REPUBLIC OF ZAMBIA

REPORT

OF THE

COMMITTEE ON PARASTATAL BODIES ON THE REVIEW OF OPERATIONS AND MANAGEMENT OF ZCCM –INVESTMENT HOLDINGS AND ZAMBIA TELECOMMUNICATIONS COMPANY LIMITED

FOR THE

THIRD SESSION OF THE TWELFTH NATIONAL ASSEMBLY

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1.0 Membership of the Committee

The Committee consisted of Mr P M W Daka, MP (Chairperson); Ms P C Mwashingwele, MP (Vice Chairperson); Ms M Lubezhi, MP; Mr A Kasandwe, MP; Mr G Chiyalika, MP; Mr M L Kafwaya, MP; Mr D M Syakalima, MP; Mr B Kambita, MP; Ms J C M Phiri, MP and Mr M Mukumbuta, MP.

The membership of the Committee changed following the appointment of Mr M L Kafwaya, MP as a Cabinet Minister. He was replaced by Mr G Putu, MP. Further, Ms M Lubezhi, MP, and Mr M Mukumbuta, MP were appointed to serve on other Committees. They were replaced by Mr E K Belemu, MP, and Ms P Kasune, MP.

The Honourable Mr Speaker
National Assembly
Parliament Buildings
LUSAKA

Sir

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

2.0 Functions of the Committee

The Committee is a portfolio Committee mandated to play an oversight role on all State owned enterprises (SOEs).In accordance with Standing Order No 157(2); the functions of the Committee are to:

i) study, report and make appropriate recommendations to the Government, through the House, on the mandate, management and operations of the Government ministries, Departments and/or agencies under its portfolio;
ii) carry out detailed scrutiny of certain activities being undertaken by the Government ministries, Departments and/or agencies under its portfolio and make appropriate recommendations to the House for ultimate consideration by the Government;
iii) make, if considered necessary, recommendations to the Government on the need to review certain policies and certain existing legislation;
iv) examine annual reports of Government ministries and Departments under its portfolio in the context of the autonomy and efficiency of Government ministries and Departments and determine whether the affairs of the said bodies were being

managed according to relevant Acts of Parliament, established regulations, rules and general orders;

v) consider any Bills that may be referred to it by the House;

vi) consider international agreements and treaties in accordance with Article 63 of the Constitution;

vii) consider special audit reports referred to it by the Speaker or an Order of the House;

viii) where appropriate, hold public hearings on a matter under its consideration; and

ix) consider any matter referred to it by the Speaker or an Order of the House.

3.0 Meetings of the Committee

The Committee held eighteen meetings to consider the topical issue "The Review of the Operations and Management of ZCCM Investment Holdings (ZCCM-IH) and Zambia Telecommunications Company Limited (ZAMTEL)" during the year under review.

4.0 Programme of Work

According to its approved Programme of Work, the Committee undertook the following activities:

i) Consideration of the topical issue "The Review of the Operations and Management of ZCCM-IH and ZAMTEL."

ii) Consideration of the Action-Taken Report on the Committee's Report on the Management and Operations of the Industrial Development Corporation, for the Second Session of the Twelfth National Assembly.

iii) Consideration of Treasury Minutes on the Report of the Public Accounts Committee for the Fourth Session of the Eleventh National Assembly on the Report of the Auditor General on the Accounts of Parastatal Bodies and Other Statutory Institutions for the Financial Years Ended 31st December, 2012 and 2013; and on the Report of the Public Accounts Committee for the First Session of the Twelfth National Assembly on the Report of the Auditor General on the Accounts of Parastatal Bodies and Other Statutory Institutions for the Financial Year Ended 31st December, 2015.

5.0 Arrangement of the Report

The Report is organised in two parts: Part I presents the findings from the Committee's deliberations on the Review of the Operations and Management of ZCCM-IH and ZAMTEL; tours to Ndola Lime, Misenge Environmental and Technical Services, selected infrastructure belonging to ZAMTEL and the Judiciary. Part II deals with the Committee's consideration of the Action-Taken Report on the Committee's Report on the Management and Operations of the Industrial Development Corporation for the Second Session of the Twelfth National Assembly.

6.0 Procedure adopted by the Committee

The Committee requested detailed memoranda from relevant stakeholders on the topic under consideration. Thereafter, the Committee invited stakeholders to appear before the Committee to make oral submissions.

PART I

TOPICAL ISSUE:

THE REVIEW OF THE OPERATIONS AND MANAGEMENT OF ZCCM INVESTMENT HOLDINGS AND ZAMBIA TELECOMMUNICATIONS COMPANY LIMITED

7.0 BACKGROUND

State owned enterprises (SOEs) contributed to domestic revenue, employment creation and economic growth. Regrettably, SOEs in Zambia had in the past been marred with inefficiencies, high liabilities and poor financial management. Therefore, in order to circumvent some of these problems, the Industrial Development Corporation (IDC) was incorporated in February, 2014 as a company limited by shares under the *Companies Act, Chapter 388 of the Laws of Zambia.* The IDC was wholly owned by the Government through the *Minister of Finance (incorporation) Act, Chapter 349 of the Laws of Zambia*.

The IDC was tasked to spearhead the Government's commercial and investment agenda aimed at strengthening Zambia's industrial base and job creation. The key agenda for the IDC as a holding company for SOEs was to transform the SOEs by re-orienting them towards efficiency, provision of quality goods and services, attainment of viability, and contribution to economic development, while making a return on investment for the shareholder.

In view of the foregoing, the Committee resolved to review the operations and management of two of Zambia's SOEs, namely ZCCM-Investment Holdings (ZCCM-IH) and Zambia Telecommunications Company Limited (ZAMTEL).

7.1 Objectives of the Study

The objectives of the study were to:

i) find out the adequacy of the legal and policy framework governing ZCCM-IH and ZAMTEL;
ii) appreciate the management and control structures governing the two companies;
iii) appreciate the sources of funding and Income;
iv) find out the performance of ZCCM-IH and ZAMTEL;
v) appreciate the challenges faced in the operations and management of the two companies; and
vi) make appropriate recommendations to the Executive.

7.2 List of Witnesses

In its quest to better understand the topical issue under consideration, the Committee interacted with various stakeholders during the period under review. The list of stakeholders who made submissions on the topic under consideration is attached at Appendix II.

8.0 Summary of Submission by Stakeholders

The submissions by the stakeholders are summarised below.

8.1. Policy and Legal Framework Governing ZCCM–IH

The Committee was informed that ZCCM-IH Plc was an investment holdings company which was quoted on the Lusaka, London, and Euronext Stock Exchanges. The Ministry of Finance held 17.2 per cent shares in ZCCM–IH while the IDC held 60.28 per cent shares in the company. Further, the National Pension Scheme Authority (NAPSA) held 15.0 per cent of the shares while the remaining 7.47 per cent were held by institutional and private individual shareholders. The Committee was further informed that ZCCM-IH had an investment portfolio in eighteen companies, including Kansanshi Mining Plc where it had a shareholding of 20.0 per cent, Mopani Copper Mines Plc, 10.0 per cent shareholding and Konkola Copper Mines Plc, 20.6 per cent shareholding. Its shareholdings in the eighteen companies ranged from 10.0 to 100.0 per cent, with commodities and services that were diversified in nature, including copper, gold, cobalt, coal and power, limestone, mining consultancy, financial services and gemstones.

With regard to the legal frameworks governing the operations of ZCCM-IH, the Committee was informed that these included, but were not limited to the following.

(i) The *Companies Act, No. 10 of 2017* which provided for the incorporation, categorisation, management and administration of different types of companies: it provided for shareholders' rights and obligations, conduct of meetings and passing of resolutions by shareholders. The Act encouraged transparency and high standards of corporate governance by providing for the functions and obligations of company secretaries and directors. The Act also provided for issuance of shares, share capital requirements, procedures for alteration and reduction of share capital, and disclosure requirements of companies; the public issue of shares, the issue and registration of charges and debentures. It also incorporated financial reporting provisions, maintenance of accounting records, and access to financial information of companies, as well as amalgamations and deregistration of companies;

(ii) The *Public Procurement Act of 2008*, guided the procurement processes in the company to ensure transparency and accountability in order to promote integrity, fairness and public confidence in the procurement process;

(iii) *Public Financial Management Act of 2018* provided for an institutional and regulatory framework for management of public funds; the strengthening of accountability, oversight, management and control of public funds in the public financial management framework; responsibilities and fiduciary duties of controlling officers and controlling bodies;

(iv) The *Value Added Tax (Amendment) Act, No.15 of 2018, the Customs and Excise (Amendment) Act, No. 19 of 2018, the Income Tax (Amendment) Act, No. 17 of 2018*,which provided for the taxation of income in Zambia, the imposition, collection and management of customs, excise and other duties and Value Added Tax (VAT), respectively; and

(v) considering that ZCCM-IH had a primary listing on the Lusaka Securities Exchange, and secondary listings on the London Stock Exchange and the Euronext Stock Exchange in Paris, it was subject to the listing rules of the three stock exchanges and the regulations of the *Securities and Exchange Act No 41 of 2016*

With regard to the policy frameworks, the Committee was informed that Zambia had achieved important progress in terms of strengthening its policy framework for investment over the past few years. Zambia began to liberalise its trade regime in the early nineties, and embarked on a privatization programme in 1992, initially by targeting a few, small-scale companies. The Government had also articulated the country's long term development objectives in the National Long Term Vision 2030 in which it envisioned creating a diversified, balanced and strong industrial sector, strong and cohesive industrial linkages to enhance productivity with regard to every factor of production. The Committee was further informed that the economic development agenda had also been operationalised by five year National Development Plans in which the Government had outlined its structural reforms with regard to the operations of State owned enterprises in an effort to strengthen their governance and operational efficiency so as to increase their contribution to domestic revenue, employment creation and economic growth.

8.2 Effectiveness of the Model adopted by IDC to manage ZCCM-IH

The Committee was informed that before the IDC was established, the model of managing ZCCMI-IH was such that its shares were held by the Minister of Finance, who was responsible for appointing the board of directors. The model granted the Minister a lot of influence over the Board, and thereby ran the risk of operating like a Government Department and not as a commercial entity. Therefore, the model did not satisfy the principles of good corporate governance such as the independence of the Board.

The Committee was also informed that under the new model, ZCCM-IH worked within the IDC strategic plans and had aligned its strategic plans to those of the IDC, which focused on the change of business models, recapitalisation and maximisation of the value of Government assets. Under this model, it was evident that ZCCM-IH worked under the supervision of the IDC.

The Committee learnt that the effectiveness of the IDC's model in managing ZCCM-IH could only be analysed by benchmarking it against good governance and business management tenets, such as those set out below.

8.2.1 Constituting Boards of Directors for ZCCM-IH

The IDC had constituted a Board of Directors which was independent from management and had a clear separation of powers between the Chairman of the Board and the Chief Executive Officer. Also notable was the diverse composition of the Board for ZCCM-IH which consisted of the private and government sector, with the financial and technical expertise necessary to understand the financial reports and offer technical support to management.

8.2.2 Independence of Board of Directors from Management

The IDC had constituted a Board which was independent from management. This approach ensured that management was accountable to the Board and shareholders' interests were safeguarded.

8.2.3 Separation of Chief Executive Officer (CEO) and Chairman of the Board

The IDC had employed the principle of clearly separating the CEO and the Chairman of the Board in constituting the Board for ZCCM-IH. Accordingly, the Chairman of the ZCCM-IH Board was from the private sector and this could help mitigate any conflict of interest that may arise.

8.2.4 Monitoring and Accountability

The IDC had introduced the submission of periodic reports as a way of monitoring the performance of the company. The IDC jointly with the company developed performance matrices aimed at capturing information on the financial, technical and governance performance of the company. This had allowed for a more comparable analysis of the company's' performance across the board. Secondly, regular reporting facilitated continuous monitoring of the performance of the company which allowed for risk management and timely intervention.

8.2.5Performance-based Incentive Schemes

8.2.5.1 Performance Management Contracts for the Board and Management

The IDC had introduced performance management contracts for the Board and Management officials. These were signed between IDC and the Board members as well as the CEO of ZCCM-IH, making each one of them accountable for their day-to-day operations. These contracts had clearly defined performance targets for both the Board and the CEO, and were the basis for evaluating their performance. This had also implicitly introduced the threat of dismissal in the event that they consistently failed to meet their targets and thus acted as an incentive for management and the Board to act in the best interests of the company.

8.2.5.2 Recognition and Reward system

The IDC had introduced a recognition and reward system for SOEs, under which awards were given to SOEs at an annual conference for outstanding performance. The awards focused on dividend declaration, governance compliance, pay-out ratios and overall performance, among others. The awards were a mechanism for ensuring that SOEs holistically delivered on different aspects of their performance targets. The awards mechanism also created an incentive for healthy competition within the IDC group as SOEs benchmarked their performance amongst themselves, thereby fostering efficiency and innovation.

8.2.5.3 Performance-based bonuses and perks

The IDC had guidelines regarding perks for SOEs which were tied to their performance. For instance, SOEs were encouraged to observe austerity measures. Further, annual bonuses were also tied to the company meeting its benchmarks.

The Committee was informed that taking into consideration the above efforts to ensure good corporate governance, the IDC model was not the best model to use to manage ZCCM-IH in that ZCCM-IH had transformed into a company with the potential to rival its parent holding company, IDC. Further, the Committee was informed that there was a duplication of activities between IDC and ZCCM-IH because both were operating as investment holding companies. It was, therefore, recommended by the Stakeholders that ZCCM–IH should be allowed to continue expanding and diversifying its portfolio but with emphasis on the extractive industry.

The Committee was further informed that the best management model was to transform ZCCM-IH into a sovereign wealth fund (SWF). This would entail that all profits from the assets under ZCCM-IH would flow into the sovereign wealth fund, which could be professionally managed so that the earnings from the extractive industry could develop other sectors and even help liquidate the foreign debt Zambia had accumulated. It was highlighted that sovereign wealth funds had been successful in Russia, United Arab Emirates, Norway and Kuwait, among others. It was further proposed that the Fund should be established under an Act of Parliament with management and operations protected from political influence. The Committee learnt that there were three distinct roles that a sovereign wealth fund could achieve, as outlined below.

(i) Firstly, a sovereign wealth fund could serve as a source of capital for future generations, especially in countries where future generations would no longer be able to rely on commodities for a steady stream of revenue. This applied to Zambia because copper and other mineral reserves were wasting assets and therefore, Zambia had to take hard decisions to safeguard the future of her people. An example of a country where a sovereign wealth fund had served a country well was the nation of Kiribati, a collection of islands in the Pacific Ocean (formerly known as the Gilbert Islands) with a population of fewer than 100,000 residents.

For many decades, the dominant export from the country was guano, bird droppings used for fertiliser. The island's leaders set up the Kiribati Revenue Equalisation Reserve Fund in 1956, and imposed a tax on production by foreign firms. The last guano was extracted in 1979, but the fund remained a key economic contributor. At $600 million, it was ten times the size of the nation's gross domestic product, and the interest generated by the fund represented 30 per cent of the nation's revenue.

(ii) Secondly, a sovereign wealth fund could play a stabilising role by reducing the volatility of Government revenues. Countries that depended on commodities for the bulk of their exports could be subjected to a double loss by shifts in prices, just like many oil exporters were in the mid-1980s and late 1990s. Zambia was no exception having suffered during the 1980s commodity price shock and also as recently as 2015 during shocks to copper prices.

(iii) Sovereign wealth funds could serve as holding companies in which the Government could place its strategic investments. Public leaders were free to invest in domestic or foreign firms for strategic purposes, and the sovereign wealth fund provided a way to hold and manage these stakes.

8.3 Extent to which ZCCM-IH was fulfilling its mandate

The Committee was informed that in order to assess the extent to which ZCCM-IH was fulfilling its mandate, it was important to understand the company's vision and mission, which respectively were:

"to be Zambia's leading diversified investment company;" and

"to be a transformative company with an investment agenda that benefited all stakeholders".

The Committee was further informed that ZCCM-IH had in the last few years evolved from being a receptacle and custodian of shares it inherited under the Privatisation Programme to driving investments in projects such as Lubambe Mines, Maamba Coal Power Plant where it had a shareholding of 35 per cent, the proposed Cement Plant to be the largest in Zambia with a shareholding of 49 per cent, Kariba Minerals (amethyst) with increased ownership to 100 per cent and diversification into property development.

The Committee was further informed that ZCCM-IH was fulfilling its mandate in line with its vision and mission as outlined below.

Return on Investment

In view of its vision, the primary objective of ZCCM-IH was to provide the Government with a reasonable return on investment. The company had been able to achieve this over the past couple of years.

Profitability

The Committee also learnt that ZCCM-IH had broken the streak of losses made in 2015 to 2016 and had paid dividends to the IDC and other shareholders in 2017 and 2018. However, the company's market value had decreased under IDC.

Contribution to Diversification and Industrialisation

The Committee was further informed that the company had also aligned its mandate with the Government's policy objectives of diversification and industrialisation.

Under performing Assets

The Committee further learnt that even though ZCCM-IH to a larger extent was fulfilling its mandate going by its performance, it was imperative to note that the company had assets that were under performing, such as Ndola Lime.

Failure to open new Mines

Further ZCCM-IH had not accelerated its mandate to open up new mines that could have acted as models to foreign dominated mines when it came to taxation and providing a true representation of the actual cost of production.

8.4 Successes Recorded by ZCCM-IH that had Contributed to Economic Growth

The Committee was informed that to analyse the successes that had been recorded by ZCCM-IH and to assess whether it had contributed to economic growth, there was need to examine the performance of the company under the IDC's governance and management practices for the period (2016 to 2018) and contrast this to the company's performance under direct Government ownership and management for the period (2012-2014). Some of the successes recorded by ZCCM-IH are outlined below.

Tax Contribution

The Committee was informed that the company had contributed greatly towards the Treasury in respect of corporate income taxes (CIT), Value Added Tax (VAT), and Pay-As-You-Earn (PAYE).

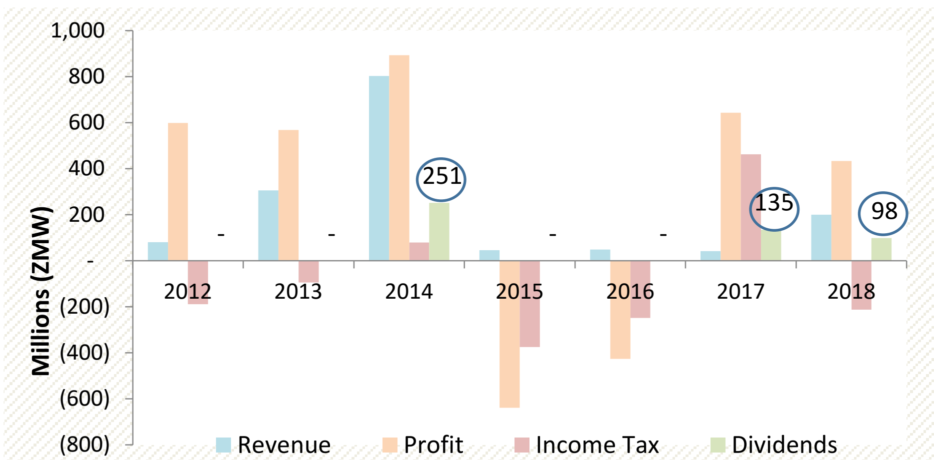
Profitability and Declaration of Dividends

The company was also one of the few that had declared dividends to the Government through the IDC. Most importantly, ZCCM-IH declared its first dividend in the year 2014 following the transformation of the business in 2000. The company went on to declare dividends to its shareholders in the years 2017 and 2018. The Government received K219 million in 2017 and 2018, respectively. The Government and the IDC collectively received K104 million and K75 million.

Volatility of Turnover and Revenues

However, the company's turnover, as shown in Figure 1 below, had not only been highly volatile over the years 2012 to 2018, but had also dropped significantly in the years in which ZCCM-IH had been under the ownership and supervision of the IDC. From 2012, revenues grew rapidly from K79 million to K892 million in 2014. The drop in revenues between the years 2014 and 2015 was particularly striking. Revenues fell to K45 million in 2015. Although there had been signs of moderate recovery in 2018, revenues still remained below their 2014 peak. It was further noted that there were varied reasons for the company's unstable revenue performance over the period under review. These included low turnover recorded by various investees, mainly as a result of the power crisis experienced between the period 2015-2016 and low copper prices on the international commodity markets. Consequently, the company's profitability had equally been unstable. The company recorded profits in all the years except for 2015 and 2016. ZCCM-IH also remitted taxes amounting to K79 million and K463 million in 2014 and 2017 respectively.

Figure 1: ZCCM-IH Financial Performance as at year end 31st March, 2012-2018



Source: Plot based on ZCCM-IH Annual Reports 2012-2018

Provision of Resources for Investment

Another positive contribution was that in 2018, ZCCM-IH also extended a loan to IDC amounting to US$19 million. The purpose of the loan was to allow IDC secure financing for investment purposes.

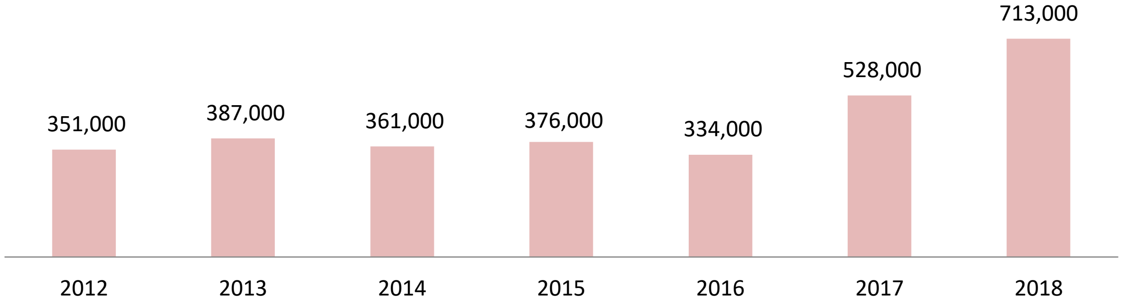
Employment Creation

The Committee was also informed that ZCCM-IH had positively contributed towards the provision of direct employment opportunities under IDC. In addition, the company contributed towards the creation of indirect jobs through its investments in various companies. Notably, the number of employees directly hired by ZCCM-IH grew from forty in 2016 to eighty in 2018, whilst those in its subsidiaries fell.

Fulfillment of Statutory Obligations

The Committee further noted that ZCCM-IH's positive contribution towards economic growth was further extended through its fulfillment of statutory obligations. ZCCM-IH consistently remitted pensions to the national social security over the period 2012 to 2018 as depicted in Figure 2 below.

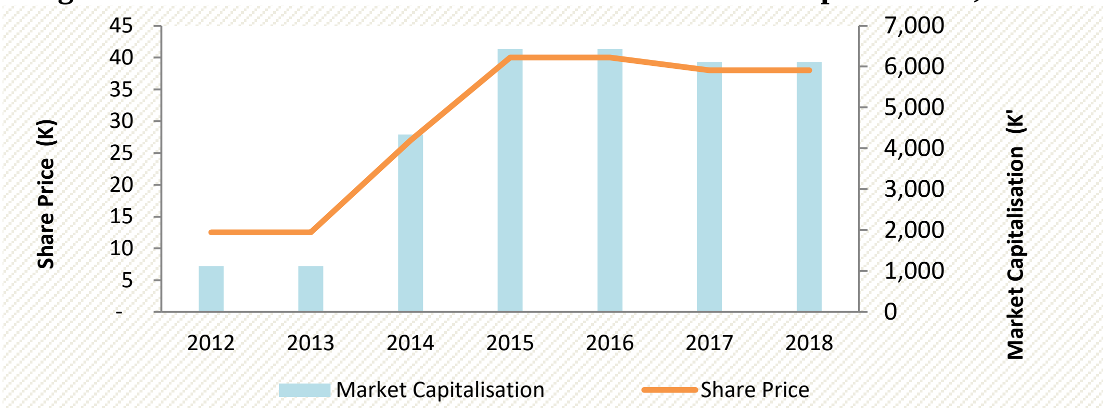
Figure 2: ZCCM-IH National Social Security Remittances (ZMW), 2012-2018



Capital Gains for Shareholders

The Committee was further informed that as a publicly listed company, the value of the ZCCM-IH's share price on the Lusaka Securities Exchange(LuSE) increased substantially by 204 per cent from K12.5 in March 2012, to K38 in March 2018 as shown in Figure 3 below. This represented capital gains for shareholders. The largest year-on-year growth in share price was observed between 2013 (K12.5) and 2014 (K27) which could be a signal of investor confidence in the company. In tandem with these positive developments, the company's market capitalisation – the market value of a publicly traded company – increased significantly from K1.1 billion in March 2014 to K6.1 billion in March, 2018. However, the share price reduced to K38 by March, 2018 and more recently to K28.5 in March, 2019, resulting in capital losses and a drop in market value.

Figure 3: ZCCM-IH Share Price on LuSE and Market Capitalisation, 2012-2018



Source: Plot based on ZCCM-IH Annual Reports 2012-2018

8.5 Major Sources of Funding and Income for ZCCM-IH

The Committee was informed that ZCCM-IH did not receive any funding from the Treasury and that it had two major sources of funding and income sources. These were internally generated funds through dividends, rental earnings and investment income, and external funding such as debt financing for specific projects.

8.6 Challenges faced in the management of ZCCM-IH that affected the Return on Investment

The Committee was informed that ZCCM-IH faced a number of challenges in its operations that had adversely affected its return on investment. These included the ones outlined below.

8.6.1 Irregular Dividend Declarations by Investee Companies

The lack of transparency in the mining sector presented challenges related to mineral revenue sharing. In many instances, the company had not been satisfied with the dividend record received from its portfolio of companies. The irregular and lack of dividend declarations had negatively affected the profitability of the company.

8.6.2 Lack of harmonisation of financial reporting mechanisms

In terms of financial reporting, ZCCM-IH was faced with the challenge of having to adhere to three separate Acts of Parliament namely: the *Securities and Exchange Act No 41 of 2016*, the *Companies Act, No. 10 of 2017* and the *Public Finance Management Act, No. 1 of 2018*. The three pieces of legislation had different timelines for the submission of financial reports and this presented a reporting challenge to ZCCM-IH. In addition, ZCCM-IH had a total of seventeen entities that were under its jurisdiction. This implied that the consolidated report provided by the company depended on receipt of reports from all seventeen companies that it had invested in.

8.6.3 Exposure to commodity price shocks

ZCCM-IH held the majority of its portfolio in the mining industry, particularly copper mining. In this regard, the company was highly exposed to adverse fluctuations in the price of copper. A fall in copper prices had a negative impact on the company's performance and profitability.

8.6.4 Low Activity on the Primary Securities Exchange Market

The Committee was informed that ZCCM-IH was affected by the low activity on the local stock market and the market's inability to respond to market information. The company was also constrained by the low liquidity on the market. For example, in 2015, the Government floated 27.2 per cent of its shares in ZCCM-IH to the public through a Preferential Secondary Market Offer. This was in line with the directive in the 2015 national budget that all listed companies on the local bourse were to comply with the Lusaka Securities Exchange minimum free (public) float requirements of 25.0 per cent of the shares. The offer was under-subscribed owing to low liquidity on the market.

8.6.5 Management of environmental liabilities

The management of environmental liabilities accumulated since the commencement of commercial mining in the country had posed a challenge to ZCCM-IH. The liabilities that were inherited at privatisation were eroding ZCCM-IH's revenue streams as they had to finance all the expenses related to the resolution of environmental liabilities using internally generated funds.

8.7 Report on the Local Tour of ZCCM-IH

In order to consolidate its findings from the Committee's long meetings, the Committee undertook local tours to Lusaka and Copperbelt Province.

During the tour, the Committee also had an opportunity to visit Ndola Lime and Misenge Environmental and Technical Services in the quest to better understand the operations of these companies.

The key findings of the Committee during the local tour are summarised below.

(i) Ndola Lime Company (NLC) had a mining license which covered an area of 385 hectares and the quarry had an estimated life span of over forty years.

(ii) NLC had been earmarked for privatisation since 1996. The period of uncertainty led to undercapitalisation, frequent breakdowns and a sustained decline in production. The new environmental regulations that were introduced by the Zambia Environmental Management Agency (ZEMA) presented further challenges for NLC as its production process produced a lot of pollution.

(iii) In an effort to arrest the fall in profitability, ZCCM-IH embarked on a recapitalisation drive from 2007 to 2015. ZCCM-IH invested US$105 million into the recapitalisation project and set up of the Vertical Kiln 2 (VK2).

(iv) ZCCM-IH had invested ZMW1.33 billion through servicing NLC's US$27 million loan from Standard Bank of South Africa. ZCCM-IH further provided loans to NLC in excess of K61 million towards the rationalisation of the company's workforce, and settlement of overdue insurance premiums.

(v) The Committee learnt that NLC's financial performance had deteriorated over the last four years from 2015 to 2018 from a loss of K 17,745 to
K 187,563 after tax of negative ZMW 17,745,000 to negative ZMW 247,256,000.

(vi) The Committee learnt that, currently, NLC was unable to meet its liabilities and to undertake capital investments on its plant and other fixed assets. This had resulted in failure to produce budgeted tonnages of limestone products to meet customer requirements. This had also led to loss of revenue and a decrease in NLC's market share from 85 per cent fifteen years ago to only 12 per cent in the year 2019.

(vii) NLC had been unable to meet its financial obligations and had accumulated substantial financial liabilities with trade creditors, Government institutions and accrued employee benefits. The Committee was informed that as at 31st March, 2019 NLC's liabilities stood at ZMW 1,068,681,689.

(viii) The Committee was informed that NLC's main production challenges were as a result of the failure to fully commission the Vertical Kiln 2, which was supplied by Terruzzi of Italy at a cost of US$7, 976,140, as part of the recapitalisation project under the contract total sum of US$ 100 million by the various contractors from Italy among them Cimprogetti, Metso, Sasco and Tbea.

(ix) The Committee also learnt that an independent technical audit of the project, which was sanctioned by ZCCM-IH, revealed that the Kiln's initial design was flawed. A follow-up with the supplier revealed that the company had been liquidated a few months after the Kiln commissioning failed.

(x) The Committee was informed that approximately US$30 million was required to make modifications that would enable the Kiln to operate efficiently and also to rehabilitate NLC's entire production value chain.

(xi) The Committee learnt that Misenge Environmental and Technical Services Ltd (METS) used to operate as an Environment Department of the former Zambia Consolidated Copper Mines. It only started operating as a private limited subsidiary of ZCCM-IH on 1st February, 2013.

(xii) The Committee was also informed that the main objectives for setting up METS was to allow ZCCM-IH to be more focused on investment activities, to continue providing environmental services to ZCCM-IH in addition to other clients, and to be a Special Purpose Vehicle for managing of the outstanding environmental liabilities of ZCCM-IH in order to ensure that they were addressed within the next five years.

(xiii) The Committee learnt that METS provided specialised services in the following areas: analytical services, environmental services, and radiation safety services. In 2014, the company started providing engineering services. METS had an analytical laboratory located in Kabwe ; the laboratory used to be part of the bio-medical laboratories for the former Kabwe Mine Hospital and it was upgraded to a commercial laboratory in 2017 to provide mining, geological and mineral processing.

The Committee further learnt that ZCCM-IH had spent K2.02 million on upgrading the analytical laboratory and advanced K1.09 million to METS to purchase laboratory equipment. The Committee was further informed that accreditation of the analytical laboratory to Southern African Development Community Accreditation Service (SADCAS) was expected to be completed by end of 2019.

(xiv) The Committee also learnt that METS provided environmental services in environmental impact assessment (EIA), environmental project brief (EPB), environmental due diligence (EDD), project management and environmental audits.

(xv) The Committee learnt that METS was currently the Project Management Consultant for the Zambia Mining Environmental Remediation and Improvement Project (ZMERIP), which was a World Bank supported project being implemented by the Ministry of Mines and Minerals Development. METS was appointed as PMC for twelvemonths (effective March, 2019) at a cost of K 2.8 million. The Committee was further informed that the ZMERIP Project aimed to strengthen the capacity of national and state level institutions, improve enforcement for pollution prevention, and address the environmental health impacts associated with lack of sustainable mining practices.

(xvi) The Committee also learnt that METS provided radiation protection services in the preparation of radiation management plans, radiation protection audits, radioactive sealed sources decommissioning, radiation safety training, transport of radioactive sealed sources and radiation protection officer (RPO) services.

(xvii) The Committee was informed that METS was registered as a civil engineering and environmental consultancy firm registered with Engineering Institute of Zambia (EIZ), and also registered as a contractor with the National Council for Construction (NCC) in Grade 5.

(xviii) The Committee also learnt that METS had a poor balance sheet and had been making loses from 2015 to 2018. Its total revenue increased overall fromK6.24 million in 2015 to K8.81 million in 2018Revenue from other sources decreased from K4.42 million to K2.38 million in 2018 due to lower demand for environmental services.

8.8 Committee's Observations and Recommendations on ZCCM-IH Operations

8.8.1 Overlapping roles between IDC and ZCCM-IH

The Committee observes that both IDC and ZCCM-IH are investment holding companies which are investing in similar business ventures such as power generation, agriculture and milling.

In this regard, the Committee strongly recommends that IDC should realign its activities to its initial mandate of ensuring that there is efficient provision of quality goods and services, attainment of viability and contribution to economic development. The Committee further recommends that ZCCM-IH should continue to expand and diversify its investment within mining and other economic sectors such as manufacturing that are more resilient to external shocks in order to insulate the company against the effects of commodity price shocks.

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

The Committee observes that ZCCM-IH is the country's main profitable entity that can bring in a steady flow of income, as it manages the Government's stake in the mining sector.

The Committee, therefore, strongly recommends that the Government should consider establishing a Sovereign Wealth Fund (SWF), through an Act of Parliament, whose management and utilisation should be insulated against external influence and abuse through strict rules and regulations. In addition, all earnings from ZCCM-IH should be channeled into the SWF. These funds should be used to diversify the economy and to mitigate negative externalities associated with mining operations such as environmental degradation and pollution.

8.8.3 Fiscal Policy Stability

The Committee observes that as a highly capital intensive venture, mining requires a stable policy regime. However, frequent changes to the mining fiscal regime have contributed to the erosion of investor confidence and often lead to increased costs of doing business. The Committee further observes that ZCCM-IH is not fully consulted by the government, during the process of reviewing the mining policies As a result, ZCCM-IH is subject to whatever policy changes the Government implements and has limited influence on such policies. This in turn affects its autonomy and its ability to fulfill the mandate of maximising shareholders' returns.

In view of this, the Committee recommends that the Government should fully involve ZCCM-IH when reviewing any mining policies and that the Government should ensure that the mining fiscal regime is stable and predictable as this will help increase investor confidence, and thereby increase output and earnings for ZCCM-IH.

8.8.4 Lack of capacity to monitor mining processes and declaration of taxes

The Committee observes that ZCCM-IH does not have the capacity to monitor mining operations throughout the value chain in terms of mining production quantities in the investee companies.

Therefore, the Committee strongly urges the Government to take measure to ensure that the capacity of ZCCM-IH to monitor mining production in collaboration with the Zambia Revenue Authority through the Mineral Value Chain Monitoring Project (MVCMP) is enhanced. The Committee further recommends that the Government must expedite the implementation of the Extractive Industries Transparency Initiative framework (EITI), which will help consolidate the processes of monitoring mineral outputs by the Zambia Revenue authority, Ministry of Finance and other relevant stakeholders.

8.8.5 Shift from a Dividend Model to a Revenue Sharing Model

The Committee observes with concern that the declaration of dividends by investee companies of ZCCM-IH has been irregular. The Committee further observes that ZCCM–IH is revising its shareholding policies with an aim of shifting from reliance on dividend payments which yield limited benefits as a result of a constant declaration of losses by majority of its investee companies.

In this regard, the Committee strongly urges the Government to support ZCCM–IH in its quest to shift from a dividend model to a revenue sharing and royalty model. This will ensure that the copper produced is shared in line with the respective shareholding structures. The payment of royalties will, on other hand, ensure receipt of income from the mining companies even in years when the companies do not declare profits and dividends.

8.8.6 Extension of new Dividend Policy to subsidiary companies

The Committee observes that during its 78th Annual General Meeting, ZCCM-IH amended the its dividend policy, which now states that the company may pay a minimum of a 35.0 per cent of the unconsolidated Net Profit After Tax (NPAT) for any financial year in which a positive unconsolidated NPAT is recorded.

The Committee recommends that the new dividend policy should extend to the subsidiary companies in which ZCCM-IH is the major shareholder so that these investee companies are compelled to declare dividend annually.

8.8.7 Investments into Green Fields

The Committee observes that ZCCM-IH has been pursuing investments in secondary business ventures where it ends up having a minority shareholding as opposed to venturing into green field projects. The Committee is aware that other foreign investors end up being major shareholders in these green field projects after taking a lead to invest

The Committee recommends that the Government should provide ZCCM-IH with a free carrier strategic holding in new mining ventures to safeguard the country's natural resources and ensure that there is a local participation in the industry pursuant to the *Mining and Mineral Development Act No. 11 of 2015*.

8.8.8 Revamping of Ndola Lime

The Committee observes with concern that Ndola Lime Company, which is wholly owned by ZCCM-IH. has consistently performed poorly. The Committee further observes with concern that ZCCM-IH has since procured a shareholder's agreement with China Machinery Construction Group (SinoConst) for the development of a US$480 million cement plant in Masaiti in which ZCCM-IH anticipates holding 35.0 per cent of the shares as opposed to revamping the operations of Ndola Lime which is still a viable company.

The Committee recommends that in addition to various ventures being undertaken by ZCCM-IH, such as investing in the new cement plant, the Government should as a matter of urgency also seek an equity partner to invest in Ndola Lime Company and share the risk through a diversified ownership structure as opposed to the ZCCM IH having 100 per cent shareholding.

8.8.9 Investigations through Interpol on the Procured Kiln

The Committee observes with serious concern the handling of the procurement process relating to the VK2 kiln at Ndola Lime Company. The Committee further observes that the turn of events where the company that supplied the equipment went into liquidation soon after the Kiln failed to operate appears to suggest that there was a syndicate to deprive the state.

The Committee, therefore, strongly recommends that IDC should engage Interpol to pursue the matter in which over US$ 7, 976,140, which was part of the recapitalisation project under the contract total sum of US$ 100 million. The Committee further recommends that a forensic audit should be conducted with a view to bringing to book all the Zambian consultants and employees of NLC who may be found wanting in this transaction.

8.8.10 Recapitalisation of Misenge Environmental Technical Services

The Committee observes that Misenge Environmental Technical Services (METS) manages environmental liabilities and has expertise in managing toxic reaction materials.

The Committee recommends that ZCCM-IH should recapitalise the operations of METS, considering that the campaign for a clean environment and safe mining without causing damaged to the environment was being championed and also on having a sustainable use of the environment which provided a viable market for Misenge.

8.8.11 Environmental Liabilities

The Committee observes with concern that METS manages inherited liabilities from the privatisation of the mines which the Government should have managed. However, the Committee observes that in instances were these liabilities have been found to have mineral deposits, the Ministry of Mines and Minerals Development takes over these liabilities without giving priority to ZCCM-IH by giving mining licences to foreign investors as opposed to giving them to ZCCM-IH

The Committee recommends that in circumstances where these liabilities have been found to have mineral deposits, the Ministry of Mines and Minerals Development should give priority to ZCCM-IH when issuing mining licenses and the Government should formulate a permanent solution to resolve the management of the environmental liabilities.

9.0 REVIEW OF THE OPERATIONS AND MANAGEMENT OF ZAMTEL

9.1 Policy and Legal and Framework Governing Zamtel

The Committee was informed that Zamtel Limited Company was the Government-owned telecommunication service provider in Zambia. In July 1994, the *Telecommunications Act, Chapter 469 of the Laws of Zambia* was passed, which led to the splitting of the Post and Telecommunications Corporation into two separate companies:- the Zambia Postal Services Corporation (Zampost), and the Zambia Telecommunications Company (ZAMTEL). The company fell under the jurisdiction of the Ministry of Transport and Communications of Zambia.

The Committee was further informed that Zamtel operated in a highly regulated environment. As a wholly owned Government entity, Zamtel's mandate had to be aligned to the Government's subsisting policy for a specific industry such as the National Information and Communication Technology Policy of 1996 (ICT policy). The Committee was further informed that the policy was designed on thirteen pillars which provided strategies to catalyse ICT development in Zambia. This was to be achieved through harmonised laws and regulations for the ICT Sector that incorporated international best practices such as creation of a clear framework for dialogue/interaction with market players, stakeholders and consumers. Further, following the promulgation of the ICT Policy of 2006 and bearing in mind the strategies under the legal and regulatory framework pillar, the following legislation was enacted namely:

(i) *The information and Communications Technologies (ICT) Act, No. 15 of 2009*; and
(ii) *The Electronic Communications and Transactions Act, No 21 of 2009.*

The Committee was further informed that the current policy and legal framework was extensive enough for Zamtel to be viable in the market. Zamtel was also regulated by the *Competition and Consumer Protection (CCP) Act No 10 of 2010,* which made provisions to safeguard and promote competition in the country as well as protect consumers against unfair trade practices.

9.2 Effectiveness of the Model adopted by IDC to manage ZAMTEL Limited Company

The Committee was informed that in 2010, Zamtel was partially privatised by the Government with 75 per cent shares sold to Lap Green of Libya. However, the sale was reversed to 100 per cent Government ownership in 2012. In the same year, pursuant to Statutory Functions Act, Chapter 4 of the Laws of Zambia, a Gazette Notice No. 183 of 2012 was issued to place Zamtel under the jurisdiction of the then Ministry of Transport, Works, Supply and Communications. The Committee was further informed that upon the establishment of the IDC in 2014, the Government transferred ownership of Zamtel to IDC in 2015. After the creation of the IDC under the current model, IDC was given 299,999,999 of Zamtel shares. The Secretary to the Treasury held one share to satisfy the legal requirement that for a limited company to be operational, there was need to have at least two shareholders as per (Figure 4 and 5 below). The Committee was further informed that the Board of Zamtel LTD Company was appointed by IDC from both the private and public sector. The Board then proposed the appointment of the CEO to the Board of IDC. The CEO who was given key performance indicators then appointed his senior management who also received performance indicators for their individual functions. Under this model, Zamtel worked within IDC strategic plans and aligned its strategic plan to that of IDC. The Committee was also informed that like similar companies under IDC, Zamtel had performance targets with 35 per cent dividends declaration of net profits. This model implied that Zamtel worked under the heavy influence of IDC. This model was better than the previous one because under the previous model, Board membership was not diversely complimented.

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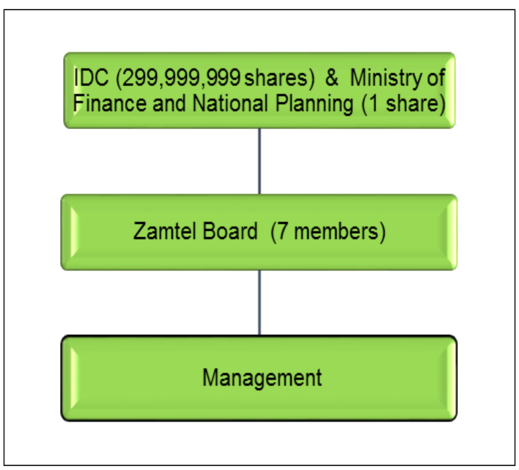
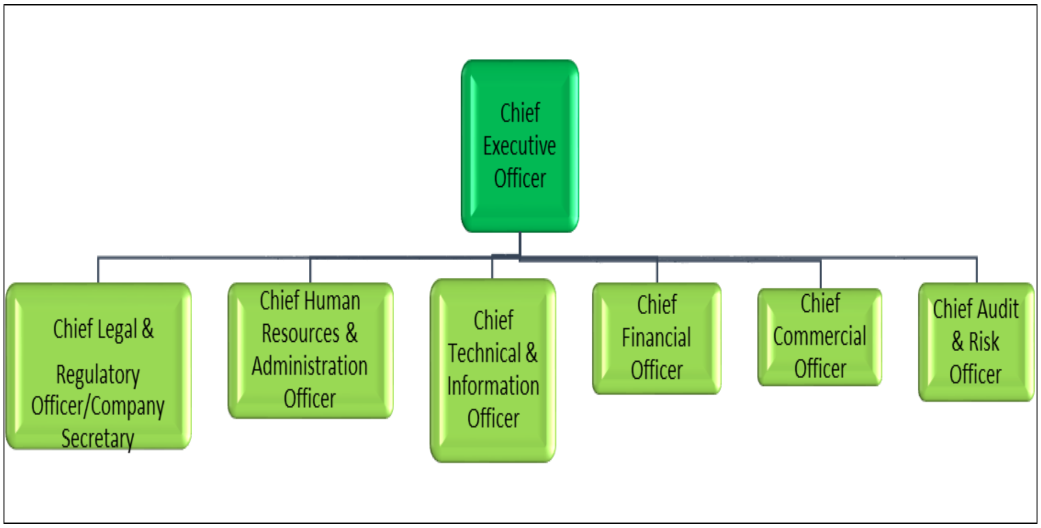


Figure 4: Source –Zamtel Strategic Plan (2018-2022)



Management structure

The Committee was informed that the Government was not involved in the operations and management of the Company except in the provision of oversight. The Board was in turn responsible for strategy and policy formulation in line with the shareholder's direction. With regard to how effective the model was, the Committee was informed that the IDC model had all the elements of good corporate governance and business management practices. The model sought to improve the governance and performance of Zamtel by improving transparency, accountability, competition and profitability of the entity.

9.3 Extent to which Zamtel was fulfilling its mandate

The Committee was informed that the vision for Zamtel was to be "the prime driver of digital transformation and leading provider of customer-centric ICT solutions and services" while the mission statement was "to enrich lives and businesses through innovative ICT solutions and services". The company aimed to achieve its vision and mission by providing communication services that were relevant, affordable and of good quality standard.

The Committee was further informed that in light of this mandate and its performance, Zamtel was not fulfilling its mandate. The Committee was also informed that Zamtel had continued to lag behind other telecommunication companies in providing modern quality technologies that were demanded by the market. Despite having had the first mover advantage, the company had failed to meet the pace of technological developments in the industry. Notably, the company had in the recent past made some traction under the IDC by introducing a digitisation drive aimed at providing relevant modern services. It had launched the first tap and pay system in Zambia which demonstrated its commitment to pioneering innovative ICT solutions and services and dramatically helped to enhance connectivity under the smart Zambia programme. Zamtel had significantly reduced the cost of internet accessibility for the Government and had performed its mandate of providing a socio effect in its area of operation in terms of enhancing universal access.

Notwithstanding these positive developments, Zamtel had continued to record losses despite the new governance and management measures introduced by IDC. Despite operating in a high growth sector that posted an average growth rate of 10 per cent per annum between 2012 and 2018, the ICT sector's growth had not been consistent and in some years, was even negative. This suggested that there could be industry-wide challenges facing all ICT companies which in part could have affected Zamtel's performance.

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9.4 Successes recorded by Zamtel that had contributed to economic growth

The Committee was informed that Zamtel had contributed to economic growth through taxes and had also contributed towards employment creation.

Zamtel had recorded positive growth in its revenues under the supervision of IDC. According to the company, revenue streams increased from K641 million in 2015 to K674 million in 2017 despite the dip in revenues in 2016 See Table 1 below. 2016 was notably a difficult year for businesses owing to various economic challenges. Further for Zamtel, the Company's management was in the process of being restructured which could have adversely impacted their operations.

Table 1: Zamtel Revenues, 2015 - 2018

2015	2016	2017
K641 million	K531 million	K674 million

Source: Based on an interview with Zamtel

With regard to taxes and dividends, the Committee was informed that Zamtel's potential to contribute to the Treasury had not yet been realised owing to the unprofitability of the company. Zamtel had however, contributed positively to Zambia's development agenda by helping to achieve universal access to communication under the Vision 2030 and the Seventh National Development Plan. Over 1000 towers were being constructed at a cost US$ 280m. Through this project, Zamtel had contributed to direct employment at Zamtel and indirect employment for dealers, sub dealers and street sellers. With regard to taxes and dividends, the Committee was informed that Zamtel's potential to contribute to the Treasury had not yet been realised owing to the unprofitability of the company. Zamtel had however, contributed positively to Zambia's development agenda by helping to achieve universal access to communication under the Vision 2030 and the Seventh National Development Plan. Over 1000 towers were being constructed at a cost US$ 280m. Through this project, Zamtel had contributed to direct employment at Zamtel and indirect employment for dealers, sub dealers and street sellers, of whom over 5000 were employed. Through its corporate social responsibility, Zamtel had renovated hospitals in Luapula Province, drilled forty-two boreholes across the country, sponsored traditional ceremonies and other events.

9.5 Major sources of Income and Funding for Zamtel Limited Company

The Committee was informed that Zamtel's sources of funding were primarily internally generated resources and support from the Government through avenues such as the Government tower project (Universal Access Coverage Phase II). The Committee also learnt that Zamtel had not been receiving any funding from the Treasury.

9.6 Challenges faced in the Management of Zamtel

The Committee was informed that Zamtel faced a number of challenges that had significantly impacted the company's operations from the year 1995 when it began recording losses. Some of these challenges are set out below.

9.6.1 High cost of repaying legacy debt

The nationalisation of Zamtel in 2012 brought with it the adoption of legacy loans which were obtained by Lap Green. Zamtel was now faced with the challenge of having to repay the loans denominated in foreign currencies whose costs had been exacerbated by the depreciation of the kwacha. This had adversely affected the company's financial position as any movements resulted in a material impact on the income statement. The losses shown on Zamtel's financial statements were not because its current operations were not profit making, but the high debt made it difficult to post profits.

9.6.2 Competing social and business interests

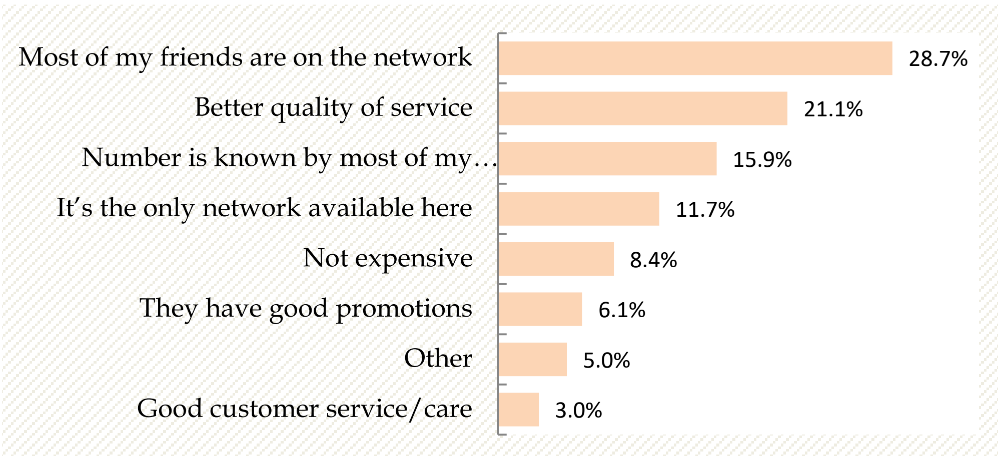
Zamtel had to strike a balance between attaining Government driven objectives, some of which were unprofitable, and to concentrate on purely profitable business undertakings. One such case was the construction of 1009 communication towers across the country under the Universal Access to Communication Project. Despite some of the towers being unprofitable, Zamtel had to construct them with a loan of US$ 280 million whose liability was on Zamtel's books.

9.6.3 High capitalisation and investment needs

Zamtel operated in a capital intensive industry, requiring a huge financial outlay. Given the status of the company's balance sheet, Zamtel was unable to directly borrow funds from capital markets for investment purposes. Previously, the company would acquire loans guaranteed by the Government. However, this provision was no longer available in light of Government's revised policy on guaranteeing debt.

9.6.4 Poor quality service

Zamtel was the least preferred mobile cellular network. According to the ZICTA 2018 ICT Survey, approximately 7 per cent of the individuals indicated that Zamtel was their preferred network. In contrast, 48.3 per cent and 44.8 per cent indicated that Airtel and MTN respectively were their preferred networks. This low share was partly due to the poor quality of service offered by Zamtel. The ZICTA survey further revealed that approximately 21.1 per cent of individuals who had used a mobile cellular phone indicated that the quality of service was a factor in determining their reason for preferring a mobile cellular network (See Figure 6 below).



9.6.5 Late uptake of technologies

Zamtel had generally lagged behind in adopting new technologies. It took five years (1998-2003) after competitors had introduced GSM before Zamtel could implement the technology. The late adoption of technologies had negatively impacted growth prospects in new products such as mobile data, mobile money, and associated revenue streams.

9.7. Report on the Local Tour of Zamtel

In order to augment its findings on the operations and management of Zamtel, the Committee toured Lamya House in Lusaka and selected infrastructure belonging to Zamtel on the Copperbelt Province.

The key findings of the Committee during the local tour are summarised below.

(i) The Committee learnt that Zamtel had heavily invested to improve its technology in order to promote network reliability and availability. This was being carried out with the support of the Government through a loan financing from the People's Republic of China. The Committee heard that Zamtel had improved its network population coverage to 72 per cent from the previous coverage of 62 per cent before the implementation of the new project dubbed GRZ Project. The Committee was further informed that, Zamtel targeted to achieve population coverage of 89.3 per cent after completing the project.

(ii) The Committee also learnt that Zamtel had renovated its Woodlands Exchange so as to create geographical redundancy between Lamya and Woodlands Exchange by ensuring that both Lamya and the Woodlands Exchange were able to provide connectivity in an event that either of them was nonfunctional. This would ensure consistent provision of connectivity. The Committee was further informed that Zamtel had reduced its dependency on commercial power by installing solar power to ensure network availability even during the periods of power outages.

(iii) The Committee further learnt that Zamtel had enhanced the features of its sim-cards by introducing a biometric facial recognition which would help reduce fraudulent registration, and also reduce the turnaround time for sim-card registration. The Committee was informed that this would also avert the costs of paper based registration.

(iv) Zamtel was implementing an eHealthy platform which would lead to fully digitalised and paperless operations, and a healthcare ecosystem that would create integration between health care and insurance providers.

(v) The Committee was also informed that Zamtel had introduced a new mobile money platform on 2nd April 2019, which was number neutral and could be used across all the mobile network providers. The newly introduced platform could be used to transfer bulk payments (FISP, Social Cash Transfer, and salary disbursements), undertake merchant payments (Spar, Choppies and over 200 others) and cash (in and out) transactions with agents.

(vi) The Committee was also informed that the Government had planned to create a company (infratel) that would manage the entire passive telecommunications infrastructure in the country which would in turn provide services to Zamtel and that Zamtel could then focus on managing the core network business. The Committee was further informed that Zamtel was re-introducing its land line services using an enhanced technology which would help curb the previous interruptions emanating from vandalism of infrastructure.

9.8 Committee's Observations and Recommendations

9.8.1 Provision of concessions on regulatory fees and a supporting legal framework to incentivise players in the ICT Sector

The Committee observes that Zamtel is wholly owned by the Government and that its mandate has been aligned to Government policy. The Committee further observes that Zamtel has had to extend its mandate by rolling out towers to unserved and underserved areas of Zambia in order to ensure universal access coverage as espoused in the Seventh National Development Plan.

In light of the above, the Committee strongly urges the Government to formulate a supporting legal framework to incentivise players in this sector to invest in underserved or unserved areas. Further, the Committee recommends that Government should offer concessions on regulatory fees to Zamtel, to reduce its operational costs incurred in implementing the Universal Access to ICT Project in unprofitable areas.

9.8.2 Partnering with a Strategic Equity Partner

The Committee observes with concern that Zamtel has continued to suffer from liquidity challenges and that it has been unable to declare profits. The Committee further observes that Zamtel has legacy debts which erode its minimal profit margins. The Committee further observes that, in its current state, Zamtel will continue to be a liability to IDC even though it has great potential to be a viable company.

In this regard, the Committee strongly recommends that Government should consider shifting the US$ 280 million debt to the Treasury which was acquired to implement the GRZ project for universal accessibility. The Committee further recommends that the Government should consider seeking a strategic equity partner that can offer financing to liquidate the other legacy debt in exchange for equity. The Committee further recommends that a model should be adopted where the Government will own 35 per cent of shares to be listed on the Lusaka Securities Exchange and owned by the public while 40 per cent shares will be owned by the equity partner.

9.8.3 Balance Sheet Restructuring and quoting

The Committee observes that Zamtel's balance sheet has a lot of debt and needs to be cleaned up so that cash flows. The Committee observes that Zamtel's balance sheet has a lot of debt and needs to be cleaned up so that cash flows can be freed up to allow investments in technology and infrastructure necessary for the company to stay competitive. The Committee further observes that for Zamtel to be quoted or listed on the Lusaka Secutrties Exchange, it must have a viable balance sheet.

The Committee, therefore, strongly urges the Government to consider converting the debt into equity as this will reduce the impact of can be freed up to allow investments in technology and infrastructure necessary for the company to stay competitive. The Committee further observes that for Zamtel to be quoted or listed on the Lusaka Securities Exchange, it must have a viable balance sheet.

The Committee, therefore, strongly urges the Government to consider converting the debt into equity as this will reduce the impact of foreign exchange movements on the company 'indebtedness since most of the loans are denominated in foreign currency. Such a measure would also enable the company to be quoted on

9.8.5 Enhancement of the Public Switched Telephone Network

The Committee observes that Zamtel's Public Switched Telephone Network (PSTN) technology is old and not in tandem with global developments.

The Committee recommends that Government should urge Zamtel to invest in more efficient technologies in order to reduce the company's operational costs. The company should also consider expanding its services and use the wide coverage advantage to provide other related services such as fibre to the Home and Asymmetric Digital Subscriber Line (ADSL) using PSTN, considering that it has an infrastructure advantage over other operators.

9.8.6 Shift from Vendor Financing

The Committee observes that the main suppliers of the major equipment used by Zamtel are Zhongxing Telecommunication Equipment Corporation (ZTE), Huawei and NEC, whose bargaining power is high as they usually source the financing for the equipment. The Committee observes that this arrangement subjects Zamtel to higher equipment costs and strict repayment terms, as well as limit its technology options.

In this regard, the Committee recommends that the Government should urge Zamtel, through the IDC, to pursue other capital expenditure financing models, as opposed to relying on vendor financing which has very high finance costs.

9.8.7 Poor quality of Service

The Committee observes that Zamtel is still the least preferred cellular network with a low preference of 7 per cent, in contrast to 48.3 per cent and 44.8 per cent for Airtel and MTN, respectively.

In this regard, the Committee strongly recommends that Zamtel should continue to invest in modern quality ICT and good customer services through human capital development, marketing, distribution, infrastructure development and modern technologies. This will in turn improve its competitiveness and grow its market share and profitability.

9.8.8 Expedite the Creation of Infratel

The Committee observes that Zamtel has old infrastructure which does not support their current objective to be commercially viable, and to compete favourably in the market.

The Committee recommends that Government should formulate a clear plan as to when Zamtel would be relieved of the responsibility of managing the passive infrastructure, and also to expedite the creation of a company that will manage the entire passive telecommunications infrastructure in the country. This will enable Zamtel to concentrate on the core business of being a prime driver of digital transformation and providing subscribers with reliable voice and data connectivity.

9.8.9 Patenting of Innovation

The Committee observes that Zamtel has introduced innovations in products and packages that have helped improve its competitive edge in the market. However, the Committee further observes that Zamtel has received undue pressure from the regulator, instructing it to cancel such products due to pressure from other mobile network providers. Other mobile network providers have in turn replicated the same innovations and eroded Zamtel's competitive edge.

The Committee strongly recommends that the regulator must formulate frameworks that should patent innovation from any player in the market. This will to ensure fair competition and reduce replication of innovation.

9.8.9 Publicity Campaign and Consistency of the Management Team

The Committee observes that despite making a loss, Zamtel Management has made strides in improving its operations and this has helped to rekindle the hope that Zamtel can operate profitably. The Committee further observes that Zamtel has not done enough publicity on the new innovations and improvements it is implementing as positive publicity could help change the negative perception about the Company.

The Committee recommends that the Industrial Development Corporation (IDC) should ensure that there is consistency in the management of Zamtel, and that the management team should be permitted to operate independently without undue interference so long as they are performing in line with expectations as is the case with the current management. The Committee further recommends that Zamtel should increase publicity on its programmes in order to increase awareness of its products on the market.

9.8.10 Formalisation of Capacity Exchange

The Committee observes that Zamtel exchanges capacity with other players to ensure consistency in the availability of the network. One such collaboration is between Zamtel and Zesco, where these companies share fibre networks to provide internet services. The Committee observes that this collaboration is necessary and recommends that it should be formalised through a memorandum of understanding.

9.9 Report on the Local Tour of Selected Infrastructure under the Judiciary

Arising from the spot check on the projects under the Judiciary which were cited in the Reports of the Auditor General on the Accounts of Parastatal Bodies and Other Statutory Institutions for the Financial Years Ended 2014, 2015 and 2016, the Committee makes the observations and recommendations set out below.

(i) The Committee observes that the lack of coordination between the provincial infrastructure office for the Copperbelt and the Judiciary is the main contributing factor to the poor execution of all construction works.

The Committee recommends that the Government should ensure that there is enhanced coordination among key stakeholders in order to ensure that value for money is attained.

(ii) The Committee observes with serious concern that the works that were certified for payment for the construction of Ndola Main Local Court amounting to K 633,164.89 out of the total contract sum of K 1,584692.24, were substandard and that the Provincial did not have capacity to ensure that the contractors executed all construction works to the required standards.

The Committee recommends that the Government should ensure that officers with the requisite capacity are deployed to the Provincial Infrastructure Office on the Copperbelt Province. The Committee further recommends that the National Construction Council should institute punitive measures, including downgrading, against all contractors whose works were substandard.

(iii) The Committee observes that failure to secure abandoned project sites has led to vandalism at various sites.

The Committee recommends that the Judiciary should take responsibility and secure the project site as opposed to relying on the contractors who have abandoned the projects.

(iv) The Committee observes that all contracts have expired following the failure to execute them within the stipulated period. The Committee further observes that guidance was sought from the Ministry of Justice on how to treat the expired contracts.

The Committee strongly recommends that the process of engaging the Zambia Public Procurement Authority for direct bidding in order to re-engage the initial contractors should be expedited. The Committee further recommends, however, that contractors whose work was substandard should not be re-engaged.

10.0 General Observations and Recommendations

10.1 Exemption from lengthy procurement processes

The Committee observers that both Zamtel and ZCCM-IH face challenges related to the lengthy procurement process prescribed in the *Public Procurement Act No. 12 of 2008* and the Public Procurement Regulations of 2011. The Act applies to all procurements carried out by procuring entities using public funds. As a result, there has been no distinction in the procurement of goods and services meant for provision of a public good by the Government and that of an SOE which is expected to make profit and declare dividends at the end of its financial year. The Committee further observes that private companies that are competitors to Zamtel and ZCCM-IH are not subjected to this Act and therefore, they have an advantage in that they can handle procurement matters quicker.

In this regard, the Committee recommends that Government should develop an appropriate model that will take care of the challenges facing SOEs arising from the long procurement processes presented through the *Public Procurement Act, No. 12 of 2008.*

10.2 Effect of shareholding on the performance of SOEs

The Committee observes that the relationship between SOEs and the Government hinges on the structure of shareholding and also on the business model.

The Committee, therefore, recommends that the Government should continue to restructure the SOEs in order to reduce its stake in these enterprises and to ensure that they are not perceived to exist only for the provision of public goods and services, but rather as profit oriented entities with a commercial agenda. The Committee further recommends that the Government should limit its involvement in business by concentrating on the formulation of the relevant policies and business regulations without interfering and influencing the market dynamics

10.3 Extent to which the IDC supervision of the SOEs has impacted the operations of ZCCM-IH and Zamtel

The Committee observes that the impact of IDC's supervision on ZCCM-IH and Zamtel has largely revolved around influencing their corporate culture and change of mindset towards private sector best practices and a profit orientation. This has also enhanced performance monitoring with a focus on cost management, financial performance, compliance and corporate governance. The Committee further observes that over the past two years, ZCCM-IH has consistently paid dividends to its shareholders and this has been influenced by the IDC Group Dividend Policy approved by the Board in 2017. Further, Zamtel has also seen steady growth in its customer base as part of its drive towards revenue growth over the past few years. Generally, the companies are currently compliant in terms of payment of statutory obligations such as contributions towards pensions and payment of various taxes.

The Committee, therefore, recommends that the IDC should continue to undertake situational analyses of all SOEs under its portfolio with a view to recapitalise those that have a good business case and wind up those that are not viable. This will help promote industrialisation as a means of diversifying the economy.

10.4 Appointment of Board Members

The Committee observes with concern that most Boards of Directors lack innovation and ingenuity. The Committee further observes that most board appointments are among the same recycled people who belong to not less than two to three board committees.

In this regard, the Committee recommends that appointments to the boards of various SOEs should be streamlined to ensure that people with the right capacities are appointed to the various boards. There is also need to ensure that board appointments are more transparent.

PART II

11.0 Consideration of the Action-Taken Report

The Committee considered the Action-Taken Report on the Committee's Report on the Management and Operations of the Industrial Development Corporation (IDC) for the Second Session of the Twelfth National Assembly as outlined below.

11.1 Recapitalisation of SOEs under the IDC Portfolio

The Committee previously recommended that the Government should come up with a robust private sector driven intervention to reposition some of the SOEs. This entailed bringing in carefully selected strategic equity partners with the potential to bring in technological efficiencies, capital injection and the technical competence for managing businesses based on international best practices.

Executive's Response

The Executive responded that the processes to bring in strategic equity partners in selected SOEs had commenced. These included INDENI and ZAFFICO.

Committee's Observations and Recommendations

The Committee notes the response and resolves to await a progress report on the outcome of the process to bring in strategic equity partners in selected SOEs, who will help bring in technological efficiencies, capital injection and the technical competence for managing businesses based on international best practices.

11.2 Developing an SOE Performance Monitoring and Evaluation Framework

The Committee previously recommended that the Government must ensure that IDC put in place a holistic monitoring and evaluation framework anchored on various policy documents such as the Seventh National Development Plan and the IDC long-term strategic plan for SOEs in the country and that these monitoring and evaluation frameworks must also be extended to the performance of boards by aligning them to the performance contracts signed between the boards and the IDC. The Committee further recommended that the Government must ensure that the IDC instituted measures to compel SOEs to come up with an implementation plan which was robust and effective, anchored on their short to long term objectives, to enable it undertake continuous assessment of the institutions.

Executive's Response

The Executive responded that a quarterly monitoring of performance framework had been put in place with a focus on cost management, financial performance, compliance and corporate governance. Where deviations from set targets were adverse, CEOs and management would be answerable to the IDC. There was also a drive towards financial reporting by companies to ensure that performance was monitored on a timely basis.

Committee's Observations and Recommendations

The Committee notes the response and resolves to request an update on the strides achieved following the implementation of the monitoring and evaluation framework of SOEs.

11.3 Defining Clear Reporting Structures for SOEs

The Committee previously recommended that the Government must ensure that the IDC defined set of new rules and regulations, which clearly set out the reporting structures for SOEs to ensure transparency and accountability to the IDC. The Committee further recommended that the Government must ensure that the role of the line ministries should be limited to that of policy direction while the implementation of the policies must be left to the SOEs under the supervision of the IDC.

Executive's Response

The Executive responded that the challenge of dual reporting for SOEs had since lessened as the line Ministries and SOEs were now fully aware that IDC had the responsibility of overseeing the SOEs under its portfolio and not the Ministry, as was the case before. This was in line with the Presidential order that following the transfer of shares to IDC, line Ministries would focus on policy making, giving the IDC direct mandate and authorisation to oversee performance and accountability of the SOE's on behalf of Government.

Committee's Observations and Recommendations

The Committee notes the response and requests an update on whether Ministries have since been concentrating on policy formulation and not interfering in the supervision of SOEs.

11.4 Reducing the Bureaucracy in the Operations of SOEs

The Committee previously recommended that the Government must streamline the approval of contracts and procurement processes to ensure speedy implementation of activities by the SOEs and that the Government should review the *Zambia Public Procurement Ac of 2008* in order to align procurement procedures to those adopted by the SOEs.

Executive's Response

The Executive responded that through an extensive consultative process with the SOEs, IDC had actively engaged and made submissions to the Zambia Public Procurement Authority (ZPPA) and the Ministry of Finance, on the challenges around procurement processes and the proposed solutions for the IDC Group. The proposals were currently under review by ZPPA.

Further, SOEs were being encouraged to adopt best practices, such as automation of processes to bring about efficiency, rather than bureaucratic procedures.

Committee's Observations and Recommendations

The Committee resolves to await a progress report on the submissions made to ZPPA and the Ministry of Finance on the proposed solution to resolve the challenges encountered in the procurement process.

11.5 Developing a Comprehensive SOE Policy

The Committee recommended that the Government should urgently put in place a legal framework governing SOEs and align them to the central model, which had been adopted for overseeing the performance of parastatal institutions in order for the IDC to develop an effective oversight mechanism. Further, the Committee recommended that the Government must expeditiously develop a holistic policy framework for managing SOEs by the IDC. The SOE policy framework must guide a sound legal framework which should address the following:

a) clear separation between the state's ownership function and the IDC;
b) define clearly the mandate of the IDC, including its institutional framework and governance;
c) state clearly the disclosure and reporting requirements to ensure transparency and accountability;
d) reform measures for transforming the SOEs;
e) financing options for recapitalisation of SOEs, including options for government guarantees;
f) develop a clear roadmap of how it intends to contribute to the Sovereign Growth Fund directly, or indirectly through its SOEs;
g) the risk management framework for SOEs;
h) criteria through which the IDC shall make its investment decisions and also state clearly the exit strategy for such undertakings;
i) dividend policy and compliance requirements; and
j) state clearly, any preferential treatment to SOEs by the Government.

Executive's Response

The Executive responded that the Government through the Ministry of Finance was working with IDC to put in place a policy that would address the recommendations of the Committee.

Committee's Observations and Recommendations

The Committee resolves to await a progress report on the ongoing discussions regarding the development and implementation of a comprehensive policy.

11.6 Mechanism for Collaboration with the Private Sector

The Committee previously recommended that the Government must ensure that IDC should put in place a holistic strategic plan defining its short, medium and long term objectives for transforming SOEs, through which the private sector could leverage for collaboration and these strategic objectives must be anchored on change management, cost effectiveness, productivity enhancement, and marketing SOEs to the private sector locally and abroad, so as to encourage investments in the selected strategic areas of development.

Executive's Response

The Executive responded that following a situational analysis of the IDC portfolio of companies, the Board approved transformational measures for the SOEs, some of which included winding down of companies that had no business case, introducing strategic equity partners and the required staff numbers in some of the companies. This was to ensure that the short, medium and long-term objectives of transforming SOEs were achieved for example the removal of Medical Stores Limited and ESCO from the portfolio.

Committee's Observations and Recommendations

The Committee notes the response and resolves to await an update on the continued implementation of the transformational measures that the IDC Board had approved.

11.7 Creation of Synergies with Think-Tank Institutions, Academia and Financial Institutions and Associations

The Committee previously recommended that the Government must ensure that the IDC should enter into memoranda of understanding to outline how it intends to work with think tank institutions to address any capacity gaps that IDC would be facing in its early stages of establishment.

Executive's Response

The Executive responded that IDC was developing a strategy that would ensure collaboration with universities, both public and private. In 2017, IDC had worked with Zambia Agricultural Research Institution (ZARI) through a Memorandum of Understanding to provide technical support towards investment in the agricultural sector which has since been done.

Committee's Observations and Recommendations

The Committee resolves to await a progress report on the development of a strategy to outline how the IDC will collaborate with think tank institutions.

11.8 Committee's Observations and Recommendations arising from the Local Tour

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

11.8.1 The Committee previously recommended that Government must adhere to the policies governing the establishment of multi-facility economic zones and that it should endeavor to be consistent in its policy pronouncements to ensure that it attracted investment and ensured investor confidence.

Executive's Response

The Executive responded that the objective for establishing multi-facility economic zones was to promote economic diversification and economic development through value addition in the country. Therefore, having a consistent incentive regime was vital for attracting investors into the LS-MFEZ and other such developments.

Therefore, in taking note of the Committee's recommendation, Government would endeavor to ensure that there was policy consistency in order to attract investments into MFEZs through the Investment Council of Ministers, stakeholder consultations and Cluster Advisory Groups.

Committee's Observations and Recommendations

The Committee notes the response and resolves to await an update on the implementation of Government policies to ensure that MFEZs become hubs of economic diversification.

ZESCO – Kafue Gorge Lower Green Field Project

11.9.1 The Committee previously recommended that in order to create ZESCO as a regional hub for power generation and distribution, there was need to expedite the Cost of Service Study, which would help in the determination of cost reflective tariffs for electricity, and attract potential investors in the power sector.

Executive's Response

The Executive responded as set out below.

1.0 Status of the Electricity Cost of Service Study

The Consultant engaged to undertake the study had withdrawn from the study. The details of the developments and the proposed way forward were as presented below.

1.1 Objectives and Terms of Reference of the Study

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

1.2 Timeline

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

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

1.3 Governance of the Study

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

1.4 Inception visit and Report

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

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

As at July, 2018, the consultant had submitted a total of 5 versions of the Load Forecast Report. The Load Forecast Report was one of the key deliverables of the study. A total of five revisions of the report were made between September, 2017 and June, 2018. In all instances, the Technical Committee rejected the Report on account of it being poorly written and shallow depth of the analysis. It was observed that the consultant had not made serious effort to improve the quality of the report and the comments raised on all draft Reports were not fully addressed.

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

- Meanwhile, all the versions of the report were submitted to AfDB who also rejected the report on account of poor quality and lack of depth in its analytical framework. Further, any payments towards the same outputs were withheld on the basis of poor quality. Meanwhile, the ERB emphasised that it would not compromise on the quality of the Report.

1.6 Reviews of the Benchmarking Report

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

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

2.0 **Revised Work Schedule and Timeline for Completion of Study**

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

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

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

3.0 CoSS Results Dissemination and Migration to Cost Reflective levels

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

4.0 ECA's Proposal to Withdraw from the Study

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

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

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

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

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

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

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

6.0 Study Steering Committee Meeting held of 12th July, 2018

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

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

The Study Technical Committee made a presentation to the Steering Committee and recommended that the Steering Committee accepts ECA's proposal to withdraw from the study on account of the poor quality of the Load forecast Report and inability to deliver on the pending task orders.

The Steering Committee resolved to accept ECA's withdrawal from the study and requested the ERB to officially engage the AfDB with the view to procuring another consultant to undertake the study.

7.0 Conclusion

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

Committee's Observations and Recommendations

The Committee notes the submission on the poor manner in which the consultant handled the CoSS, which is of huge importance both to the energy sector and the economy as a whole. The Committee further expresses concern on the inordinate time it has taken from 2006 to have a conclusive meaningful study on the CoSS to inform the tariff charges in the various categories of the economy. The Committee urges the Executive to expeditiously engage another consultant and resolves to await a progress report.

Nitrogen Chemicals of Zambia (NCZ)

11.10.1 The Committee previously recommended that a candid decision had to be made by the Government to either liquidate the company or urgently come up with a re-modernisation plan to sustain its operations.

Executive's Response

The Executive responded that technical-specialists were engaged by the IDC to review the operations of the NCZ and come up with options for review and consideration by the IDC Board. This process was on-going, and a board paper was expected to be submitted within Quarter three (3) of 2018.

Committee's Observations and Recommendations

The Committee resolves to await a progress report regarding the outcome of the review by the technical specialists engaged by the IDC.

11.10.2 The Committee previously recommended that the Government should honour the debt owed to NCZ, amounting to K240.0 million, and further recommended that it be paid as a lump sum, to enable the company clear its liabilities in the form of statutory obligations, pension dues and suppliers.

Executive's Response

The Executive responded that Government was aware that NCZ owed a huge amount of debt to various players. In terms of what the Government itself owed, it was paying its debt in form of cash and debt swap with Government fertiliser.

Committee's Observations and Recommendations

The Committee notes the response and resolves to await an update on the settlement of the outstanding debt.

Zambia Railways Limited (ZRL)

11.11.1 The Committee previously recommended that the Government should consider separating the railway business and the railway infrastructure maintenance and management of the railway lines, through creation of a rail infrastructure agency which would focus on maintenance of the railway infrastructure. The ZRL would then pay user fees to the agency to facilitate continuous maintenance of the rail infrastructure.

Executive's Response

The Executive responded that the Government was considering the creation of the National Railway Development Agency (NRDA) to facilitate the separation of railway infrastructure development and rail maintenance from rail operations. This was aimed at allowing ZRL to focus on running its business competitively and in a sustainable manner without being bogged down by maintenance of the railway infrastructure.

The Government through the Ministry of Transport and Communications (MoTC) shall submit a Cabinet Memorandum seeking cabinet's consideration on the issue of the NRDA.

Committee's Observations and Recommendations

The Committee notes the response and resolves to await a progress report on the submission of a memorandum seeking Cabinet's consideration of the establishment of NRDA.

11.11.2 The Committee previously recommended that the shareholder must help mobilise financing for establishment of dry ports to facilitate transportation of heavy cargo, by road transport to the railway tracks, so as to open new business opportunities within the country and the region.

Executive's Response

The Executive responded that currently no funds had been mobilised towards the development of dry ports. However, in the pursuit of the same objective, an advertisement for an expression of interest for the development of dry ports through a Private Public Partnership (PPP) was done in April, 2018 and the bids were being evaluated.

Committee's Observations and Recommendations

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

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

Executive's Response

The Executive responded that on the case with Luanshya Municipal Council and the Judgment passed in ZRL's favour to demolish illegal structures built on its land, the local authority had gone back to court and applied to set aside the judgment, hence demolition of properties built within 50-metre radius of the railway line could not be enforced since the matter had been taken back to Court. The Executive further submitted that ZRL had also written to the Ministry of Lands and Natural Resources to cancel and revoke all certificates of title illegally issued on its land by the Ministry of Lands and Natural Resources and the local authorities.

However, Luanshya Municipal, Council was amenable to finding alterative land to compensate for the land lost as per suggestion in their letter which arose from a court judgment, Zambia Railways Limited and Luanshya Municipal Council 2014/HN/208 wherein it was ordered that:

(a) The plaintiff was the legal and lawful owner of farm 1392 and 1393 situate in Luanshya in the Copperbelt Province of the Republic of Zambia.
(b) The defendant's purported act of encroaching on the plaintiff's land, demarcating and offering portions of the same for sale was illegal and unlawful.
(c) The defendant, its agents and or servants was restrained from subdividing, re-planning and offering for sale to third parties portions of farm No.1392 and 1393 Luanshya.

As a result of the foregoing, the Municipality was in the process of finding land and once headway had been made over the same, Zambia Railways Limited would be invited for a site inspection of the land.

Committee's Observations and Recommendations

The Committee resolves to await a progress report on the revocation of titles, and the latest with regard to the judgments of the court on demolition of the houses built on ZRL land.

11.11.4 The Committee previously recommended that Government must facilitate the recovery of the funds owed by BUK who failed to meet contractual obligations as specified in the contract signed in 2013 and also recover funds owed by Bombardier who had failed to supply and deliver a signalling system as agreed in the contract signed in February, 2014. The Committee directed that the Ministry of Finance should help ZRL to recover these funds with interest.

Executive's Response

The Executive responded that:

(a) Following the failure by BUK Truck Parts Limited to deliver within the adjusted delivery schedule, ZRL terminated the contract for breach and demanded payment of the outstanding balance of K12,650,628.52 from BUK Truck Parts Limited and African Grey Insurance Limited (the company that extended the two advance payment guarantees), respectively. However, BUK disputed the basis of the termination of the contract.

    In this regard, ZRL brought legal action against BUK and African Grey Insurance in the Kabwe High Court (Cause No. 2016/HB/10) for payment of the K12, 650,628.62 plus interest. Simultaneously, BUK commenced legal action in the Lusaka High Court (Cause Number 2016/HP/0252) against ZRL and African Grey, seeking an Order of the Court to enforce the Arbitration Clause. ZRL applied to consolidate the two court cases. The matter was pending an Order for Consolidation.

    Meanwhile, on the other matter, the Court had ordered that the Parties should proceed to Arbitration since there was a dispute emanating from the provisions of the contract.

    The parties had mutually appointed Judge Charles Kajimanga as Arbitrator and the matter had not yet taken off as the parties were attempting to have a discussion for an ex-curia settlement.

(b) Bombardier had not supplied any materials to ZRL under the contract, despite ZRL's payment as ZRL had failed to open a letter of credit. Demand letters to Bombardier for refund or repayment of the $3.6 million was made and Bombardier refused to honour ZRL's claim stating that the money had been utilised for technical designs and other project mobilisation costs and that project implementation would only take off after ZRL had opened the letter of credit. However, ZRL's position was to proceed to take out legal action against Bombardier, but IDC had advised that discussions between GRZ (Ministry of Finance) and Bombardier through the Swedish Government were underway for a financing solution for ZRL by Team Swedish Rail, which would also include funding for the signalling and telecommunications project.

Committee's Observations and Recommendations

The Committee resolves to await a progress report on the arbitration case between ZRL and African Grey. Regarding Bombardier; the Committee expresses concern on the continued engagements that are not yielding results and urges the Executive to ensure that the Swedish Government sees to it that company finances the projects and will await an update on the matter.

11.11.5 The Committee previously recommended that the Government, through the Ministry of Finance, should support ZRL to recover the owed funds with interest.

Executive's Response

The Executive responded that Diamond Motors Limited had, to date, failed to deliver the two mobile flash butt welding machines. ZRL had demanded a refund of the US$258,764.50 and US$1,035,058.00 or alternatively, delivery of the two machines, as per contract specification. The demands went unanswered and ZRL had served notice on Diamond Motors Limited to commence arbitration proceedings as per contract. This prompted a series of meetings in an effort to amicably resolve the matter and two positions were proposed by ZRL:

(a) Since ZRL had fully paid for one mobile flush butt-welding machine and Diamond Motors Limited was yet to ship the second unencumbered mobile flush butt, Diamond Motors should deliver that equipment for the amount already paid and deal with Zambia Police for the first equipment.
(b) As per contract terms, Diamond Motors should invite ZRL for a pre-shipment inspection and once satisfied with the equipment, the supplier could proceed to ship the equipment, carry out a pre-delivery inspection and deliver, and on final acceptance by ZRL, commission and handover the equipment to ZRL.

Diamond Motors Limited had not yet responded to that proposal and ZRL would proceed to court for the recovery of the moneys paid under the contract.

Committee's Observations and Recommendations

The Committee resolves to await a progress report.

11.11.6 The Committee previously recommended that the Government, through the Ministry of Finance, must halt discussions with Bombardier, given the failure to fulfil its contractual obligations in the contract signed between ZRL and Bombardier in 2014.

Executive's Response

The Executive responded that while noting the committee's recommendation, discussions between the Government (Ministry of Finance) and Bombardier through the Swedish Government were underway for a financing solution for ZRL by Team Swedish Rail, which would also include funding for the signaling and telecommunications project.

Committee's Observations and Recommendations

The Committee expresses doubt on whether bombardier will honour its contract obligations and resolves to await a progress report.

11.11.7 The Committee previously recommended that to improve the railway business, there was need to urgently rehabilitate the railway track and procure high speed wagons. In addition, the committee strongly recommended that the Government must embark on an ambitious exercise to repair the vandalised railway track, to enable ZRL attract more business opportunities, both locally and international.

Executive's Response

The Executive responded that:

(a) Government through ZRL had come up with a plan of prioritised critical track works in vulnerable/vandalised locations for implementation within a period of three to twelve months. The capital requirement to undertake this programme was US$13 million. In addition, ZRL was considering engaging an equity financed arrangement with stakeholders such as ZCCM-IH with the involvement of the shareholders (IDC) to raise finances for critical works.

In the interim, ZRL had continued to use its operational resources to carry out track repairs in derailment prone areas, temporary speed restricted areas, maintenance works addressing the joints coupled with enhanced track monitoring and supervision of the works/quality control.

In the long term, Ministry of Transport and Communications (MoTC) planned to undertake a complete rehabilitation of the ZRL permanent way through an EPC+F contract involving two Chinese firms, namely CCECC and CREC. The contract would also involve supply of new rolling stock. When the project was complete ZRL would increase its train speeds to between 80 and 120 km per hour. Negotiations with the two Chinese firms were currently underway.

(b) ZRL was currently in talks with various stakeholders such as General Electric, Jindal Rail, Transnet SOC Ltd, among others, to resolve selected components of capital injection such as locomotives, wagons, etc under various financing models.

Committee's Observations and Recommendations

The Committee resolves to await a progress report on the ongoing negotiations regarding the rehabilitation of the rail line.

Mukuba Hotel

11.12.1 The Committee previously recommended that the hotel should price its services competitively, comparable to other players in the industry, so as to attract more customers, and sustain its business operations.

Executive's Response

The Executive responded that in its current state, increasing the pricing of the hotel services could worsen the situation of Mukuba Hotel by reducing the number of customers that patronise the hotel. One of the major drawbacks of the hotel had been that of a huge cost structure and liabilities which had drained the revenue it generated. The Hotel had accumulated huge amounts to statutory bodies, over K10m for ZRA and K2.4m for NAPSA as at 31st December, 2017 which had resulted in huge penalties and interest charges. Some of the indebtedness had potential for litigation. These historical credits had crowded out room for operational working capital and capital expenditure. In addition, the employees were for a long time under the old ZIMCO working conditions which allowed for six months pay for every year served as long term benefits.

To address this situation, IDC gave a shareholder loan of K5.5 million to the hotel and this was applied towards payment of employee benefits as a first step to reducing the cost structure. It was expected that as some of the liabilities were dealt with, a fresh working capital would enable the hotel to offer better services and change its outlook which would then allow for an increase in the pricing of its services.

Committee's Observations and Recommendations

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

11.12.2 The Committee previously recommended that the Government should look for an equity partner, who should take up the majority shareholding, and help revamp Mukuba Hotel to avoid putting undue pressure on the Treasury.

Executive's Response

The Executive responded that Government through the IDC was looking at various options for a turnaround and some of the options included engaging a Hotel Manager as was the case with most hotels where the Asset Owner and Asset Manager were separated. This would help ensure that the hotel was run in a professional manner by industry experts. It was expected that once the strategy was finalised and approved by the Board, implementation would commence.

Committee's Observations and Recommendations

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

11.12.3 The Committee previously recommended that to sustain the operations of the hotel, there was need to inject more capital to give the hotel a facelift and not just focusing on construction of the convention centre. The committee reiterated that to meet the capital requirement for modernising the hotel, there was need for Government to look for an equity partner.

Executive's Response

The Executive responded that various options were being considered for turnaround of the hotel and looking for an equity partner would also be considered.

Committee's Observations and Recommendations

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

Mpulungu Harbour

11.13.1 The Committee previously recommended that as a long term measure, the harbour must be modernised to an internationally acceptable standard to open up more business opportunities in the shipping industry. In this regard, the committee recommended that the shareholders must help the company mobilise resources to facilitate the modernisation of the harbour.

Executive's Response

The Executive responded that the feasibility study for the modernisation of Mpulungu Port was completed on 30th June 2018. The report was submitted to the Ministry of Transport and Communications and the African Development Bank. It was expected that a presentation will be made to the Bank's Board by February, 2019 on matters including the financing options for their consideration.

Committee's Observation and Recommendations

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

11.13.2 The Committee previously recommended that in the short term, the Government should support the company to procure trucks to help with in-land transportation of goods so as to tap into the exportation of cement and sugar, which were on demand within the East African region.

Executive's Response

The Executive responded that the proposal to acquire twenty trucks had been approved by the Board and a 'No Objection' was granted by IDC.

Committee's Observations and Recommendations

The Committee notes the response and resolves to await an update on the purchase of the twenty trucks.

11.13.3 The Committee previously recommended that the Management at Mpulungu Harbour Corporation, through the Ministry of Finance, must come up with a debt swap arrangement to clear the debt owed by Pendulum.

Executive's Response

The debt swap option was under consideration and with the reconciliation of the debt having been done, Pendulum was expected to acknowledge the debt.

Committee's Observations and Recommendations

The Committee resolves to await an update on the implementation of debt swap following the acknowledgment of the debt by Pendulum.

11.13.4 The Committee previously recommended that Mpulungu Harbour Corporation should look for more business opportunities to cushion its revenue uptake in case of a ban on exportation of products such as maize and cement.

Executive's Response

The Executive responded that committee's recommendation was valid. Government had continued to encourage companies to be competitive in order for them to make profits. As such, Government would continue to create an enabling business environment for all companies operating in Zambia through sound policies. The Ministry of Transport and Communication would collaborate with the Ministry of Agriculture to address the issue of a ban on exportation.

In the meantime, Mpulungu Harbour had developed a diversification plan to broaden the revenue base.

Committee's Observations and Recommendations

The Committee resolves to await a progress report on the actualisation of the diversification plan, which had since been developed.

12.0 Conclusion

State owned enterprises (SOEs) were State owned enterprises (SOEs) were among the biggest players in the Zambian economy. Additionally, they were important contributors to national economic development processes as they provided citizens with access to vital services such as water, electricity, health care, and sanitation, among others. The Committee took cognisance of the fact that the performance of SOEs had not been favourable and culminated in the decision by the Government to establish the Industrial Development Corporation with an agenda to re-organise and reform the system for overseeing and managing of State Owned Enterprises (SOEs) in order to maximise the parastatal bodies' contribution to national development.

In light of the foregoing, the Committee took an in-depth review of the operations of ZCCM-IH and Zamtel, which were SOEs falling under the portfolio of the IDC. The Committee took note that the operations of ZCCM-IH had improved in the recent past as evidenced by the declaration of dividends by the company, and that Zamtel had recorded some positive growth in revenues. The Committee further noted that ZCCM-IH had great potential to contribute to national economic development.

The above notwithstanding, the Committee also noted that there were a number of challenges that were inhibiting the growth of these two SOEs, key among them being lengthy and bureaucratic procurement processes, lack of incentives or relief from the Government to facilitate their investment in economically unviable areas, high capitalisation and investment needs, and exposure to commodity price shocks.

In this regard, the Committee is hopeful that the Executive will take its report seriously and endeavour to take appropriate action to address all the observations and recommendations contained therein expeditiously.

The Committee wishes to pay tribute to all the stakeholders who appeared before it and tendered both oral and written submissions. The Committee also wishes to thank you, Mr Speaker, for the guidance rendered to it throughout the Session. It also appreciates the services rendered to it by the office of the Clerk of the National Assembly.

Mr P M W Daka, MP	July, 2019
CHAIRPERSON	**LUSAKA**

APPENDIX I

List of Stakeholders

Ministry of Finance
Mr F Yamba, Secretary to the Treasury
Mr J Nonde, Director Budget Office
Ms R G Zyambo, Assistant Director Government Investments
Mr K Sindono, Chief Audit and Risk Officer
Ms M Yadika, General Counsel-ZCCM-IH
Mr C Mjumphi, Corporate Services Manager, ZCCM-IH
Mr R Bwalya, Executive Assistant –to the ST
Mr E Manunga, Principal Accountant

Ministry of Commerce, Trade and Industry
Ms K Siame, Permanent Secretary
Mr P Lupunga, Director Planning
Mr J A Mulongoti, Director Industry
Mr I M Kasonde, Economist

Ministry of Transport and Communication
Eng M Lungu, Permanent Secretary
Mr Y Bwalya, Director
Mr S Mbewe, Director
Ms I B Tembo, Assistant Director
Ms L M Mazuba, Planner
Mr D Chipili, Intern Planner
Ms C Lubasi, Intern Planner
Mr P Mutiwashi, Director General
Ms K Munwiba, Manager Strategy

Industrial Development Corporation
Mr M C Kaluba, Chief Executive Officer
Mr C Nketani, Portfolio Manager
Ms K Libinga, Senior Analyst – Research & Strategy
Mr H Sakala, Chief Portfolio Officer

Zambia Information and Communications Technology Authority
Mr P Mutimushi, Director General
Mr B Mupenda, Authority Secretary
Mr C Chomba, Manager-Market

Zambia Telecommunications Company Limited
Mr S Mupeta, Chief Executive Officer
Mr J Malupenga, Chief Financial Officer
Mr B Malama, Company Secretary

ZCCM- Investments Holdings
Mr M Chipata, Chief Executive Officer
Mr C Chabala, Company Secretary
Mr W K Katolo, Chief Technical Officer
Ms C J Sakala, Chief Technical Officer
Mr L Mbamashi Acting General Counsel
Mr T G Msusa Acting Chief Investments Officer
Mr P Banda, Human Resources Manager

Lusaka Securities Exchange
Mr P Sala, Head – Business Development
Mr I Hinji Legal & Compliance
Mr S Simukoko Chief Financial Officer

University of Lusaka
Prof P Chifwanakeni, Vice Chancellor
Mr D Bowasi, Dean – School of Business
Mr B Mumba, Dean – School of Business
Ms M L Zimba, Registar - Administration

Zambia Chamber of Mines
Mr S Chilembo, Chief Executive Officer

Zambia Chamber of Commerce and Industry
Mr M Nyirenda, President
Ms S B Mwansa, Vice President
Mr L Haangala, Board Member
Mr G Sakala, Head of Policy
Mr K Shula, Research

Zambia Institute for Policy Analysis and Research
Ms P Nakamba, Executive Director
Ms M Phiri, Research Fellow
Mr S Manchishi, Associate Researcher
Ms C B Mwelia, Associate Researcher

Economics Association of Zambia
Dr L Haabazoka, President
Mr M Muyembe, Copperbelt Province Chairperson
Ms M Nachilima, Executive Director
Ms T Posicina, Head of Communications
Mr A Mwange, Member

Oxfam-Zambia
Ms I Chibiya, Programme Qualify Lead
Mr E Masemo, Governance Manager
Mr C Phiri, Fellow

Action-aid Zambia
Ms N Zila, Country Director
Ms P Chitembwe Roving Advisor
Mr M Kabinga, Manager-Government Department
Ms B Mutumba, Campaign and Advocacy Coordinator
Mr E M Mupila Officer

Zambia Institute of Chartered Accountants
Mr B Kashinga, Chief Executive Officer
Mr L Z Mubanga, Committee Chairperson
Mr P Sitali, Acting Director Standards & Registration
Mr V Kapelwe, Manager Practice Revenue
Mr F Chilekwa, Technical Officer

Centre for Trade Policy and Development
Mr B Mwiinga, Head of Programme
Mr I Mbewe, Programme Officer
Ms J Willima, Programme and Research Officer
Mr M Muma, Programme Officer

APPENDIX II

List of National Assembly Officials

Ms C Musonda, Principal Clerk of Committees
Mr H Mulenga, Deputy Principal Clerk of Committees (FC)
Mrs C K Mumba, Acting Senior Committee Clerk (FC)
Mr E I C Chilimboyi, Committee Clerk
Ms A Maluwa, Acting Stenographer
Mr M Chikome, Committee Assistant
Mr D Lupiya, Committee Assistant
Mr S Kantumoya, Parliamentary Messenger