punitive to employers. This would also encourage compliance and registration of new employers. Further, Tax incentives were further provided to private sector investments established in Government Multi-Facility Economic Zones and industrial parks. The Ministry of Small and Medium Enterprise Development was created in September 2021, to promote the Development and Growth of Cooperatives, Small and Medium Enterprises. Such initiatives were aimed at developing sectors that contributed to non-tax revenue collections.

Committee's Observations and Recommendations

The Committee extols the Government for the efforts being undertaken to reduce the cost for doing business in the manufacturing sector. The Committee, however, resolves to await a progress report on the efforts being undertake to streamline the structure and requirements of statutory permits and licenses for the business community, including the Micro, Small and Medium Enterprises.

vii) Enhance use of ICT Services

The previous Committee had noted that some user fees and fines such as the issuance of National Registration Cards were still collected manually and was of the view that this was a recipe for revenue leakages. In this regard, the Committee had urged the Government to migrate all Government revenue generating services to the e-Government system in order to enhance revenue collection and transparency.

Executive's Response

The Executive reported that the Government, through the Ministry of Finance and National Planning; and Smart Zambia Institute, had designed, developed, and commissioned the Government Service Bus and Government Payment Gateway to provide various public services and collect NTR online.

The project had been going on from the year 2020. As at the time of the report, 235 services across various Government departments were available on the Government Service Bus for collection of NTR.

Committee's Observations and Recommendations

The Committee notes the response and urges the Government to expedite the process of transferring all Government revenue generating services to the e-Government system in order to enhance revenue collection and transparency.

The Committee is of the view that 235 services is paltry. The Committee will await a progress report.

viii) Enhanced Public and Private Participation

The previous Committee had noted that effective partnerships between the Government and the private sector in the tourism sector were key. It was the view of the Committee that this synergy presented an opportunity for the Government to appreciate the tourism environment and the challenges that surrounded the business environment. In order to develop appropriate policies and strategies and provide a functioning tourism sector to forge strong partnerships, the Committee had strongly recommended that the public and private sector should establish strong partnerships aimed at enhancing a functioning sector to attract investment.

Executive's Response

The Executive reported that the Government and the private sector would undertake a holistic approach to reviewing the sector and identify factors that affected the costing and pricing in the tourism sector and implement the necessary measures in order to attain the necessary competitiveness to attract more tourists and investment in the sector. For example, the Government had proposed to suspend customs duty on imports of selected fixtures and fittings; capital equipment; machinery; and safari game viewing vehicles in order to stimulate growth in the tourism sector.

Committee's Observations and Recommendations

The Committee notes the Executive's commitment and resolves to await a progress report on the actualisation of the plans to take a holistic approach to identify factors affecting the pricing and costing in the tourism sector and also on Government's resolve to suspend customs duty on selected imports.

ix) Review Operations of Tour Guides and Tour Operator

The previous Committee had observed that the agreement which Zambia entered into with the World Trade Organisation had proven to disadvantage local tour operators. Of particular note was the practice where tour operators from neighbouring countries could freely operate in Zambia as tour guides without paying the necessary fees that were demanded from the local operators. On the contrary, Zambian tour operators did not have the same privilege but were, however, required to register a company to provide similar services in neighbouring countries. In light of this, the Committee had strongly urged the Government to undertake a comprehensive review of the operations of local tour guides and tour operators to ensure that they were not disadvantaged.

Executive's Response

The Executive reported that the Ministry of Tourism had taken note of the Committee's recommendation to undertake a comprehensive review of operations of local tour guides and tour operators to ensure that they were not disadvantaged. In this regard, the Ministry had planned to engage the private sector to address bottlenecks faced in this regard.

Committee's Observations and Recommendation

The Committee notes the response and resolves to await a progress report on the planned engagements between the private sector and the Ministry of Tourism.

x) High Cost of Mining Operations

The previous Committee had observed that the cost of doing business in the mining sector was high, especially when a mine was not operating at full capacity. Particularly, the Committee had noted that Mopani Copper Mines was unable to expand production due to financial challenges and bureaucracies around acquiring a credit facility. The Committee had further observed that the US$10 million dollars Mopani Mine was paying for power to Copperbelt Energy Corporation per month was too high. Cognisant of the ongoing processes between the Ministry of Finance and National Planning in the quest to access a credit facility, the Committee had strongly urged that ZCCM Investment Holdings (ZCCM-IH) being the sole shareholder of Mopani Copper Mine, to urgently expedite finalisation of the processes relating to credit in order to facilitate completion of the remaining works to enable the mine to operate at full capacity.

Executive's Response

The Executive reported that ZCCM-IH had engaged Rothschild & Sons Consultations, an investment bank to assist with the strategic review of Mopani Copper Mines to ensure its sustainability and continued development. The Consultant was to advise on the Mopani operations including among others the Glencore-ZCCM-IH deal that might need to be reviewed.

Committee's Observations and Recommendations

The Committee notes the response and resolves to await a progress report on the efforts to revamp the operations of Mopani and requests an update on the US$10 million dollars which Mopani Mine was paying for power to Copperbelt Energy Corporation per month was deemed to be too high.

xi) Capacity enhancement

The previous Committee had observed, with concern, the lack of capacity building of officers in charge of revenue generation and collection in public institutions, including local authorities, which led to uncollected revenue and revenue leakages. In order to enhance revenue generation, the Committee had recommended that officers in charge of revenue generation and collection should be capacitated in resource mobilisation in order for them to be able to discharge their mandate effectively and avoid loss of revenue due to lack of capacity.

Executive's Response

The Executive reported that the Treasury had taken note of the Committee's observation and recommendation on the need to build capacity of officers charged with the responsibility of revenue generation and collection in Local authorities. In this regard, the Treasury had developed a draft Medium-Term Revenue Mobilisation Strategy (2023 – 2026), which was yet to undergo a stakeholder consultative process before finalisation and subsequent implementation. This strategy was, therefore, aimed at increasing revenue generation and collection in local authorities to 2 per cent of GDP by 2026 to ensure adequate provision of services. Further, the Treasury, in collaboration with USAID Local Impact Governance Project, managed to train 287 revenue collectors who were drawn from all the local authorities in Muchinga and Central provinces. The training was aimed at strengthening and improving revenue collection and contribute to improved service delivery by focusing on the following areas; processes and procedures involved in revenue collection and management in compliance with the *Public Finance Management Act, No. 1 of 2018* and Public Finance Management (General) Regulations of 2020; improve control and security of accountable documents (revenue documentation); ensure accountability of the revenues collected; and reduce revenue leakages in local authorities to improve revenue collection.

Furthermore, the Treasury was in the process of developing a computerised financial management information system for local authorities, which would l also have a Revenue Module with enhanced controls and a payment platform that would enable consumers of public services delivered by local authorities to make payments using mobile money, internet banking and thus reduce cash payments that were susceptible to fraud. The Treasury, in collaboration with other key stakeholders, was also in the process of developing a comprehensive Capacity Development Plan, aimed at enhancing revenue generation and collection to ensure adequate service provision, as well as address liquidity challenges being faced by local authorities.

Committee's Observations and Recommendations

The Committee extols the Executive on the strides made and resolves to await a progress report on the draft Medium-Term Revenue Mobilisation Strategy (2023 – 2026), which is yet to undergo a stakeholder consultative process before finalisation and subsequent implementation; the development of a computerised financial management information system for local authorities and the development of a comprehensive Capacity Development Plan aimed at enhancing revenue generation and collection to ensure adequate service provision, as well as addressing liquidity challenges being faced by local authorities.

xii) Pilot Centralisation of Non-Tax Revenue in Local Authorities

The previous Committee had noted the robust measures undertaken by the republic of Uganda such as the centralised collection of NTR by the Uganda Revenue Authority and its subsequent remittance to the Consolidated Fund, had contributed to a boost in NTR.

In the Zambian context, the Committee had observed, with concern, that although collections by local authorities were not channelled to central Government, a substantial proportion of potential revenue remained uncollected coupled with under declaration and unaccountable revenue. The Committee had noted that the potential for local authorities to collect NTR and guarantee self-sustainability, was immense and would relieve Government of the constant financial support for their operations if robust measures were to be implemented.

In order to boost NTR contribution to the Treasury, the Committee had recommended the following measures and urged the Government to:

a) consider piloting centralised collection of NTR in selected local authorities by a suitable institution with a possibility of rolling out the measure, depending on the outcome of the pilot;

Executive's Response

The Executive reported that the observation and recommendation was well noted and that the Treasury would constitute a Technical Working Group in order to review the possibility of centralising the collection of Non–Tax Revenue by local authorities and make recommendations.

Committee's Observations and Recommendations

The Committee welcomes Government's positive response and resolves to await a progress report.

b) consider appropriation of local authorities' budgets by the National Assembly and fund the councils according to the budget while considering revenue mobilised by councils. This was in order to reduce fiscal distortions.

Executive's Response

The Executive reported that under the exiting legal framework, the National Assembly appropriated grants that included the Local Government Equalisation Fund; the Constituency Development Fund; and grants in lieu of rates to local authorities. However, it may not be possible to appropriate own source revenue by the National Assembly under the subsisting legal framework. Notwithstanding the above, the Treasury would constitute a Technical Working Group in order to review the recommendation considering the subsisting legal framework and consider what legislative changes may be required to achieve what was being proposed.

Committee's Observations and Recommendation

The Committee notes the response and resolves to await a progress report on constitution of a Technical Working Group in order to review the Committee's recommendation.

8.2 Consideration of the Action-Taken Report on the Committee's Report for the Fifth Session of the Twelfth National Assembly

The Committee considered the Action-Taken Report on the Committee's Report for the Fifth Session of the Twelfth National Assembly as outlined below.

The Impact of Trade and other Partnership Agreements on the National Budget

i. Policy and Legal Framework

While noting the response from the Government regarding the previous Committee's recommendation to ensure that all legal and policy provisions on trade partnerships were fully implemented without any further delay and to give specific time frames, the Committee had urged the Government to expedite the implementation process. More importantly, the Government should urgently attach timeframes to the implementation process in order to be able to measure progress and for budgeting purposes.

Executive's Response

The Executive reported, through the Action Taken Report, that the Government had taken note of the observation by the Committee and would attach time frames to the implementation process in order to be able to measure progress and for budgeting purposes as urged by the Committee.

Committee's Observations and Recommendations

The Committee observes that it has taken an inordinate time for the Government to attach timeframes, which provide a yard stick for monitoring and evaluation. The Committee reiterates its previous recommendation and urges the Executive to expedite the attaching of timeframes to the implementation process.

ii. Poor Competitiveness by the Manufacturing sector

While the previous Committee had noted that trade remedy measures such as safeguard measures, anti-dumping and countervailing measures, stipulated in the various trade agreements had been domesticated, the Committee had strongly urged the Government to strictly enforce these measures to the letter. The Committee had further urged the Government to expedite the enactment of the Trade Remedies Bill, which was envisaged to provide for investigative methods for trade remedies.

Executive's Response

The Government noted the guidance by the Committee and indicated that the Trade Remedies Layman's Bill, had been finalised and was in the process of being submitted to the Ministry of Justice for legal drafting before submitting to Parliament for enactment. Government was hopeful that the Bill would be enacted into law in the second quarter of 2023.

Committee's Observations and Recommendations

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

iii. Due diligence before ratifying trade agreements

The previous Committee had appreciated the level of consultation undertaken in the process of ratification of international agreements. The Committee, had however, reiterated that an analysis of the existing trade agreements should be undertaken in order to establish and address the challenges.

Executive's Response

The Executive reported through the Action Taken Report that the Government had taken note of the recommendation of the Committee on the need for the Ministry to conduct a cost benefit analysis of the existing trade agreements to ascertain which of the agreements were relevant and beneficial to the country. The Executive further submitted that the process on the analysis of the existing trade agreements would commence as soon as resources were availed for the analysis.

Committee's Observations and Recommendations

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

iv. Landlocked amidst poor road infrastructure

The Committee had noted the response on the transport infrastructure development programme. The Committee, had however, requested the Government to provide the status on this programme and to categorically state whether or not there were any pending roads to be worked on.

Executive's Response

The Executive reported, through the Action Taken Report, that the Government had taken note of the Committee's recommendations. Further, it reported that the implementation of the Link Zambia 8000 Road Project had been hampered by financing challenges resulting into some contracts on the project being terminated to avoid loss of funds by the Government through costs due to standing time and other contractual time related obligations. The Government had adopted a systematic approach in the implementation of the project by first considering construction of economic roads while pushing other roads to future work plans when funds permitted. The Government was also considering prioritising roads that could be self-financed through Public Private Partnership (PPP) model. Some of the roads being considered for PPP included the following:

(a) upgrading to dual carriageway of the Lusaka to Ndola Road (320km);
(b) rehabilitation of the Chingola Kasumbalesa Road (35km);
(c) construction of the Kasomeno to Mwenda Road (85km);
(d) upgrading to dual carriageway to Chingola to Solwezi to Mutanda Road;
(e) the Sioma-Shangombo Road (175km);
(f) the Lufwanyama-Kankolonkolo – Kasempa Road (255km);
(g) the Kasempa – Kaoma Road – Luampa Junction Road (280km);
(h) the Luampa Junction – Machile - Shangombo Road (340km); and
(i) the Livingstone – Katima Mulilo Road (225km).

The actual implementation for the PPP projects would commence upon signing of the Concession Agreement for the respective projects and attainment of financial closure. The Government had also prioritised undertaking PPP viability studies for various projects to ascertain the possibility of undertaking the said projects using the PPP mode of financing. The viability of the same would be determined once the studies had been completed. The preparation of the procurement process for consultants to undertake the viability studies was underway and tenders were envisaged to be floated before the end of August, 2022.

Committee's Observations and Recommendations

While commending the Executive for taking a magnanimous step with regard to outstanding road contracts, the Committee notes, with concern, that it is taking too long for the Government to embark on most of the roads earmarked for PPPs. The Committee also observes that the preparation of the procurement process for consultants to undertake the viability studies is outside the planned timeline of ensuring that this was done before the end of August, 2022. The Committee urges the Executive to expedite the processes and resolves to await an update on the matter.

8.3 Consideration of the Action-Taken Report of the Budget Committee for the Fourth Session of the Twelfth National Assembly

i. Strengthening enforcement for decent job creation

Following the Executive's response to the previous Committee's recommendation to fully enforce the various pieces of legislation that related to jobs for the locals, the Committee had noted that there were still low levels of compliance established during labour inspections. The Committee had requested the Executive to give an update on the measures taken to enhance compliance levels with respect to casualisation.

Executive's Response

The Executive reported, in the Action-Taken Report, that the Government, through the Ministry of Labour and Social Security, had a pivotal role of conducting Labour Inspections to ensure that there was compliance with the Zambia Labour Laws. Labour Inspection in a broad perspective formed an integral part of the labour administration system for the supervision and implementation of labour legislation and the principle of the labour policy into the workplaces to ensure decent work.

To enhance this mandate and reduce casualisation, the Ministry of Labour and Social Security had increased the budget allocation to Labour Inspections from

K4, 944,444 in the 2021 budget, to K7, 452,018 in the 2022 budget. Further, the Ministry of Labour and Social Security had undertaken the following measures:

i) sensitisation of employees and employers on the Zambian labour laws with particular reference to casualisation;
ii) engaging trade unions to assist in the fight against any employer identified to be engaged in casualisation practices;
iii) improving access to financial opportunities for individuals through Constituency Development Funding; and
iv) sanctioning penalties to employers who were non-compliant in accordance with the *Employment Code Act, No. 3 of 2019*.

It was worth noting that the low levels of compliance with regard to compliance levels in relation to casualisation, was not as a result of weak legislation, as the law was all-encompassing, but for the following reasons:

i) high poverty levels leading to individuals being desperate to work as casual employees;
ii) lack of opportunities for individuals to access financial facilities so as to enhance entrepreneurship;
iii) low literacy levels leading to lack of opportunities in the organised sector;
iv) flexibility in terms of working conditions; and
v) failure to conduct special follow-up labour inspections due to inadequate transport and understaffing of labour inspectors.

Committee's Observations and Recommendations-

The Committee notes the response and commends the Government on the measures taken. This notwithstanding, the Committee observes, with concern, the reasons as to why there are low levels of compliance. The Committee urges the Government to find progressive solutions to the causes of low compliance as indicated in the Executive's response. The Committee awaits an update on the matter.

ii. Performance Contracts for Civil Servants

The previous Committee had commended the Government for fully rolling out the performance contracts in line ministries to all Directors and Assistant Directors, in addition to Permanent Secretaries. Cognisant of the negative effects of the COVID-19 Pandemic on implementation of the measure, the Committee had urged the Government to expedite rolling out performance contracts to local authorities.

Executive's Response

The Executive reported, through the Action-Taken Report, that it had noted the Committee's observations and recommendations and that stakeholder consultations with Principal Officers from local authorities to secure their buy-in on the form that the performance contracts would take, had been concluded. The draft document was due for consideration by the Committee of Permanent Secretaries and the Local Government Service Commission in the first quarter of 2023.

Committee's Observations and Recommendations

The Committee reiterates it`s previous recommendation and resolves to await an update on the consideration of the proposed performance documents by the Committee of Permanent Secretaries and the Local Government Service Commission in the first quarter of 2023.

iii. Weak Monitoring of Decent Employment Creation

The previous Committee had noted the response and resolved to keep the matter outstanding until Treasury authority was granted for the Zambia Statistics Agency to recruit relevant staff to analyse, monitor and disseminate different types of statistical information, including labour force survey.

Executive's Response

The Executive reported that the Zambia Statistics Agency was a grant aided institution, which did not require Treasury Authority from the Ministry of Finance and National Planning in order to recruit its staff. It was important to note that Zambia Statistics Agency in its subsisting form had been able to carry out its mandate competently. However, the institution planned to restructure itself in order to strengthen its capacity to timely handle a variety of statistical data, including labour force related data. The plans would be implemented once the fiscal space was created.

Committee's Observations and Recommendations

The Committee reiterates its previous recommendation and resolves to keep the matter open.

iv. Skills Development

The previous Committee had noted the support being rendered by Technical Education, Vocational and Entrepreneurship Training Authority, to small and medium sized enterprises and the youth in the informal sector. The Committee, had however, urged the Government to expedite the drafting of the Bill to repeal and replace the *Apprenticeship Act, No. 36 of 1964.*

Executive's Response

The Executive reported, through the Action-Taken Report, that the Government through the Ministry of Technology and Science took note of the Committee's observation and recommendations and reported that Cabinet, at its 3rd Meeting held on 22nd February 2022, approved in principle to repeal and replace the *Apprenticeship Act, No. 36 of 1964,* as the Ministers of Technology and Science; and Labour and Social Security recommended, respectively. The approval was given to facilitate the review of the Act and the introduction of a Bill in Parliament to repeal and replace the *Apprenticeship Act* to replace it with the Work-Based Learning Bill. Following the said approval, a roadmap was developed to review the Act, and an inception meeting with stakeholders was held. The national consultations and validation meetings would be part of this process. The Committee would be updated on the review process of the Act.

Committee's Observations and Recommendations

The Committee commends the Executive for the resolve to repeal and replace the *Apprenticeship Act, No.36 of 1964*. The Committee resolves to await an update on the finalisation of the process.

v. Investment in Research and Development

The previous Committee had noted the detailed response by the Executive and awaited an update on the review of the *Science and Technology Act, No. 26 of 1997.*

Executive's Response

The Executive reported, in the Action-Taken Report, that the Government had taken note of the Committee's observation and reported that Cabinet at its sitting on Monday, 8th August, 2022 approved, in principle, the review of the Science, Technology and Innovation Policy, new Government mandate and other emerging technologies. Following this approval, it was expected that the review process of the Act would be completed in the second quarter of 2023.

Committee's Observations and Recommendations

The Committee commends the Executive on the resolve to amend the *Science and Technology Act, No. 26 of 1997* to ensure that it is in tandem with the provisions of the 2020 National Science, Technology and Innovation Policy. The Committee awaits an update on the matter.

8.4 Consideration of the Action-Taken Report of the Budget Committee for the Third Session of the Twelfth National Assembly

i. Phasing Out of Second-Hand Clothes

The previous Committee had urged the Government to expedite the establishment of well-structured cotton value chain and modalities to bring to fruition phasing out of second-hand clothes.

Executive's Response

The Executive reported that the Government, through the National Industrial Policy, had laid out a clear value chain for various sectors including the cotton value chain which would see the phasing out of second-hand clothes eventually.

Committee's Observations and Recommendations

The Committee observes with serious concern that a well-intended resolution has taken an inordinate time to implement. The Committee observes that in as much as a clear value chain for various sectors, including the cotton value chain was established, failure to promptly implement the resolution to phase out the second-hand clothes may end up being a talk show. The Committee resolves to keep the matter open and urges the Executive to expedite the implementation.

8.5 Maximising Revenue Collection from Mines in Zambia – A Case of Mineral Royalty

i. Taxes from mining companies in Zambia

While noting the response, the previous Committee had awaited a progress report on the matter. Furthermore, the Committee had reiterated the guidance that the progress reports should be presented through the Action-Taken Report and not directly to the Committee.

Executive's Response

The Executive reported, in the Action-Taken Report, that the Government, through the Zambia Revenue Authority, with support from the International Governance Forum; Organisation for Economic Co-operation and Development; and African Tax Administration Forum, succeeded in formulating the property transfer tax manual for mining rights valuation.

The Executive further reported that on the development of a copper practice note Zambia Revenue Authority was yet to engage the International Governance

Forum; Organisation for Economic Co-operation and Development; and African Tax Administration Forum.

Committee's Observations and Recommendations

The Committee notes the response but observes, with concern, that it has taken long to develop a copper practice note, and therefore, urges the Executive to expedite the development of the copper practice note.

ii. ICT enhancement by ZRA

The previous Committee had noted the response and resolved to await an update on the inclusion of the module to electronically capture production and exports of gemstones on the Mineral Output Statistical Evaluation Software in ASYCUDA World.

Executive's Response

The Executive reported, in the Action-Taken Report, that the Mineral Output Statistical Evaluation Software for mineral production reports had been integrated with the ASYCUDA World since 2018. This had made it possible for the automated sharing of the export permits with the ASYCUDA World for the quota count-off functionality. The Government further reported that it was developing the module for the gemstones reporting and export permitting. This was expected to be finalised within the 4thquarter of 2022 and at its roll-out, it would equally be integrated with the ASYCUDA World for the same purpose.

Committee's Observations and Recommendations

The Committee notes the response with concern, as 4thquarter has elapsed without finalisation of the module for gemstones reporting and export permitting. In this regard, the Committee urges the Executive to ensure that this is expeditiously implemented.

iii. Lack of Value Addition in the Cotton Industry

The previous Committee had urged the Government to be deliberate about revising the textile sector in order to diversify economic sectors. Therefore, the Government was urged to expedite the value chain analysis of the cotton and garment sector in order to provide relevant support to the sector. The Committee awaited a progress report on the matter.

Executive's Response

The Executive reported that the Government was committed to stimulating and encouraging value addition to primary products as a means of transforming Zambia into a diversified and competitive industrialised economy. The National Industrial Policy identified eight manufacturing sub-sectors, of which the textiles and garments sub-sector, was one of the priority drivers of industrialisation. In this regard, value addition, through the development of value chains had been prioritised in the planning and budgeting for the Ministry of Commerce, Trade and Industry's activities for the year 2023.

Committee's Observations and Recommendations

The Committee notes that the Executive is committed to ensuring that the textile industry is revived. This notwithstanding, the Committee observes, with concern, that there has been more of strategising on improving the textile sector without tangible results realised. In this regard, the Committee resolves to keep the mater open and awaits an update which is quantifiable and verifiable.

iv. Gemstone mining licensing

The previous Committee had acknowledged the progress recorded thus far in the consultative process of the Mining and Minerals Development Bill. The Committee had urged the Government to expedite drafting of the Bill.

Executive's Response

The Executive reported that the Ministry of Mines and Minerals Development was reviewing the *Mines and Minerals Development Act No. 11 of 2015.*

Committee's Observations and Recommendations

While noting the Executive's commitment to reform the mining sector, the Committee observes, with concern, that it has taken inordinately long to review the *Mines and Minerals Development Act No. 11 of 2015.* The Committee strongly urges the Executive to expeditiously review the Act.

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

i. Introduction of Digital Stamps

The Committee took note of the response and reiterated the recommendation of the previous Committee and awaited a progress report on the due diligence exercise on the selected bidders for the provision of the digital stamps solution including its full implementation.

Executive's Response

The Executive reported, through the Action-Taken Report, that the *Electronic Communications and Transactions Act. No. 4 of 2021,* provided for utilisation of digital and electronic signatures, including digital certificates and digital stamps in the provision of digital Government services by public bodies. The Smart Zambia Institute, working with stakeholders such as the Ministry of Finance and National Planning; Zambia Information and Communications Authority; and the Zambia Revenue Authority, was looking at modalities to implement a number of new applications for the use of the digital signature through the establishment of a public key infrastructure. The due diligence exercise remained a vital and key undertaking to learn important lessons in the successful application of digital stamps in the public service.

Committee's Observations and Recommendations

The Committee reiterates its previous recommendation on the urgent need to have digital stamps. While appreciating the need to undertake due diligence, the Committee expresses concern that the Government continues to lose revenue due to under declarations, especially in the manufacturing sector and therefore, the issue of digital stamps must be treated with extreme urgency.

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

i. Enhance Transparency in National Fuel Procurement

The previous Committee had noted the response and awaited an update on the Petroleum Development and Management Bill.

Executive's Response

The Executive reported, through the Action-Taken Report, that indeed, the Petroleum Development and Management Bill, was submitted to Ministry of Justice for drafting. The Ministry of Justice after drafting the Bill, sent it back to the Ministry of Energy for final validation with stakeholders. In the Process of validation, a need of transforming the petroleum sector into a private-driven sector was envisioned. This consequently necessitated a need to develop a model for bulk petroleum supply that was more of private sector driven nature. The Petroleum Bulk Supply Model was being developed and it was undergoing peer review and consultations with all stakeholders in the petroleum sub-sector.

The development of the Petroleum Bulk Supply Model would mark the finalisation of the draft Bill which would in turn be sent to Ministry of Justice and Parliament for enactment.

Committee's Observations and Recommendations

The Committee takes note of the shift to transforming the petroleum sector into a private-driven sector, which has led to the delay in submitting the Petroleum Development and Management Bill to Parliament. The Committee, therefore, resolves to await an update on the finalisation of the Bill.

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

The previous Committee had noted the progress in clearing the arrears and awaited a progress report on the remaining balance of K210, 316,606.66.

Executive's Response

The Executive reported, in the Action Taken Report, that as of 16th September, 2022, the stock of arrears to agro-dealers stood at K112, 740,688. Additionally, the Treasury had made outlays to the FISP programme over and above the planned levels due to the increase in the cost of fertilizer and the change in the mode of implementing the FISP. This affected the pace of dismantling the legacy arrears. Nonetheless, the Treasury was committed to ensuring that the stock of arrears to agro-dealers was liquidated by end of 2022.

Committee's Observations and Recommendations

The Committee notes the response with regard to the challenges associated with increase in the cost of fertiliser which led to the delay in dismantling the arrears. The Committee observes that the plan to liquidate all arrear s by end of 2022 was not actualised. In this regard, the Committee urges the Executive to ensure that the outstanding arrears are promptly liquidated and awaits an update on the matter.

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

i. Performance Management Bill

The previous Committee had noted the response and resolved to await a progress report on the Performance Management Bill.

Executive's Response

The Executive reported that it had taken note of the Committee's observations and recommendations. The Executive further reported that the on-going stakeholder consultations on the Bill had been widened to include some non-state actors. The process of consultations was expected to be concluded in the third quarter of 2023.

Committee's Observations and Recommendations

The Committee is disappointed that the matter has taken inordinately long spanning a period of over five years. The Committee finds this unacceptable and is of the considered view that failure to ensure that this Bill is finalised is deliberate. The Committee urges the Executive to ensure that the matter is resolved expeditiously.

9.0 CONCLUSION

Illicit financial flows pose a dynamic, sleek and complicated challenge in the country and they have an adverse effect on the budget and its sustainability. The effects of IFFs are evident in Zambia. As reported in the Global Financial Integrity Report, Zambia lost about USD8.8 billion, due to IFFs between 2001 and 2010. Furthermore, majority of IFFs in Zambia, have been in the extractive industry, particularly the copper mining sector. According to a Report of the High-Level Panel on Illicit Financial Flows from Africa, copper accounted for 80 percent of IFFs in Zambia, while the nation accounted for about 65 percent of IFFs in the African continent. In light of the above, the Committee urges the Executive to study its findings and take appropriate action on the recommendations contained in this report.

Mr Fred Chibulo Chaatila, MP
CHAIRPERSON

June, 2023
LUSAKA

APPENDIX I– LIST OF NATIONAL ASSEMBLY OFFICIALS

Mr Charles Haambote, Principal Clerk of Committees (FC)
Mrs Doreen N C Mukwanka, Deputy Principal Clerk of Committees (FC)
Ms Chitalu Mulenga, Acting Senior Committee Clerk (FC2)
Mr Elijah I C Chilimboyi, Committee Clerk
Mrs Edna K Zgambo, Budget Analyst
Ms Luyando N Chilala, Administrative Assistant
Mr Daniel Lupiya, Committee Assistant

APPENDIX II– LIST OF WITNESSES

Ministry of Finance and National Planning
Ministry of Mines and Minerals Development
Bank of Zambia
Anti-Corruption Commission
Centre for Trade Policy and Development
Drug Enforcement Commission
Financial Intelligence Centre
First Quantum Mine
Office of the Auditor General
Office of the President
The Judiciary
Jesuit Centre for theological Reflections
Policy Monitoring and Research Centre
Patents and Companies Registration Agency
Bankers Association of Zambia
Mopani Copper Mines
Konkola Copper Mines
Zambia Statistics Agency
Zambia Institute for Policy Analysis and Research
Zambia Revenue Authority
Zambia Chamber of Mines