REPORT OF THE COMMITTEE ON ECONOMIC AFFAIRS, ENERGY AND LABOUR FOR THE FOURTH SESSION OF THE ELEVENTH NATIONAL ASSEMBLY APPOINTED ON TUESDAY, 23RD SEPTEMBER, 2014

Consisting of:

Mr K K Hamudulu, MP (Chairperson); Ms C Ngimbu, MP; Mr G G Nkombo, MP; Dr S Musokotwane, MP; Mr V Lombanya, MP; Mr F Mutati, MP; Mr L C Bwalya, MP; and Mr G B Mwamba MP.

The composition changed following the appointment of Ms C Ngimbu, MP; and Mr L C Bwalya, MP to the positions of Cabinet Minister and Deputy Minister respectively; and the appointment of Mr G B Mwamba, MP to serve on another sessional Committee. Ms M Miti, MP; Mr W C Simuusa, MP; and Mr N Chilangwa, MP were subsequently appointed to the Committee.

The Honourable Mr Speaker
National Assembly
Parliament Buildings
LUSAKA

Sir

Your Committee has the honour to present its Report for the Fourth Session of the Eleventh National Assembly.

Functions of the Committee

2.0 The functions of your Committee are as set out hereunder.

a) To study, report and make recommendations to the Government through the House on the mandate, management and operations of Government ministries, departments and/or agencies under its portfolio.

b) To carry out detailed scrutiny of certain activities being undertaken by Government ministries, departments and/or agencies under its portfolio and make appropriate recommendations to the House for ultimate consideration by the Government.

c) To make, if considered necessary, recommendations to the Government on the need to review certain policies and/or certain existing legislation.

d) To examine annual reports of Government ministries and departments under their portfolios in the context of the autonomy and efficiency of

Government ministries and departments and determine whether the affairs of the said bodies are being managed according to relevant Acts of Parliament, established regulations, rules and general orders.

e) To consider any Bills that may be referred to it by the House.

Programme of Work

3.0 The following Programme of Work was adopted by your Committee for the Fourth Session of the Eleventh National Assembly:

a) consideration of the Action-Taken Report on the Committee's Report for the Third Session of the Eleventh National Assembly;

b) consideration of the following topical issues:

i) electricity Sector Reforms: A Case for Unbundling ZESCO;
ii) update on the Operations of the National Pension Scheme Authority; and
iii) update on Zambia's Status vis-a-vis the Economic Partnership Agreements.

c) foreign tour of Uganda to share experiences on the topics under consideration; and

d) public hearing in Lusaka to gather views on the restructuring of ZESCO.

Meetings of the Committee

4.0 Your Committee held a total of ten (10) meetings to consider submissions on the three topical issues, the Action-Taken Report and to adopt its Report.

Procedure adopted by your Committee

5.0 Your Committee requested stakeholders to submit written memoranda on the topics after which stakeholders made oral submissions based on their written memoranda. The list of stakeholders that your Committee interacted with is at Appendix I of this Report. Your Committee also undertook a foreign tour of Uganda to share experiences on two topical issues under consideration. Additionally, your Committee held a public hearing in Lusaka to get views on the restructuring of ZESCO.

PART I

CONSIDERATION OF TOPICAL ISSUES

A. ELECTRICITY SECTOR REFORMS: A CASE FOR UNBUNDLING ZESCO

Summary of Submissions from Stakeholders

6.0 A number of stakeholders gave both oral and written submissions to your Committee on the issue of restructuring ZESCO, as listed below.

i) Ministry of Mines, Energy and Water Development.
ii) Ministry of Finance.
iii) ZESCO Limited.
iv) Energy Regulation Board.
v) Rural Electrification Authority.
vi) Copperbelt Energy Corporation.
vii) Lunsemfwa Hydro Power Company.
viii) World Bank.
ix) Private Sector Development Association.
x) Zambia Association of Manufacturers.
xi) Zambia Chambers of Commerce and Industry.

Background

Your Committee was informed that the electricity subsector in Zambia was dominated by ZESCO Limited which was a vertically integrated public Utility accounting for over 90 per cent of the Zambia's generation capacity. The Utility generated, transmitted, supplied and distributed power throughout the country. Consecutive Governments had strived to improve the performance of the energy industry, the electricity subsector and the performance of ZESCO Limited in particular.

In 2000, the Government made a decision to unbundle and later privatise ZESCO. This decision was rescinded in 2003, with the Government citing various social and economic reasons. It instead decided to follow the path of commercialisation. It was envisaged that ZESCO's performance was going to improve if it operated on commercial basis. However, the commercialisation path had not yielded the anticipated benefits and the electricity subsector in general and ZESCO in particular continue to face a lot of challenges, including, but not limited to the ones set out below.

1) Access to electricity has remained low with only about 27 per cent of the population having access. Rural areas remained mostly disconnected from the national electrical grid with only 5 per cent of the population in these areas having access to electricity. Over the past decade, Zambia

had marginally increased access to electricity at a rate of less than 0.5 per cent per year.

2) The country was faced with an insufficient generation capacity as a result of increased demand resulting from economic growth.

3) The country's transmission grid was said to be constrained and its efficiency compromised. This had adversely affected quality, security and reliability of supply. The transmission network was built over forty years ago and required upgrade, reinforcement and expansion in order to improve performance and to carry load from new generation projects.

4) Most of Zambia's electricity distribution infrastructure was aged. The cables, overhead lines and switchgear were installed over forty years ago. The distribution network had reached its limits and equipment failures were common, resulting in the deterioration of quality and reliability of supply.

Power Sector Reforms in Zambia

Your Committee was informed that in 1994, the Government of the Republic of Zambia promulgated the National Energy Policy (NEP). The NEP set a number of policy objectives including: restructuring of the electricity industry; improving accessibility to electricity; promoting electrification of productive areas and social institutions; and developing hydro power generating potential.

To achieve the above objectives, the Government's main strategy was to open up the power industry to the private sector, thus abolish the statutory monopoly of the state-owned public utility, ZESCO. The Government, therefore, initiated the need for restructuring the electricity market through legislative reforms that allowed other players in the market.

By the end of the 1990s, ZESCO's performance was poor with low generation capacity and high distribution losses; an unsatisfactory rate of return on assets; inability to settle debts; low collection rates; overstaffing; a weak financial position making it difficult to finance new investments; and low electricity access rates.

In view of these challenges, the Government commissioned a study to look at the possible options of privatising ZESCO. The key recommendations of that study were that ZESCO should be unbundled into generation, transmission, distribution and rural electrification business units and be privatised. Additionally, in 1999, the Energy Regulation Board (ERB) commissioned a separate study to look at options of restructuring the power sector. The report on that study was presented to the Government in 2002.

The key recommendation of the ERB study was that the Zambian power sector be restructured along the lines of a 'semi-competitive' model which meant unbundling of ZESCO into generation, transmission, distribution and supply to allow for horizontal separation among the three divisions.

By mid 2000, privatisation had become politically unpopular and the Government decided to pursue a path of commercialisation in the hope that it would still achieve the same objectives as privatisation.

The under listed were the reasons cited for rescinding the earlier decision to privatise ZESCO.

i) The existence of the Bulk Supply Agreement (BSA) between ZESCO and the Copperbelt Energy Corporation (CEC) for long periods, which committed over 50 per cent of power from ZESCO to one customer.

ii) The Government believed that cost reflective tariffs would take some time to be attained in Zambia given that the majority of Zambians lived in abject poverty.

iii) Energy was the engine of growth, development and poverty reduction and thus needed to remain in Government hands.

iv) ZESCO was viewed as a vehicle for rural electrification. Thus, concessioning of the utility would have affected the programme of rural electrification, as it would have meant contracting other entities with similar competences as ZESCO to undertake rural electrification. The Government, therefore, created the Rural Electrification Authority (REA) to accelerate the rural electrification programme and in order to allow ZESCO to operate commercially.

Since that time, the Government shelved the idea of restructuring the power sector through privatisation and unbundling and pushed ahead with commercialisation of the vertically integrated entity. Under the prevailing market structure, ZESCO continued to be a vertically integrated commercial entity spanning the generation, transmission, distribution and supply segments of the power industry.

Your Committee was informed that the other players were the Copperbelt Energy Corporation (CEC) which purchased bulk power from ZESCO and supplied to the mines on the Copperbelt based on the long term Power Supply Agreement (PPA); and Lusemfwa Hydropower Company (LHPC), an Independent Power Producer (IPP) which operated 40MW hydro power plants. New entrants in the industry included the Ndola Energy Company Limited, a Heavy Fuel Oil based IPP with installed capacity of 50 MW; Kariba North Bank Extension

Power Limited, a 100 per cent ESCO owned subsidiary; Itezhi-Tezhi Power Company Limited a joint-venture between TATA India and ZESCO Limited; Maamba Power Limited Company an IPP developing another coal fired power plant; Zengamina Power Company Limited; and North West Energy Corporation.

Challenges in the Electricity Subsector

Your Committee was informed that the electricity industry in Zambia was faced with various challenges. The country, therefore, has a task of resolving these challenges, while taking into account economic growth projections; required investments in new generation capacity; required investments for expansion of the transmission and distribution networks; and required investments for rehabilitating and maintaining existing plants.

All this had to be done to ensure that quality and reliability of electricity supply to existing consumers, especially during peak periods, did not become increasingly compromised.

Some challenges, as highlighted below, were specific to ZESCO.

i) *Uneconomic Tariffs:* The Company continued to operate with uneconomic tariffs. The average end-user tariffs were not cost reflective thereby making it difficult for ZESCO to raise necessary finances for operation and maintenance of the existing equipment and for investing in new capital projects.

ii) *Lack of investment:* Most of ZESCO's generation, transmission and distribution infrastructure was old and this resulted in high operation and maintenance costs.

iii) *Debt to ZESCO*: ZESCO was owed huge sums of money by both Government institutions and the private sector. ZESCO was unable to make some Government institutions liquidate their debts through disconnections because of their sensitive nature. Sensitive Government institutions included hospitals, military barracks and police camps. As at February, 2015, ZESCO was owed K427million in outstanding electricity bills as shown in the Table below.

Government Debt As At 31/01/2015

DETAILS	AMOUNT- ZMW
Zambia Airways	13,650,000.00
ZIM oil	7,980,000.00
Zambia National Oil Company	18,375,000.00
Gwembe Tonga Projects	2,212,358.64
GRZ projects	88,658,975.55
Rural Electrification Authority	12,003,727.50
GRZ-Balance on Debt swap	690,012.94
Zambia Paramilitary-Outstanding rentals KGPS	319,790.00
Zambia Police Regular-Outstanding rentals KGPS	463,525.00
Forest-Outstanding rentals KGPS	3,152.00
Camp-Outstanding rentals KGPS	90,989.00
GRZ Electricity Bills	281,244,397.00
Capital Contribution-Levy Mwanawasa	1,360,340.40
TOTAL	**427,052,268.03**

iv) *Small customer base:* Zambia's low access rate to electricity of about 27 per cent of the total population and about 5 per cent of the rural population meant that it had a small customer base. In rural areas, the small number of customers were scattered requiring the construction of long transmission and distribution infrastructure, but only to supply a small number of customers. It was, therefore, very expensive to maintain such infrastructure.

v) *Existence of unfavourable long term Power Purchase Agreements:* The existence of Power Supply Agreements (PSAs) such as the Bulk Supply Agreement (BSA) between ZESCO and the CEC had prevented the migration of mining tariffs to cost reflectivity.

Stakeholders submitted to your Committee that the challenges highlighted above continued to have a negative impact on the smooth functioning of the industry and consequently resulted in poor service delivery. These challenges hampered the development of the sector.

Your Committee was informed that another major challenge that ZESCO was faced with, was to do with Independent Power Producers (IPPs). Several generation projects were either under construction or billed for development by private developers or through Public Private Partnerships (PPPs) with ZESCO as the public partner. Given the market structure and uneconomic tariffs, these projects were looking to ZESCO to underpin their development as the sole off-taker. However, the tariffs arising from the projects were all significantly above ZESCO's average selling price. Once these selected projects commenced operations, ZESCO would be off-taker to 1,880MW of power at an annual cost of US$884 million. At the selling average tariff of US$6.02/kWh compared to the IPP average cost of buying of US$11.03/kWh, this would result in a loss to ZESCO of US$ 479.5 million per year.

Your Committee was further informed that as at February, 2015, CEC and Lumwana Mine owed ZESCO US$126 million and US$16 million, respectively, in outstanding electricity bills that arose due to the non-payment of electricity bills by CEC following an increase in BSA tariffs approved by the ERB in 2011 and 2014.

Advantages and Disadvantages of Managing the Generation, Transmission and Distribution Aspects under One Entity

When a utility combined generation, transmission, distribution and supply, it was known as a vertically integrated utility. Presented below were some of the advantages and disadvantages that were associated with a vertically integrated power utility like ZESCO, as submitted to your Committee by various stakeholders. Conversely, these could be considered as the disadvantages and advantages of an unbundled entity.

Advantages

i) *Averting cascading failure:* The transmission and distribution system was the enabling infrastructure of the power industry. It was easier to avert cascading failures of grid elements and generation units when the supply chain was combined and owned by a single entity.

ii) *Coordination of investments in a complex system:* Vertical integration facilitated the coordination of highly specific and interdependent investments in generation, transmission, distribution and supply. Any new facility affected the economic value of all facilities on the system, and an organisation that owned most such facilities may also be most likely to understand their interactions and invest optimally in them. Greater certainty could lower a company's cost of capital which was important in such a capital-intensive industry.

iii) *Risk reduction and risk management:* A vertically integrated utility could have less risk than an entity managing one aspect of the sector. The probability of a blackout would be lower with coordinated operation of a large system.

iv) *Low tariffs*: The end-user tariffs were relatively lower with vertical integration because profit margins at each segment in the supply chain were eliminated because the whole chain was owned by a single entity. This was unlike in the unbundled structure, where all the stages downstream would require a profit margin and the resultant cost would be passed on to the end-user which would result in higher tariffs.

v) *Integrated resource planning:* Integrated resource planning was an important tool in the hands of one utility, usually state-owned, mandated to manage and develop all sector-related activities; i.e. generation, transmission and distribution and supply. In an unbundled power sector, various established autonomous entities would tend to carry out resource planning largely independent unless appropriate institutional and coordination mechanisms were put in place to ensure that integrated resource planning was used effectively.

Disadvantages

i) The major challenge of a vertically integrated power utility was that because the generation, transmission, distribution and supply were combined, it was difficult for management to identify and attribute which segment in the chain had operational challenges and inefficiencies. When there was segregation, it was easy to identify the stage in the supply chain that had deficiencies and for management to institute corrective action. It was difficult to identify which of the business units was profit or loss making since the units were managed as one. As a result, an entity would not be in a position to reduce unnecessary costs in non-viable business units to ensure profit maximisation.

ii) Vertically integrated state utilities reduced competition thereby denying the consumers benefits that came with a competitive industry. In a vertically integrated entity, there was stifled innovation and competition thereby adversely affecting quality of service delivery due to the fact that such an entity had very little incentive to maintain a high level of quality as it was the only player in the market.

iii) Vertical integration was a recipe for bureaucracy and inefficiency because of the long approval processes. Vertical integration created a high hierarchical approval structure that created inefficiencies. Important decisions that could improve business operations took long to be approved. The bureaucracy could be reduced in the unbundled structure thereby shortening decision making process and consequently enhancing efficiency.

iv) In a vertically integrated system, there were tendencies to expand the span of control at each segment of the chain which created a bloated super-structure with a top heavy management structure, resulting in over staffing and high staff costs.

v) Monopoly was also one of the major barriers to new entrants in the market and thus stifled private sector participation in the electricity sub-sector.

Unbundling of ZESCO

Your Committee was informed that worldwide, the results of unbundling had been mixed. Some countries had succeeded while others had not. In situations where the purpose for restructuring had been clear and the nature of the unbundling reflected the purpose, success had been recorded.

The stakeholders who submitted to your Committee held various views on restructuring the electricity subsector. Some submitted that while unbundling ZESCO might be an option, this should be considered in the long term. They explained that what was needed in the short-term was for the Government to look for solutions that would help ZESCO as an integrated unit deal with the challenges that it was facing.

Others stakeholder, however, submitted that unbundling would be the best option for addressing the electricity sector's challenges.

i) A Case for Unbundling ZESCO

Your Committee was informed that an unbundled entity was one in which generation, transmission, distribution and supply were managed as separate entities. Unbundling ZESCO into generation, transmission and distribution entities would create entities which would be focused on addressing the unique challenges of the different business units.

The general advantages of unbundling would accrue to ZESCO as the power market developed. This would in turn improve efficiencies and create viable business entities. It would be easier for the regulator, the entities and customers to better appreciate the cost structures and hence the tariff setting.

Unbundling ZESCO into generation, transmission and distribution could help reduce, but not completely eliminate the challenges that ZESCO faced. This was so because unbundling would give rise to at least three separate firms specialised in three different aspects of the electricity business. The narrowing of the scope of business to one area could facilitate the development of specialised knowledge and management expertise that could foster efficient operation of a given segment of business.

Your Committee was further informed that ZESCO as a monopoly was a barrier to the entry of the private sector in the subsector. A level playing field could never be achieved as any private generator seeking a consumer was required to negotiate with ZESCO, which was also a generator. As such, the transmission directorate within ZESCO could not be expected to act at arm's length between a private generator and ZESCO generation. As was the prevailing case, ZESCO did not prioritise private sector connectivity to the national grid and such negotiations were usually lengthy. If on the other hand transmission was a separate and independent business unit, such a unit would promote connectivity to enhance its business. Similarly a different and independent distribution and supply business unit would prioritise securing power sourcing in order to accelerate the consumer base. The generation entity would also see the power deficit as a business opportunity.

The electricity subsector would be dynamic and achieve diversity of generation technologies through the most cost effective solutions.

Such an environment would inherently increase power generation in order to tap into the abundant domestic consumer market and accelerate access to electricity. Since the subsector would be predictable, it would be easier to raise capital for power investment and in turn provide the needed electricity to support investment, in other sectors such as mining in areas where electricity had not yet been provided.

As electricity facilitated investment in other sectors, the resultant jobs would allow the distribution entity to invest alongside these new investments and contribute to new jobs and electricity access. Ultimately, unbundling would encourage and improve investment and service delivery efficiency in the subsector.

Stakeholders submitted that if unbundled, a recommended model would be that of retaining ZESCO as the transmission network owner and operator as well as the owner of strategic generation, which comprised the large hydro power plants like Kariba North Bank, Kafue Gorge as well as other future large power plants that the company may develop either solely or in partnership with private developers. Strategic power could be made available to all distribution networks on a quota basis to ensure that all can get the benefit of the prevailing low tariffs from old power stations as compared to tariffs from newly developed plants.

Your Committee was informed that Zambia already had elements of an unbundled electricity market in the sense that there were private participants in generation such as Lunsemfwa Hydro Power Company, Ndola Energy, Maamba Coal as well as others who were developing projects. Therefore, it could be said that unbundling ZESCO would not be an entirely new concept in Zambia, but rather an extension of what was already obtaining in the market. The regulatory framework was already largely in place to allow for the introduction of private investment in distribution.

ii) A Case for Maintaining a Vertically Integrated ZESCO

Your Committee was informed by some stakeholders that in the short term to medium term, unbundling ZESCO may not help resolve the challenges that ZESCO and the electricity subsector in general was faced with due to the reasons below.

i) *Customers' ability to pay*: Unbundling ZESCO might result in higher electricity tariffs, especially for new companies in rural areas. Though the Government created REA to accelerate the rural electrification programme, REA transferred the infrastructure it created to ZESCO for operations and maintenance. The operation and maintenance of this infrastructure was very expensive. This created a burden on ZESCO. The utility was able to absorb such costs because of the large scale operation it enjoyed by combining generation, transmission, distribution and supply. Unbundling would imply overburdening the companies that might take up transmission and distribution and such companies if privatised might not be willing to absorb such costs of maintaining long lines that supplied a very small number of customers.

ii) *Existence of long term Power Purchase Agreements*: ZESCO had signed long term Power Supply Agreements with its trading partners locally and internationally. Unbundling ZESCO could have legal implications on these Agreements.

iii) *Financing Agreements*: ZESCO had signed several credit agreements with various financial institutions on the basis of a vertically integrated business model. Unbundling ZESCO might have an effect on these agreements.

iv) *Job losses*: If ZESCO was to be unbundled, it was feared that such a gesture would result in job losses especially in segments that might not generate enough resources to support a huge staff complement as with ZESCO today.

Committee's Observations and Recommendations

6.1 Your Committee notes that the Zambian electricity subsector is faced with numerous challenges that need to be addressed because of the importance of electricity to the economic and social well being of the country. Your Committee further observes that some of the elements of a good electricity subsector include security of supply; increased access; more players from private sector; cost reflective tariffs; integrated development which will support other sectors such as agriculture, manufacturing, tourism, mining, transport, Information and Communication Technology, health and education; increased utilisation of renewable energy; and efficient production and utilisation of energy, among others. In light of this, your Committee makes the observations set out below.

i) The call to restructure ZESCO, whether through unbundling or some other means, has been a recurring one for close to three decades. It further observes that before any restructuring is undertaken, there is need to weigh the costs and benefits of improving the operations of the existing commercial entity against those of an unbundled one.

ii) ZESCO's corporate governance record is poor as it is beset with political interference.

iii) ZESCO's service delivery is characterised by poor quality service and unreliability of supply.

iv) Your Committee wishes to express concern at the low national rate of access to electricity which stands at about 27 per cent.

v) The debt owed to ZESCO, by the Government, the sole shareholder, is highly unacceptable. Your Committee further observes that the debt has a negative impact on the financial stability of ZESCO and ultimately the entire country.

vi) The issue of tariffs has continued to haunt the electricity subsector notwithstanding the 2007 ERB Cost of Service Study that clearly spelt out what should be cost reflective tariffs.

vii) Your Committee is concerned about the anticipated loss of close to US$ 479.5 million per year that will arise out of the purchase of power, at non cost reflective rates, by ZESCO as the sole off taker from IPPs.

viii) The Power Purchase Agreements that were signed by ZESCO are a contentious issue that is affecting the operations of the utility. The Bulk Supply Agreements coupled with non payment of US$142 million by CEC and Lumwana Mines is of grave concern to your Committee.

Arising out of the above observations, your Committee makes the recommendations listed hereunder. In making these recommendations, your Committee notes the urgent need, to reform the operations of ZESCO and of the entire electricity subsector so that the challenges it is facing are addressed. Your Committee is cognisant of the fact that it is crucial for Zambia to determine clear objectives before reforming its power sector and ensure that the outcomes are clearly understood and articulated so that they can have the greatest likelihood of success. In the absence of this, reforming the sector could do more harm than good.

a) Your Committee strongly recommends that, as a matter of extreme urgency, the Government should begin the process of unbundling ZESCO into separate entities managing generation; transmission; and distribution and supply. Your Committee recommends that a phased approach is devised on how this unbundling will be carried out. The model outlined below is recommended by your Committee.

i) The Government should maintain its existing stake in generation and continue to invest in new projects. Government investment should be complemented by IPPs as is the prevailing state of affairs.

ii) Transmission should continue to be wholly owned by the Government under this model.

iii) The distribution and supply side should be managed by the private sector.

b) Your Committee recommends that the transfer of assets from REA to ZESCO should be at economic value so as to allow REA to create a Fund for its operations as it carries out its mandate of increasing access.

c) Your Committee strongly recommends, as a matter of utmost urgency, that a practical strategy is found for the dismantling of the debt that is owed to ZESCO by the Government.

d) Your Committee recommends that the recommendations of the ERB Cost of Service study in relation to cost reflective tariffs should be implemented.

e) Your Committee recommends that the issue of the tariff structure in general and in relation to IPPs in particular is addressed as a matter of urgency as a way of averting the US$479.5 million per year that will accrue out the tariff structure between IPPs and ZESCO.

f) While your Committee is alive to the legal issues that surround the Power Purchase Agreements that exist between ZESCO and other stakeholders, your Committee wishes to categorically state that the Government should not be held at ransom as a result of these Agreements and strongly urges, as a matter of urgency, that an amicable solution is found to address the debt that is owed to ZESCO by CEC and Lumwana. Your Committee strongly urges the Government to find a way to renegotiate the Bulk Supply Agreements.

B. UPDATE ON THE OPERATIONS OF THE NATIONAL PENSION SCHEME AUTHORITY

Summary of Submissions from Stakeholders

7.0 The stakeholders listed below submitted to your Committee on the operations of the National Pension Scheme Authority (NAPSA).

i) Ministry of Finance.
ii) Ministry of Labour and Social Security.
iii) National Pension Scheme Authority.
iv) Zambia Federation of Employers.
v) Zambia Congress of Trade Unions.

Background

Your Committee was informed that social security schemes were established based on universal principles and guidelines. The International Labour Organisation (ILO) definition of social security has been accepted as a standard operational definition. It defines social security as:

> *" the protection which a society provided for its members, through a series of public measures, against the economic and social distress that otherwise would be caused by the stoppage or substantial reduction of earnings resulting from sickness, maternity, employment injury, unemployment, invalidity, old age and death; the provision of medical care; and the provision of subsidies for families with children."*

The concept of social security as understood in Zambia, is defined with reference to all social transfers in kind and in cash that were organised by the state or parastatal organisations or agreed upon through collective bargaining processes, whose major aim was to provide long term and short term benefits in the form of pension; employment injury benefit; sickness and maternity benefits; unemployment benefits; and health services. This definition is by and large, compatible with the ILO definition.

Your Committee was further informed that there were four main social security schemes in Zambia, namely the National Pension Scheme Authority (NAPSA), the Public Services Pension Fund (PSPF), the Local Authorities Superannuation Fund (LASF), and the Workers' Compensation Fund (WCF).

Legislation Governing Pensions in Zambia

The *National Pensions Scheme Act*, Chapter 256 of the Laws of Zambia establishes the National Pension Scheme (NPS), which is administered by NAPSA. The NPS was compulsory for all regularly employed persons in the private sector, quasi-government and parastatal organisations as well as the civil service; and for local authority employees that joined after 1st February, 2000. NAPSA was the most recent social security scheme ideally conceived to provide universal coverage to public sector and private sector employees.

The *Public Service Pensions Fund Act,* Chapter 260 of the Laws of Zambia establishes the Public Service Pension Fund to cater for employees in the public service. This includes employees of the Judicial Service, the Civil Service, the Defence Forces, the Police and Prisons Service, the Teaching Service and the Zambian Security and Intelligence Service. With the enactment of the *National Pension Scheme Act*, which requires all the newly recruited civil servants to join the NPS, the PSPF's membership base was being eroded. It could not recruit new members except those from the Zambia Army, Zambia Air Force, Zambia National Service and the Teaching Service.

The *Local Authorities Superannuation Fund Act*, Chapter 284 of the Laws of Zambia regulates the Local Authorities Superannuation Fund as a defined-benefit scheme established in 1954 by Government Notice No 134 of 1954. The Fund provided retirement pensions, survivors' benefit, invalidity benefits and some termination benefits in case of loss of employment due to retrenchment or dismissal. Membership to this scheme was compulsory for local authority employees who joined the local authorities prior to 1st February 2000. The scheme also catered for employees of selected utility companies such as ZESCO Limited and the National Housing Authority. However, with the introduction of the NPS, this scheme stopped receiving new membership as those employed after the 1st of February, 2000, were obliged to become members of the NPS.

The *Workers' Compensation Act*, Chapter 271 of the Laws of Zambia, establishes the Workers' Compensation Fund following the merger of the Workers' Compensation Fund Control Board and the Pneumoconiosis Compensations Board. This Fund which is governed by the Workers Compensation Fund Control Board, is aimed at compensating workers disabled or killed by occupational accidents and diseases, as well as their dependents.

Additional legislation includes the *Pension Scheme Regulation Act,* No 28 of 1996 which establishes the Pension and Insurance Authority (PIA), whose mandate is, among others, to register and regulate pension schemes. Other legislation such as the *Employment Act,* Chapter 268 of the Laws of Zambia the *Minimum Wage and Conditions of Employment Act*, Chapter 276 of the Laws of Zambia; the *Income Tax Act*, Chapter 323 of the Laws of Zambia; and the *Land (Perpetual) Succession Act*, Chapter 186 of the Laws of Zambia also have a bearing on the provision of social security in Zambia.

National Pension Scheme Authority

Your Committee was informed that NAPSA was established through an Act of Parliament, the *National Pensions Scheme Act* of 1996. It came into being on 1st February, 2000, following the transformation of the Zambia National Provident Fund (ZNPF) which had been in existence since 1966. NAPSA was established to replace the ZNPF and various statutory occupational schemes by providing pensions to almost all employees in the private and public sectors.

NAPSA's mandate is to act as the main vehicle for providing retirement and other social security benefits to workers in the country. The main functions of NAPSA are to collect contribution income, invest this income and then distribute benefits when they fell due. In addition, the Government has given powers to NAPSA to prosecute employers who failed to pay contributions to the plan. These multiple functions require that NAPSA has skills, systems and processes to meet the relevant demands imposed on it by legislation. Through the *National Pension Scheme Act*, all the assets, liabilities and staff of ZNPF were transferred to NAPSA.

Your Committee learnt that the ZNPF was a compulsory savings scheme for private-sector employees that provided lump sums to its members based on the cumulated balances of their individual member accounts. Contribution rates to the ZNPF were very low coupled with unfavourable economic conditions, lack of indexation and governance issues, which translated into low benefit packages.

In contrast, the NPS was a defined-benefit, partially funded scheme that offered pensions based on career-average adjusted earnings. The contributions rate to NAPSA was 10 per cent of total gross earnings for each year up to a ceiling of four times the national average earnings. This was shared equally between the employee and the employer, that is, 5 per cent each.

Extent of the Debt in Contribution Arrears and Penalties owed by the Government, Grant-Aided Institutions, Parastatals and Local Authorities to NAPSA

Your Committee learnt that despite being a relatively new scheme, NAPSA was facing challenges in terms of collecting membership contributions arising mainly from non-compliance by the Government, Government-aided institutions, local authorities, parastatal and other statutory bodies. Non-compliance by some of the public institutions had led to accumulation of outstanding arrears. The debt as at 30th September, 2014, stood at K239.4 million arrears of principal contributions and K2.4 billion in penalties giving a total of K2.6 billion as indicated in the table below.

Summary of Government and Government Related Agencies Total Indebtedness as at 30th September, 2014			
SECTOR	PRINCIPAL	PENALTY	TOTAL
Central Government		73,000,000	73,000,000
Government aided Institutions	47,138,708	451,373,372	498,512,080
Local Authorities	31,632,664	185,095,846	216,728,510
Parastatal and other Statutory Bodies	160,607,216	1,637,454,604	1,798,061,821
Grand Totals	**239,378,588**	**2,346,923,822**	**2,586,302,410**

Source: NAPSA, 2014

Your Committee was informed that the debt owed by the Government had been reduced to K37 million, following a payment to NAPSA of K36 million in February, 2015.

Your Committee was further informed that enforcement of compliance of remittance of pension contributions had been a challenge as most of the member employers either failed to remit the pension contributions or the payments were irregularly made.

What Led to the Accumulation of the Debt and Arrears

For the Government, during the period between 2000 and 2007, the payroll system at the Ministry of Finance was administered in such a way that the 5 per cent of employees' share was to be paid and remitted to the Authority by the respective employing ministries while the 5 per cent employer's share was to be paid and remitted centrally by the Ministry of Finance.
While the respective ministries remitted the employees' share of the contributions, the Ministry of Finance defaulted on the remittance of the employer's share. This led to the accumulation of contribution arrears and the penalties for the Government as an employer.

For grant aided institutions and local authorities, your Committee learnt that NAPSA had been made to understand that the grants they received from the Government only covered net salaries of the employees. For almost all of them, the issue of inadequate and late funding from the Government had been cited. This led to the accumulation of contribution arrears and penalties.

The Extent of the ZNPF Liability

Your Committee was informed that an actuarial valuation of the ZNPF as at December, 2012, projected the ZNPF liabilities to be at K800 million as at

December, 2012. However, the ZNPF only had assets worth K150 million mainly in properties in the cities, provincial centres and selected districts.

NAPSA was paying on average of K8 million per month to settle ZNPF benefit claims. However, the bulk of ZNPF assets were illiquid properties.

In order to ensure that members who contributed to the ZNPF continued to receive their benefits, the Board of Trustees of NAPSA was considering the following recommendations:

i) approval of the use of National Pension Scheme contributions to pay ZNPF benefits including all payments made to date to meet benefit payments under ZNPF using NPS contributions;

ii) in order to mitigate the financial impact on NAPSA arising from the use of NAPSA contributions to pay ZNPF benefits, approval of the review of NAPSA contribution rates in accordance with the Actuary's calculations and recommendations; and

iii) approval to bring forward the next actuarial valuation dates from 31st December, 2015 to 31st December, 2014, so as to ascertain the financial impact of the above measures.

Your Committee learnt that in order to ensure continuity for payment of benefits under ZNPF, the Board of Trustees of NAPSA approved the purchase by NAPSA of all ZNPF properties in January, 2015. The funds realised from this transaction would be used to settle ZNPF benefits in 2015, after which NAPSA would take up the responsibility. The last member was projected to be paid in the year 2040.

The Board of Trustees has also adopted the recommendation of the Actuary to progressively review the contribution rate under NAPSA to take care of the liability introduced by the transfer of assets and liabilities of the ZNPF.

Strategies to address the Debt and Arrears

Your Committee learnt that NAPSA has continued to pursue the various institutions that owed it and some of the actions taken included the ones listed below.

a) The principal owed by the Government had been settled. What was outstanding was K73 million which was composed of penalties. K36 million had been allocated in the 2015 Budget to begin dismantling the penalties. It was hoped that the balance would be settled in the 2016 Budget. Similarly for the local authorities, some funds had been allocated to help them begin to settle the debt.

b) The Authority has engaged and taken action against the various grant aided institutions, parastatals and local authorities. The actions taken include prosecutions in the courts of law. NAPSA has further engaged the Secretary to the Treasury over the debt owed by these entities, and practical recommendation had been submitted on how the Government could liquidate that debt. Some of the recommendations are as follows:

   i) the Government should consider non-cash transfer or trade–off with NAPSA through a debt swap with Government equity holdings in state owned enterprises such as ZCCM-IH Plc that met the minimum requirements under the NAPSA investment guidelines; other entities that could be considered were ZESCO, Zambia National Building Society, ZAMPOST and NATSAVE;

   ii) the Government should issue a long dated instrument in form of a public traded Government Bond properly structured for purposes of liquidating the debt over a reasonably long period of time; and

   iii) the Government should consider allocation of strategic land banks in various districts as a way of paying for part of the debt.

Major Implications of Non-Remittance of Pension Contributions

Your Committee was informed that if remittances were not made, the Scheme would not have the capacity to grow and broaden its investments due to insufficient funds which were locked up by employers. Therefore, the amount of unremitted pension receivables would not earn a return that could grow the investment base to match future liabilities. Further, this would contribute to poor cash flow position resulting into failure to pay the benefits.

In addition, employers defaulting in the remittances of pension contributions contribute to increasing the actuarial deficit. The Government should consider putting in place necessary conditions to encourage compliance.

Your Committee was further informed that whilst employees received payslips indicating a deduction in the form of a contribution to NAPSA, employers did not remit to the scheme. This was an unfortunate state of affairs because when it was time for the employee to claim their pension amounts, NAPSA could not pay out to them as they did not have any funds in their accounts and the Authority could not use other people's money. Ironically, the Government and its agencies, being the main employer and the employer of last resort, was a leading defaulter.

Actuarial Valuation of NAPSA

Your Committee was informed that the last valuation of the NAPSA Scheme was undertaken in 2012 and the report was presented in 2014. Amongst other recommendations, the Actuarial Report advised NAPSA that the Scheme needed to adjust the benefit structure by moving away from the National Average Earnings to adopting the inflation based indexation. It was on this basis that the penalty quantum could then be adjusted downwards.

Penalties for Non-compliance

Your Committee was informed that failure to account for NAPSA on a timely basis would render the employer liable to a penalty of 20 per cent of the unpaid contribution. Stakeholders submitted that the penalty for non-compliance was excessive and punitive as it was set when the inflationary parameters in the economy were beyond 20 per cent.

Committee's Observations and Recommendations

7.1 Your Committee's observations are listed below.

i) Your Committee observes that the debt owed to NAPSA has the potential to affect the long term viability of the pension scheme.

ii) While your Committee notes that efforts have been made to pay the Central Government debt, it appears that nothing is being done to address the amount owed by grant aided institutions, local authorities, parastatals and other statutory bodies, despite proposals that were forwarded to the Government on how the debt can be settled.

iii) Your Committee notes the decision to allow NAPSA to purchase the assets of ZNPF.

iv) Your Committee expresses concern at the continued mention of on-going pensions reforms without tangible data on the progress made.

v) Your Committee wishes to express its concern at the high penalty rate as prescribed by the *National Pensions Scheme Act*. It observes that the penalties account for over 90 percent of the Government debt owed to NAPSA. While acknowledging the need for NAPSA to enforce the collection of contributions as provided in the *National Pension Scheme Act*, the penalty is excessively high and punitive to employers.

Arising out of these observations, your Committee's recommendations are set out below.

i) Your Committee recommends that, as a matter of urgency, strategies should be put in place to pay the outstanding debt and arrears owed to NAPSA. Your Committee urges the Government to ensure that sufficient budgetary provisions are made to settle the debt.

ii) Your Committee recommends that the process of settling the ZNPF liabilities and paying ZNPF benefits should not stall as the matter has gone on for too long.

iii) Your Committee further urges the Government to assume the net ZNPF liabilities following the purchase of ZNPF assets by NAPSA.

iv) Your Committee recognises the importance of pension reforms in addressing the challenges that the pension sector is facing and therefore, urges the Government to report progress on the much talked about social security reforms.

v) Your Committee recommends that the issue of the excessive NAPSA penalty rate should be urgently addressed through amendment of Section 15 (2) of the *National Pension Scheme Act.*

vi) Your Committee recommends the adoption of the recommendations in the NAPSA 2012 Actuarial Report regarding the adjustment of the benefits structure.

C. UPDATE ON ZAMBIA'S STATUS VIS A VIS THE ECONOMIC PARTNERSHIP AGREEMENTS

SUMMARY OF SUBMISSIONS FROM STAKEHOLDERS

8.0 The stakeholders listed below made submissions to your Committee on Zambia's status on the Economic Partnership Agreements.

i) Ministry of Commerce, Trade and Industry.
ii) Common Market for Eastern and Southern Africa (COMESA).
iii) Delegation of the European Union to the Republic of Zambia.

Background to the Economic Partnership Agreements

Your Committee was informed that the Cotonou Agreement was signed in Cotonou, Benin on 23rd June, 2000, and marked the beginning of a twenty year comprehensive partnership between the African, Caribbean and Pacific (ACP) States and the European Union (EU). The Cotonou Agreement had a provision for review every five years and an originally set time frame to conclude new economic and trade cooperation arrangements by 2007, whose deadline was missed.

The objectives as set out in the Cotonou Agreement were poverty eradication, attainment of sustainable development, facilitation of the smooth integration of the African Caribbean and Pacific (ACP) countries into the global economy and enhancement of regional integration initiatives of ACP countries.

Your Committee learnt that the Cotonou Agreement provided for ACP States and the EU to negotiate new trading arrangements which were to take effect on 1st January, 2008. Four major changes within the European Union and the global economy at large influenced the evolution of the ACP-EU cooperation arrangement.

This gave rise to a new trade cooperation arrangement known as Economic Partnership Agreements (EPAs) which was based on the principle of partnership through exchange of preferences between the ACP and EU on a reciprocal basis and joint ownership of programmes. In simple terms, this meant ACP countries entering into a Free Trade Area arrangement with the EU.

The Cotonou Agreement provided for the negotiations of the EPAs between the EU and the ACP countries as regional groupings or individually. These negotiations were to be completed by December, 2007, and they were to go into effect in January, 2008. The terms of the agreement were to be phased in a gradual manner over a period of twelve years. The EPA process had four main objectives and these were highlighted as follows:

i) replacement of unilateral preferences with reciprocal free trade arrangements to make the Economic Partnership Agreements World Trade Organisation (WTO) compatible;

ii) differentiation in the treatment of the Least Developed Countries (LDCs) and non LDCs;

iii) strengthening regional integration among the ACP countries; and

iv) provision of aid for trade by the EU for ACP countries.

The EPAs were being negotiated on the primary basis that the trade preferences going to developing countries under the Lomé Agreement violated key WTO principles and also that ACP countries had become poorer despite preferential (favoured) access to EU markets. The EPAs were essentially a move from the use of the principle of preferences to promote trade to reciprocity. The WTO, the EU and the World Bank considered free trade as an ideal way for ACP countries to make social and economic progress. The EPAs were based on the theoretical assumption that increased free trade with Europe would increase competitiveness between the EU producers and producers in ACP countries, including Zambia.

East and Southern African Configuration- ESA

Your Committee was informed that Zambia had been negotiating EPAs under the East and Southern Africa (ESA) Group although it belonged to both the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA). The Zambian Government opted to negotiate under ESA because the bloc had a larger number of LDCs with similar economic challenges to Zambia. The SADC - EPA negotiations were reported to have been crowded by the existing agreement between South Africa and the EU, that is, the Trade and Development Agreement which South Africa wanted to adjust and adapt as the SADC – EPA. For the ESA group, the central focus had been that the EPA should include development objectives and strategies in all negotiating components of the EPA. These development needs, objectives, and strategies were articulated in what was known as the 'draft EPA text' and its accompanying regional development matrix. The Zambian Government was far more comfortable with this arrangement and had continued negotiating under ESA.

As the expiry of the Cotonou trade provisions on 31st December, 2007, was fast approaching, it became apparent that the ESA group would not conclude negotiations in all the six areas before the 31st December, 2007, deadline. In this regard, an Interim EPA was initialled in November, 2007 and it was agreed to continue the negotiations towards a comprehensive EPA. The major achievement was avoidance of trade disruption especially for ESA non-LDCs in time for the deadline of 31st December, 2007, when Cotonou trade provisions expired.

Negotiations for EPAs between the ESA configuration comprising sixteen countries by then, namely Burundi, Comoros, Djibouti, Democrtaic Republic of Congo (DRC), Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Uganda, Zambia and Zimbabwe and the EU were formally launched in February, 2004.

The major objectives of these EPA negotiations included the ones set out below.

i) EPAs should be an instrument for sustainable development.

ii) They should support regional integration among ESA and the African Union (AU).

iii) The EPAs should be compatible with WTO rules.

iv) The EPAs should take into account the different needs and levels of development of ESA countries and EU; and build on the Cotonou Agreement.

These objectives were with the view to preserve the benefits that ACP countries were enjoying under the Cotonou Agreement.

The main areas under negotiations were the following:

i) development co-operation;
ii) market access and services;
iii) agriculture and fisheries;
iv) trade-related issues and dispute avoidance; and
v) institutional and financial provisions.

Your Committee learnt that negotiations towards full EPAs were set to continue and were not subject to a deadline. Therefore, Zambia would continue with the negotiation process.

Initialling the Interim EPA under ESA

Your Committee was informed that on the ESA side, only six countries namely Comoros, Madagascar, Mauritius, Seychelles, Zimbabwe and Zambia had initialled the Interim EPA. Countries that had not initialled included Djibouti, Eritrea, Ethiopia, Malawi and Sudan. As at November, 2007, Zambia initialled to all parts of the Interim Agreement other than the trade in goods chapter which enabled it to benefit from the provisions of the agreement except from market access. The ESA participating countries were either trading under the EPA or the Everything but Arms (EBA) initiative. Zambia subsequently initialled its market access offer for the Interim EPA on 30th September, 2008, after a series of internal consultations with key stakeholders under the National Working Group (NWG).

Substance of the Interim EPA

Your Committee learnt that in terms of content, the ESA Interim EPA covered the following main parts: principles and objectives; trade in goods; fisheries;

economic development cooperation; areas for future negotiations; dispute avoidance; and institutional and financial provisions. The interim agreement would remain in force until a comprehensive EPA was negotiated and entered into force. Countries that had not initialled were not affected, but it should be noted that there were direct and in indirect implications to not initialling an EPA.

The Interim EPA contained provisions on market access and allowed a country to submit a WTO-compatible market access offer, while the comprehensive EPA had wider coverage and included provisions related to trade in services, intellectual property, competition policy, investment policy, sustainable development and some aspects of market access related to export taxes.

One of the immediate impacts for not initialling the Interim EPA was not being party to the trade in goods chapter. This implied that the EU market access offer was not applicable to countries that had not initialled the Interim EPA. The countries that had not initialled could not export to the EU duty and quota free. This, therefore, meant that effective 1st January, 2008, countries that did not initial in the case of LDCs, had to trade with the EU based on the terms and conditions as defined under the EBA which used Generalised System of Preferences Rules of Origin. This shift in trade arrangements from Lomé to EBA entailed changing the certificate of rules of origin in order to suite the GSP arrangement. The EBA Initiative was available only to ACP-LDC countries and these countries could export everything that they produced without paying duty and no quota limitations except for arms and ammunitions.

Contentious Issues that had Stalled the Negotiations

Your Committee was informed that there were challenges that had made the ESA-EU EPA to move at a snail's pace and to some extent stall the negotiations. This could be attributed, but not limited to the following:

i) absence of binding commitment on development, in particular the provision of adequate additional resources on a predictable basis that would allow the ESA countries to build productive capacities in order, both to take advantage of the opportunities offered by the EPAs, and also to finance EPA-related adjustment costs;

ii) the insistence of the EU to limit ESA countries policy space to use export taxes for industrialisation, while ESA states considered export taxes as key instruments for industrialisation;

iii) the issue of how much and when to liberalise because ESA insisted on more flexibility on how far they could open up beyond the 80 per cent prescribed by EU and on longer transitional periods beyond fifteen years; and

iv) issues of special safeguards for agriculture to address effects of EU export subsidies which remained unresolved.

In addition to the above, the most favoured nation clause was another contentious issue because it undermined the spirit of south–south cooperation as provided for in the WTO enabling clause which sought to grant policy space to developing countries to grant each other special and preferential treatment without extending the same treatment to developed countries.

Challenges with EPAs in their Existing Form

Your Committee was informed that what the EU was asking for went far beyond anything required by WTO rules and included many issues which developing countries, acting together, had managed to block at the WTO.

Agriculture was the backbone of Africa's economy and African governments had only a few policy tools to support their agriculture and generate an income for public spending. Tariffs on imports were the main tool to support growth of the agriculture sector. For example, the agriculture sector in Zambia had massive potential for more inclusive growth. However, the EPAs in their existing form would require African countries, those that had signed them, to eliminate tariffs on almost all European imports into Africa, depriving them of this basic tool. In addition, EPAs would allow cheap, subsidised European agricultural products to flood African markets, something that had already caused hardship for many small scale farmers in Africa. In Zambia for example, this had potential to kill infant industries such as the dairy and aquaculture industries which were already under threat from fish imports from China. The EU had made no commitment to reduce its domestic subsidies for its agriculture sector. The EU claimed that African consumers would benefit from EPAs because of cheap European food imports.

Your Committee was informed that another area worth serious consideration on EPAs was the fact that EPAs would not bring new access to European markets for African farmers, as African countries already enjoyed good access through the old agreements such as the EBA. Zambia's need was for support in addressing supply-side constraints, such as infrastructure and marketing. EPAs did not include any binding commitments or new funds to help with this.

Zambia's Status on the EPAs

Your Committee learnt that Zambia initialled the interim ESA-EPA on 6th December, 2007, without a market access offer, as part of a strategic decision to benefit from the additional 75,000 tonnes of sugar allocated to the ESA region and as a sign of commitment to ensuring enhanced economic and trade relations with the EU. The whole idea was to ensure that Zambia was fully engaged in defining the contents of the comprehensive ESA-EPA text so that when time came to take a decision, issues of national interest would have been taken into account during the negotiating process.

On 30th September, 2008, Zambia initialled her market access offer with the features set out below.

a) Liberalisation of 79.62 per cent of Zambia's import value from the EU over a period of fifteen years starting 2009 and ending in 2023.

b) A staged tariff phase down, with back loading of tariff lines that were revenue or industry sensitive, while front loading those tariff lines critical to facilitating access to capital goods that were required to expand production. Tariff lines with 5 per cent duty to be liberalised from 2009, to 2013, to become duty free by 2014; tariff lines with 15 per cent duty to be reduced to 10 per cent in the period 2017, to 2019, and to 5 per cent from 2020 to 2022, to become duty free in 2023; and tariff lines with 25 per cent duty to be reduced to 20 per cent in 2019, 15 per cent in 2020, 10 per cent in 2021, 5 per cent in 2022 and to duty free in 2023.

c) An exclusion list that would not be subjected to tariff reduction on the remaining import value with the EU, drawn with the objective of protecting infant industry, promoting the growth and development of the agriculture sector and minimising revenue loss.

d) An annex outlining exceptions on duties, taxes on exports, which included cotton seed, copper ores and concentrates, cast iron, ferrous waste and scrap, waste and scrap alloy steel, unrefined copper, aluminium waste, copper waste and scrap, zinc waste and scrap.

Your Committee was informed that this market access offer was not ratified and as such, had not been effected. Over time, requests had been made by both public and private sector representatives to analyse the impact of signing an EPA on the Zambian economy.

Committee's Observations and Recommendations

8.1 Your Committee acknowledges Zambia's status *vis-a-vis* the EPAs and observes that the process needs to be handled correctly if the country is to get the full benefits towards national development. It notes the efforts of the Ministry of Commerce, Trade and Industry in the EPA process and wishes to commend the Ministry on the care that is being taken to ensure that the right thing is done.

Arising out of the above, your Committee's recommendations are set out below.

i) Zambia should continue to carefully monitor the EPAs by effectively participating in the negotiations before it signs them so as to ensure that the EPA outcomes cater for national interests and concerns.

ii) In preparing to get the full benefits from the EPAs, Zambia should enhance her competitiveness by developing industries in which she has a competitive advantage such as the agriculture and tourism sectors.

iii) Zambia should strategically position herself in the regional market, as she prepares to penetrate the global markets.

iv) The Government should ensure that the EPA process is transparent to all relevant stakeholders including Members of Parliament, civil society organisations and the private sector. Your Committee recommends that the Government should carry out regular stakeholder consultation in order to get maximum positive input from all relevant sections of society and so that the right decision is made for the country.

PART II

TOUR TO THE COPPERBELT ENERGY CORPORATION KABOMPO HYDRO ELECTRIC POWER PROJECT

9.0 Your Committee undertook a tour to the Kabompo Hydroelectric Power Project which is on the Kabompo River located in Mwinilunga District of the North-Western Province.

Your Committee was informed that CEC was developing the US$220 million Project and was constructing a 40 megawatts hydro-power plant.

Your Committee learnt that the Project was awarded to a CEC-led consortium by the Government in 2008. The basis for the award was that the developer would undertake a feasibility study and then negotiate with the Government a build-own-operate (BOO) concession to develop the Project. The proposed hydro power scheme comprised an underground power station of 40MW generation capacity; a fifty metre high dam wall of roller compacted concrete; and four kilometres of underground tunnelling. Power would be evacuated through a thirty-five kilometre-long transmission line at 132kV that would join the national grid at Kalumbila Mine. It was anticipated that the Project would be commissioned in 2018.

Anticipated Benefits of the Project

Your Committee was informed that once it was completed, the Project would bring with it a number of benefits both to the local people and to the country at large.

The key anticipated benefits from the Project included alleviation of potential national power shortage, increased security of future power supplies and provision of emergency power supplies, especially for the mines. The Project would also have a stabilising effect on the national grid due to its location as all the major power sources were located in the country's south.

Other benefits expected through the successful implementation of the project included:

i) the potential of electrifying parts of North-Western Province through the 33kV builder's power line;

ii) creation of jobs especially during construction, and socio-economic empowerment plus capacity building for the local population;

iii) enhancement of the business potential for the area from new infrastructure such as roads that would be developed;

iv) potential growth of tourism in North-Western Province by utilising the 35km^2 lake to be formed from building the dam;

v) positive impact on existing tourist attractions at Nyambwezu Falls and rock paintings;

vi) creation and support of an information centre in collaboration with the National Heritage Conservation Commission;

vii) creation and implementation of a biodiversity offset and biodiversity conservation management plan;

viii) enhanced local resource and local material utilisation by local community providing selected goods and services ; and

ix) socio-economic empowerment and capacity building for the local population.

Key Milestones of the Project

Your Committee learnt that the key milestones of the project include:

i) granting of conditional approval of the Environmental Impact Statement (EIS);

ii) initialling of the Engineering, Procurement and Construction (EPC) Contract with the preferred contractor – Sinohydro Corporation Limited of China;

iii) incorporation of CEC-Kabompo Hydro Power Limited;

iv) negotiations with the Government on the Implementation Agreement (IA) which were completed through the Office for Promoting Private Power Investments (OPPPI) and submission of the final IA to OPPPI in November, 2013 for approval by the Attorney General's Office;

v) submission of the relevant environmental and social approvals to the Zambia Environmental Management Agency (ZEMA) for review; and

vi) negotiation meetings on the Investment Promotion and Protection Agreement (IPPA) were held with the Zambia Development Agency (ZDA) in December, 2013 and a plan of action to finalise the IPPA was agreed.

Major Challenges

Your Committee was informed that in spite of the progress made, there were a number of challenges that needed to be addressed in order to ensure the successful completion of the Project. CEC Management stated that it appeared as though the Government was not alive to the challenges that were faced by electricity generation projects, particularly the IPPs. One of the major challenges was the unfavourable tariffs that were prevailing in Zambia. This also extended to the unfavourable price at which CEC sold power to the mines, which needed to be increased, even marginally. CEC called for a more active role by the ERB as regards addressing the issue of tariffs.

Another challenge was the single off-taker model which entailed that all power producers had to sell their power to ZESCO. Your Committee was informed that even in an open access regime, private players, including CEC, could not compete with ZESCO because it was able to average the price of power to the consumer because of the legacy power stations where production costs were much lower. CEC would be producing power at Kabompo at a very high cost and could not afford to reduce production costs any lower than it already had.

In order to address the above challenges, CEC suggested that there was need for a power sector indaba to be spearheaded by the Government and to involve all relevant stakeholders so that major issues plaguing the sector could be discussed openly.

Your Committee was informed that the following specific issues required the Government's urgent attention so that the Project could move as planned:

i) acquisition of the Project land- there was need to expedite the processing of the Title by the Ministry of Lands, Natural Resources and Environmental Protection;

ii) there was need to expedite approval of the IA and IPPA by the relevant institutions; and

iii) there was need to urgently inform the Government's policy on cost reflective tariffs for new power generation projects.

Committee's Observations and Recommendations

9.1 Your Committee welcomes the initiative by CEC to develop the Kabompo River Hydropower Plant in light of the ever growing demand for electricity in the Country. Your Committee is pleased with the contribution that CEC as a private player is making in the electricity subsector.

Your Committee recommends that the Government should address the challenges that have been faced by CEC as it implements the Kabompo Gorge Hydroelectric Power Project. Your Committee, therefore, urges the Government to ensure that:

i) title deeds for the Project land are processed as soon as possible;

ii) the Implementation Agreement and Investment Promotion and Protection Agreement are finalised in the shortest possible time; and

iii) the issue of tariffs which continues to be thorn in the side of the electricity sector should be effectively addressed by the Energy Regulation Board, particularly in relation to IPPs.

FOREIGN TOUR OF UGANDA

10.0 Your Committee undertook a foreign tour of Uganda in order to:

i) learn how that country's unbundled electricity sector was operating; and

ii) gain some insight into the management of Uganda's pension sector.

Your Committee during the tour held meetings with various stakeholders and also paid a courtesy call on the Right Honourable Jacob Oulanya, Deputy Speaker of the Parliament of Uganda. The major findings of your Committee's tour are presented below.

Electricity Sector

Electricity Regulatory Authority

10.1 Your Committee was informed that Uganda initiated electricity reforms in 1997, with the formulation of a comprehensive strategic plan for transforming the sector into a financially viable industry. The aim was to enable efficient electricity supply at reasonable prices. Specifically, the plan was to make the electricity sector financially viable and able to perform without subsidies; increase the sector efficiency; improve the sector commercial performance; meet the growing demand for electricity; increase area coverage; improve the reliability and quality of electricity supply; attract private capital and entrepreneurs; and take advantage of export opportunities.

The reform process placed particular emphasis on the role of competition in promoting efficiency within the electricity sector and on private sector participation. Private sector participation was viewed as an engine of growth for the sector in the supply and connectivity of electricity to customers.
Prior to the reforms, the electricity sector was faced with a number of fundamental challenges, including, but not limited to: very poor supply reliability; inadequate investment in the sector particularly in generation and distribution; very poor commercial performance by the vertically integrated Uganda Electricity Board (UEB); high technical and non-technical losses, exceeding 30 per cent; and low productivity. In addition to the above problems, there was a further problem of dependence on the Government's budget. Power outages caused by both system breakdowns and planned fluctuations, imposed heavy costs on consumers and the economy.

To address these challenges, the Government undertook major restructuring measures. These included splitting up the Government utility, UEB and attracting private sector participation in the sector, particularly in generation and distribution.

The reforms necessitated the enactment of the *Electricity Act* which was passed in 1999, to provide for the legal and regulatory framework. In addition, the Rural Electrification Trust Fund was created to promote pro-poor electricity access. In 2001, the UEB was unbundled into three companies namely: the Uganda Electricity Generation Company Ltd (UEGCL); the Uganda Electricity Transmission Company Ltd (UETCL); and, the Uganda Electricity Distribution Company Ltd (UEDCL). The sector regulator, the Electricity Regulatory Authority (ERA) became operational in 2000.

The generation concession was awarded to Eskom Enterprises in 2002, while in May 2004, Umeme Ltd, the largest distribution company in Uganda, signed a twenty year concession agreement to manage and operate the UEB distribution network. The transmission infrastructure remained Government owned. The legal and regulatory framework for the Uganda energy sector was complemented by a policy framework that included the Energy Policy of 2002, and the Renewable Energy Policy of 2007.
The ERA Chief Executive Officer informed your Committee that the Government of Uganda decided to unbundle and involve private players because the public sector had failed to embrace efficient management of the sector. He stated that the role of ERA was to regulate and supervise the electricity sector in terms of licensing; tariff control; quality assurance; and to promote independence and impartiality.

He explained that although a number of successes had been scored since the unbundling of the sector, these successes did not occur overnight and therefore, Zambia could learn lessons from the path Uganda had taken so as to avoid certain mistakes. He further explained that the major challenge had been financing during the period when unbundling was taking place and the Government had to attract good investors. Your Committee was advised that caution was required when entering into contracts with private investors so as not to tie the country to agreements that would have a negative effect in the long term.

Your Committee learnt that Uganda had an installed power generation capacity of 818.5MW from hydro, thermal, biomass, and diesel plants and actual peak demand of 487MW. Its generation, however, stood at 558.5MW. The electricity access rate stood at 14 per cent of the population. The completion of the 250 MW Bujagali Plant had provided great reprieve to the Uganda electricity sector and for the first time in over three decades, Uganda had enough electricity to satisfy peak demand albeit at low access to electricity rate levels.

Your Committee was informed that while the electricity sector continue to face some challenges, good progress had been achieved in Uganda's electricity sector, and this was partly attributed to renewed Government interest in recent years. In generation, there had been challenges of attracting private sector investments, exacerbated by corruption in the procurement and tendering processes that had delayed project implementation. In distribution, the energy losses were still high and electrification was hampered by the reluctance of private profit-seeking companies to extend power lines to distant sparsely populated neighbourhoods.

To confront the challenges in generation, the Government abolished subsidies in the sector with a view of prioritising interventions that would secure future supply security. In distribution, the review of the distributor's licence in 2012, had helped to set new operational targets that would result into a systematic loss reduction trajectory. Additionally, the new Rural Electrification Plan for the period 2013 to 2022, would ensure that the Government assumed greater responsibility in pro-poor electrification. All these developments augured well for improved performance in the Uganda electricity sector.
Your Committee learnt that the post reform crises had been replaced by promising developments on account of improved Government involvement in the sector.

Regarding tariffs, your Committee was informed that a Government monopoly would find it difficult to charge economic tariffs. However, if the electricity sector was to develop, the role of the regulator was to ensure tariffs would attract good investors into the sector.

Umeme Limited

Your Committee was informed that Umeme was the largest electricity distribution company in Uganda. Its mandate was to operate, repair, maintain, upgrade and expand the distribution network; retail electricity to its customers; and to improve efficiency within the electricity distribution system. Umeme took over the distribution and supply of electricity in Uganda from the UEDCL under a concession for a period of twenty years in March, 2004.

Through the concession, Umeme operated as the primary distribution company in Uganda, responsible for distributing electricity to Ugandan residents and commercial entities. Under certain privatisation agreements, the distribution network was leased to Umeme. It purchased power from the state owned UETCL.

Your Committee was informed that the management of the distribution system required Umeme to maintain and operate the distribution network; collect revenues from customers based on the prevailing tariff set by the ERA; make investments in upgrade, expansion and maintenance of the network assets; and to return control of the distribution assets, including new investments, to UEDCL at the end of the concession.

Eskom Uganda Limited

Your Committee was informed that Eskom Uganda Limited was incorporated on 22nd November, 2002, and was awarded a concession to operate and maintain Nalubaale and Kiira Hydro Power stations in Jinja for twenty years. EUL took over operations and maintenance from UEGCL on 1st April, 2003. Eskom Uganda Limited was a subsidiary company of Eskom Enterprises (Proprietary) Limited and was the biggest hydro power electricity generating company in Uganda with average production of 138MW per day. All the electricity generated was sold to Uganda Electricity UETCL, the authorised single buyer, who sold it to the distributor Umeme who in turn distributed it to the local consumers throughout the country.

Your Committee was informed that Eskom remained committed to generating reliable power for national development while co-operating with all stakeholders to improve the energy sector. While the initial operations required huge capital outlays that came from the parent company in South Africa, Eskom Uganda Limited had since then been operating as a profitable, self-sustaining business in Uganda, having only reporting obligations to the parent company in South Africa.

Uganda Consumer Action Network

Your Committee had a chance to interact with the Executive Director of the Uganda Consumer Action Network who informed your Committee that after more than a decade since the UEB had been unbundled, the process was finally beginning to bear fruit.

Your Committee was informed that among the visible improvements was the lack of load shedding, increased access, consumer consultation before tariff increments were made and prepaid metering that allowed consumers to plan.

Your Committee was, however, informed that the major downside to the unbundled sector from the consumer point of view was the high electricity tariffs which could be attributed to the many players in the sector who wanted to make a profit at each point of operation.

Committee's Observations and Recommendations

10.2 Following the tour, your Committee observes the following:

i) while Uganda unbundled its vertically integrated power utility, the Uganda Electricity Board in 2001, the country has only recently begun to achieve the intended results of the unbundling; this has been attributed to the renewed involvement of the Government after the realisation that the original privatisation plan did not achieve the intended results; and

ii) private sector investment should not substitute Government investment, but should complement it.

Arising out of the above observations:

i) your Committee recommends that Zambia should take a leaf from of the mistakes made by Uganda as it contemplates the restructuring of ZESCO; and

ii) your Committee reiterates the need to undertake some form of restructuring of ZESCO as a matter of extreme urgency. However, the Government should exercise caution so that the sector can begin to operate in a manner that will best suit the developmental needs of the Country.

Pension Sector

Ministry of Gender, Labour and Social Development

10.3 Your Committee held a meeting with the Minister of State for Gender, in the Ministry of Gender, Labour and Social Development and was informed that under the National Social Protection Policy, social protection in Uganda was made up of two pillars namely; social security and social care services. Social security included formal interventions to mitigate factors that led to income shocks that affected consumption and was composed of direct income support and social insurance. Direct income support was made up of non-contributory transfers to extremely vulnerable individuals and households without any form of income or security, while social insurance was a contributory system to mitigate livelihood risks and shocks such as retirement; loss of employment; and work related disability and ill health.

Your Committee learnt that social insurance includes the schemes outlined below.

a) Health insurance schemes: These were private schemes and community based schemes. The National Health Insurance Bill was due to be submitted to Parliament.

b) Public Pension Scheme: This was a non-contributory, defined pay-as-you-go retirement benefit scheme financed directly by tax revenues from the Consolidated Fund.

c) National Social Security Fund (NSSF): This was a Provident Fund which only covered workers in the formal sector. The Scheme provided old age benefits, withdrawal benefits, invalidity benefits, survivors' benefits, exempted employment benefits and emigration benefits.

d) Workman's Compensation: The *Workers Compensation Act*, provides for compensation to workers employed both by the public and private sectors who suffered injuries or contracted occupational diseases in the course of their employment.

e) Voluntary saving schemes: These were private non-statutory social security schemes managed by employers and public institutions either on their own or through insurance companies. The voluntary schemes were regulated by the Uganda Retirement Benefits Regulatory Authority. (URBRA).

Your Committee learnt that all the above schemes covered about 7 per cent of the population. The Government of Uganda had instituted measures aimed at reforming the pension sector. These reforms would enable the sector achieve wider coverage, increase the benefits to meet basic needs of retirees and make the sector more sustainable.

Uganda Retirement Benefits Regulatory Authority

Your Committee held a meeting with the Uganda Retirement Benefits Authority (URBRA) and was informed that the Authority was established in 2011, to regulate the formation, management and operations of the retirement benefit schemes in Uganda in both the private and public sectors as well as promote the development of the retirement benefits sector.

The establishment of URBRA was part of the pension reform process that was underway in Uganda. The aim of the reforms was to create a robust and efficient pension system that would ensure that all Ugandans were protected from old age poverty by having a minimum safety net; encouraged retirement benefits by building trust and confidence; and increased savings in the economy to provide long term development finance which was critical for creating employment.

Your Committee learnt that Uganda had a working population of approximately twelve million people, most of who were in the informal and agriculture sectors. The pension coverage was less than 10 per cent of the working population of Ugandans and only within the formal sector. Under the prevailing pension system, there was no assurance that upon retirement, an individual's accumulated savings would deliver a reasonable standard of living in retirement relative to the quality of life before retirement.

The pension reforms were driven by the over-riding principle of a long term view in the accumulation of savings. The re-designing of the pension system was not driven by the attempts for speculative and short-term investments. This was because the prevailing pension system was characterised by low coverage; poor governance; lack of fiscal sustainability; and inadequate pensions or no pensions at all. This translated into low savings in the country and lack of social protection for the majority of Ugandans.

The Government introduced pension reforms in order to:

i) extend pension coverage to a wider proportion of the Ugandan working population;

ii) ensure prudent investments by all retirement benefit schemes;

iii) formulate adequate benefit levels for the savers;

iv) enforce good governance, accountability and transparency among those who collected and invested workers savings; and

v) create fiscal sustainability for the public service pension scheme because the civil service scheme was poorly managed, financially unsustainable and exerted fiscal pressure on the Government.

The reforms hoped to achieve the following:

i) improved governance and accountability in order to build trust and confidence in the entire social protection system;

ii) maximised benefits from investment of retirement benefits funds;

iii) extended coverage beyond the formal sector- primarily the elite- who constituted less than 10 per cent of Uganda's working population;

iv) protection of public servants and pensioners under the public service pension scheme by improving the pension administration systems;

v) provide a policy, legal and oversight framework for investment of voluntary contributions; and

vi) ultimately, building a comprehensive social protection system for all Ugandans.

Committee's Observations and Recommendations

10.4 Your Committee observes that Uganda is currently reforming its pension sector and the reform process appears to be at an advanced stage with the formation of the Uganda Retirement Benefits Authority and the clear spelling out of what the pension reforms intend to achieve. Your Committee notes the intention to capture the informal sector into the pension system.

Your Committee urges the Government, as it endeavours to reform the social security system, to undertake a comprehensive comparative study of pension reforms and structure of other countries so that the process results in a robust pension system that will capture workers in both the formal and informal sectors and provide reasonable benefits to people after retirement.

Public Hearing on the Unbundling of ZESCO

10.5 Your Committee held a public hearing in Lusaka in order to get views on the restructuring of ZESCO. The public hearing was attended by ten people. Diverse views were presented with some members of the public submitting that ZESCO should be unbundled into separate entities responsible for generation; transmission; and distribution and supply, while others submitted that ZESCO should remain as a vertically integrated unit, but should take measures to ensure that service delivery was improved.

Your Committee was informed that as opposed to unbundling, ZESCO should concentrate on the following:

i) reducing its operational costs;
ii) ensuring that tariffs are cost reflective;
iii) repair and maintenance of dilapidated infrastructure;
iv) looking into developing alternative sources of energy other than hydro;
v) becoming a profit-making entity;
vi) source financing for capital projects; and
vii) improve service delivery.

Stakeholders submitted that ZESCO was a strategic company that needed to be protected and unbundling could compromise its position.

Other stakeholders, however, submitted that as things stood, the case for unbundling ZESCO was very strong. They argued that unbundling ZESCO was necessary and very urgent. They submitted that some of the problems that ZESCO was facing were because of the over concentration on the development of the generation side of the electricity sector, while the demand side had been left to deteriorate with little being done to maintain distribution and supply side infrastructure and to increase access to electricity rates.

Some stakeholders submitted that ZESCO as a public company could maintain certain aspects of the business such as transmission, while letting go of generation; and distribution and supply so that expertise could be could be developed in each area along the electricity chain. Your Committee was informed that for unbundling to work, there would be need for ERB to become a strong regulator and to set reasonable tariffs; and to create a platform for co-ordinating the activities of each entity.

Members of the public submitted that the most contentious issues plaguing ZESCO were:

i) non cost reflective tariffs which were a hindrance to new investments in the sector;
ii) poor regulatory framework;
iii) poor corporate governance;
iv) low access to electricity rates;
v) bloated workforce;
vi) perceived political interference; and
vii) poor service delivery.

Your Committee was informed that issues to do with the electricity sector could only become more complex as demand increased and therefore, the Government needed to have clarity on where it wanted to take the sector.

Committee's Observations and Recommendations

10.6 Your Committee observes that members of the public would like to see some form of transformation taking place in ZESCO, whether by way of unbundling or by addressing the challenges of the entity in its existing form so as to improve the operations of the utility.

Your Committee further observes that there is a high level of dissatisfaction from the members of the public as regards service that ZESCO Limited is providing to its customers.

Your Committee, therefore, reiterates its earlier recommendation that there is need, as a matter of urgency, to transform the operations of ZESCO and of the entire electricity subsector so that the challenges being faced are addressed.
Your Committee wishes to stress that it is crucial for Zambia to determine clear objectives unbundling ZESCO and ensure that the objectives are clearly understood and articulated so that the best, most efficient service can be delivered to customers.

Your Committee further wishes to stress that the Government needs to improve corporate Governance at ZESCO particularly if the country has to achieve objections of the recommended restructuring.

PART III

CONSIDERATION OF THE ACTION-TAKEN REPORT ON THE REPORT OF THE COMMITTEE FOR THE THIRD SESSION OF THE ELEVENTH NATIONAL ASSEMBLY

Monitoring Job Creation in Zambia

Implementation of the National Strategy for the Development of Statistics

11.0 Your previous Committee had recommended that the Ministry of Finance and the Ministry of Labour and Social Security should ensure that an enabling legal framework was put in place for implementation of the National Strategy for the Development of Statistics (NSDS).

In response, the Executive submitted that the *Census and Statistics Act* would be repealed and replaced with the new *Statistical Act* for the entire National Statistical System.

Committee's Observation and Recommendation

Your Committee requests for more information regarding when the planned new statistical law would be presented to Parliament.

Standardised Employment Data Format from the Labour Force Survey and the Living Conditions Monitoring Survey

Your previous Committee had recommended that the Ministry of Finance should have the data format standardised on employment from the Labour Force Survey and Living Conditions Monitoring Survey to allow for comparative analysis.

In response, the Executive submitted that efforts were being made to standardise various sources of data on employment so that there was compliance and consistency with international best practices. To this effect, data collection instruments for various surveys on employment were being harmonised and standardised. The instruments being reviewed included Quarterly Employment and Earnings Survey, Census of Population and Housing, Living conditions Monitoring Survey and Labour Force Survey.

Committee's Observation and Recommendation

Your Committee requests for a progress report on the matter.

Electricity Generation and Accessibility in Zambia

Development of a Feed-in Tariff Policy

Your previous Committee had recommended that the Government should promote investment in all forms of energy generation sources (hydro, alternative and renewable) depending on their suitability to particular localities.

In response, the Executive submitted that as a way of promoting the development of renewable energy in the country, the Ministry was exploring the introduction of a Feed in Tariff (FIT) for electricity generated from renewable energy. To this end, the Ministry with the support of the USAID and Southern African Trade Hub (SATH) had engaged a consultant to undertake development of a Renewable Energy Feed-in-Tariff (REFIT) policy for Zambia. A consultant was engaged end of April 2014. The policy was envisaged to be formulated by September 2014. Further, Government with the support of the World Bank had engaged consultants to undertake resource mapping of solar and wind in Zambia. These resources were potential energy sources which require quantification and identification of specific locations to facilitate the packaging of these projects for investment. All these efforts were being made with the aim of enriching the energy mix in the country.

Committee's Observation and Recommendation

Your Committee requests for an update on the introduction of the REFIT Policy.

Works on Roads to Power Generation Projects

Your previous Committee had recommended that the Government, should as a matter of urgency, improve infrastructural challenges that investors were facing such as the poor state of the D769 Road to Itezhi-Tezhi, low strength and narrow bridges on the Maamba-Batoka Road, slow pace at which the upgrading of the Victoria Falls-Muzuma-Kafue transmission line from 220kV to 330kV was being carried out and limited access to the public owned transmission infrastructure on an equal basis.

In response, the Executive submitted that with regard to the reconstruction of D769 Road, some preliminary works had commenced under the auspices of the Road Development Agency.

Regarding the Maamba-Batoka Road, the Executive submitted that the matter had been brought to the attention of the Road Development Agency. It was envisaged that once the works were concluded on the above stated roads, works would be expedited.

Committee's Observation and Recommendation

Your Committee requests for a progress report on the matter.

Financial Matters at Itezhi-Tezhi Hydro Power Project

Your previous Committee had recommended that the Government should assist electricity companies overcome some of the financing bottlenecks they may be encountering most of which appeared to be connected to low electricity tariffs. In addition, the Government, through ZESCO, being an equal partner in Itezhi-Tezhi Power Company, should assist resolve the issue of conditions that lenders were proposing to attach to the loans. Your Committee was, however, cognisant of the US$142 in form of loans from various development finance institutions that had been secured.

In response, the Executive submitted that the Government policy was to move tariffs to cost reflectivity and this was being done on a gradual basis to avoid drastic impacts on electricity consumer and the economy as a whole. For example the Government increased the electricity tariffs in July, 2014.

The Government was alive to the fact that the objectives of the National Energy Policy could not be fully realised without correct pricing of energy in the country. Therefore, in order to ensure development of the energy sector, there was need to ensure that the electricity tariffs were migrated to cost reflectivity to attract public and private investments in the sector.

In relation to the Itezhi-Tezhi Project, the Executive submitted that the Ministry of Energy and Water Development, in collaboration with Ministry of Finance, was relentlessly making all efforts to ensure that the matters of financial closure for the Itezhi-Tezhi Hydro Electric Project were expeditiously concluded.

Committee's Observation and Recommendation

Your Committee requests for an update on the financial matters in relation to the Itezhi Tezhi Project.

Lunsemfwa River Catchment

Your previous Committee had recommended that the Government should streamline the granting of water rights to ensure that competing needs for water were resolved such as the one facing LHPC on the Mita Hills Dam.

In response, the Executive submitted that the Water Resources Management Authority (WARMA) was aware of the increasing competing social and economic needs for water in some parts of the country and was working with Cooperating Partners on improving information collection and analysis on water resource availability in various catchments which was needed for making decisions on water allocation.

The Water Resources Management Authority (WARMA) was working on regulations (statutory instruments) for the delineation of river catchments and sub catchments; the establishment of catchment and sub catchment councils as units of water management that would involve stakeholders in water resources management including making recommendations on granting of water permits and monitoring water use.

Of specific reference was the Lunsemfwa River Catchment where Lunsemfwa Hydro Power Company (LHPC) was operating. The WARMA held a stakeholders meeting in Mkushi on 29th April, 2014 to discuss the concerns of the water resources availability in the catchment. The Authority had since taken a precautionary approach to water resources management and was undertaking field investigations and stakeholder consultations before making any water allocation decisions.

Committee's Observation and Recommendation

Your Committee requests for a progress report on the Lunsemfwa River Catchment.

Water Hyacinth

Your previous Committee had expressed its concern at the continued presence of the water hyacinth plant which was a threat to the security of generation of Kafue Gorge Power Station. Considering the deficit of electricity the country was already faced with, the plant needs to be exterminated.

Your Committee had urged the Ministry of Mines, Energy and Water Development to ensure that a lasting solution of controlling the weed was found by involving all stakeholders, in particular Nitrogen Chemicals of Zambia and Zambia Sugar Company.

In response, the Executive submitted that the Ministry was in the process of engaging the concerned stakeholders to ensure that a lasting solution was found. The Ministry Mines, Energy and Water Development was in the process of liaising with the Zambia Environmental Management Agency (ZEMA) to find ways in which the industries could be deterred from making the weed grow further.

Committee's Observation and Recommendation

Your Committee requests for a progress report on the matter.

Tour of Labour Offices

Labour Law Reforms

Your previous Committee had visited the Lusaka and Ndola Labour Offices under the Ministry of Labour and Social Security. It had been dismayed at the situation obtaining at the Department of Labour on the Copperbelt. It had no doubt that this was an indication of the state of other offices in the Country. This was unacceptable considering that the Government had prioritised job creation which required a proper monitoring mechanism.

Your previous Committee had therefore, urged the Ministry of Labour and Social Security to immediately commence the process of revising the *Employment Act, Chapter 269 of the Laws of Zambia* and to ensure that the professional capacity of labour officers was at the same time continually enhanced to enable them effectively enforce various pieces of legislation on labour matters.

In response, the Executive submitted that the revision of the Employment Act would be addressed by the ongoing Labour Law Reform Process. A technical team was appointed and it was sitting to expedite the reform process.

Committee's Observation and Recommendation

Your Committee requests for an update on the ongoing reform process.

Operating Equipment for Labour Offices

Your previous Committee had observed that the capacity of the Copperbelt Labour Offices was further constrained by lack of basic operational equipment for a modern office such as computers and communication tools (internet connectivity, phone connection and post boxes). This had to a large extent led, to the failure to utilise the Employment Exchange which could be a source of labour statistics.

Your Committee had urged the Ministry of Labour and Social Security to ensure that these were budgeted for in the 2015 budget.

In response, the Executive noted the recommendation and submitted that it would factor resources into the 2015 budget for the Ministry of Labour and Social Security to allow for purchase of basic operational equipment for the district offices.

Committee's Observation and Recommendation

Your Committee requests for a progress report on the matter.

Working Environment in Labour Offices

Your previous Committee had observed that the internal working environment with respect to offices and furniture of the Labour Offices on the Copperbelt was not befitting of a labour law enforcer and regulator.

Your Committee had urged the Ministry of Labour and Social Security to include in its 2015 budget funds for improving the outlook of its district labour offices.

In response, the Executive noted the recommendation and submitted that resources would be factored into the 2015 budget for the Ministry of Labour and Social Security resources to allow for renovation of the District Labour Offices in 2015.

Committee's Observation and Recommendation

Your Committee requests for a progress report on the matter.

Tour of the Central Statistical Office Headquarters

Revision of the Census and Statistics Act, Chapter 127 of the Laws of Zambia

Your previous Committee had urged the Ministry of Finance to immediately initiate the revision of the *Census and Statistics Act* which would not only facilitate implementation of the NSDS, but also address some of the challenges faced by CSO.

In response, the Executive submitted that in order to strengthen the institutional and regulatory framework and to enhance the effectiveness of the National System for monitoring employment trends, the 1964 *Census and Statistics Act* was being reviewed in line with approved NSDS. To this effect, a local legal expert had been engaged with the support from AFDB.

The draft Act defined the National Statistical System (NSS) and roles of different stakeholders in the production of statistical information in a coordinated and harmonised manner. The restructured CSO would be the hub of the NSS, reflecting its coordination and harmonisation role.

Committee's Observation and Recommendation

Your Committee requests for an update on the progress made as regards revising the Census and Statistics Act.

CONSIDERATION OF OUTSTANDING ISSUES IN THE ACTION-TAKEN REPORT FOR THE FIRST SESSION OF THE ELEVENTH NATIONAL ASSEMBLY

Comprehensive Debt Strategy and Policy

12.0 Your previous Committee had requested an update on the development of a debt policy.

In response, the Executive submitted that one of the main areas of the Government's reform areas was the development of the Debt Policy. In 2014 Government intended to implement three main activities to support the development of the policy. These were:

1. Debt Database Validation

The database was the corner stone of the development debt policy. Therefore, the accuracy of the information was critical. The validation and reconciliation exercise was finalised in May, 2014, to provide quality debt data for Debt Sustainability Analysis.

2. Debt Sustainability Analysis (DSA)

The Ministry of Finance undertook a debt sustainability analysis from 13th to 26th June, 2014, to assess the sustainability of Zambia was current level of debt and its prospective new borrowing requirements in the medium- to- long term. The completion of this activity provided input into the Medium-Term Debt Management Strategy.

3. Medium Term Debt Management Strategy (MTDS)

Following the successful completion of the Debt Sustainability Analysis (DSA), the Ministry of Finance conducted a medium term Debt Management Strategy in order to carry out cost/risk analysis of the debt portfolio over the medium term horizon. To this effect, the Ministry of Finance had drafted a debt strategy which was the main pillar of Government's debt policy. It was expected that the debt strategy would be submitted to Cabinet in October 2014. Cabinet endorsement was expected by December, 2014.

The draft debt policy would be anchored on the DSA and the Medium Term Debt Management Strategy (MTDS). It was planned that the draft policy would be submitted to Cabinet in 2015, after relevant consultations.

Committee's Observation and Recommendation

Your Committee requests for a progress report on the Debt Policy.

CONSIDERATION OF OUTSTANDING ISSUES IN THE REPORT FOR THE FIFTH SESSION OF THE TENTH NATIONAL ASSEMBLY

Enactment of Mines and Minerals Development Act

13.0 Your previous Committee had requested for an update on the new mining legislation.

In response, the Executive submitted that there had been an improvement in the information submitted by mining companies in line with SI No. 34. However, there was need for further strengthening of the provisions. A provision had been made in the draft Bill for the issuance of guidelines on local business development which were lacking. Lack of guidelines had created a challenge in the monitoring of some of the obligations of mining companies, particularly those that related to local business development, training and employment of Zambians. The new *Mines and Minerals Development Act* had not been enacted.

Committee's Observation and Recommendation

Your Committee requests for a progress report on the revision of the Mines and Minerals Development Act.

CONCLUSION

14.0 Your Committee wishes to thank you, Mr Speaker, and the Clerk, for the advice and services that you rendered to it during the Session. Your Committee expresses its gratitude to all the stakeholders who appeared before it and tendered both written and oral submissions. Your Committee also expresses its appreciation to the Permanent Secretaries and Chief Executive Officers of institutions and companies and other stakeholders for the cooperation and input into the deliberations.

Mr K K Hamudulu, MP June, 2015
(CHAIRPERSON)

APPENDIX I

Topic One Witnesses
Ministry of Mines Energy and Water Development
Ministry of Finance
Lunsemfwa Hydro Power Company
Copperbelt Energy Corporation
The World Bank
Private Sector Development Association
Zambia Association of Manufactures
Zambia Chambers of Commerce and Industry
Rural Electrification Authority
Energy Regulation Board
ZESCO Limited

Topic Two Witnesses
Ministry of Finance
Ministry of Labour and Social Security
Zambia Congress of Trade Unions
Zambia Federation of Employers
National Pension Scheme Authority

Topic Three Witnesses
Ministry of Commerce, Trade and Industry
Centre for Trade Policy and Development
Common Market for Eastern and Southern Africa (COMESA)
Delegation of the European Union to the Republic of Zambia

APPENDIX II

List of Officials
National Assembly
Mr S C Kawimbe, Principal Clerk of Committees
Ms M K Sampa, Deputy Principal Clerk of Committees
Mr M Kateshi, Committee Clerk (FC)
Mrs D Mukwanka, Assistant Committee Clerk
Ms F Hamakalu, Typist
Mr R Mumba, Committee Assistant
Mr M Chikome, Parliamentary Messenger