SECOND REPORT OF THE COMMITTEE ON ECONOMIC AFFAIRS AND LABOUR FOR THE FOURTH SESSION OF THE TENTH NATIONAL ASSEMBLY, APPOINTED ON 24TH SEPTEMBER, 2009

Consisting of:

Mr C W Kakoma, MP (Chairperson); Ms E M Imbwae, MP; Mr G W Mpombo, MP; Mr J K Zulu, MP; Mr C Mulenga, MP; Mr F R Tembo, MP; Mr S Katuka, MP; and Mr W C Simuusa, MP.

The Honourable Mr Speaker
National Assembly of Zambia
Parliament Buildings
LUSAKA

Sir

Your Committee has the honour to present their report for 2010.

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; and

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

Meetings of the Committee

3.0 Your Committee held ten meetings to consider submissions on the Effectiveness of the Pension System and the Unemployment Situation in Zambia. Your Committee was also given an update on the Status of Zambia's Diversification Programme.

Format of the Report

4.0 Your Committee's report is divided into five parts. Part I outlines the Effectiveness of the Pension System in Zambia while Part II highlights the Unemployment Situation in Zambia. Part III provides an update on the Diversification Programme in Zambia and Part IV highlights outstanding issues arising from the Action-Taken Report for 2009. Part V is the Conclusion.

PART I

CONSIDERATION OF THE PENSION SYSTEM IN ZAMBIA

5.0 Despite the Government's efforts to reform the pension system in Zambia, its performance has not been favourable. There has been reports of some retirees taking long to get their benefits because of high actuarial deficits experienced by pensions. Where benefits have been paid, these have been inadequate because they do not keep pace with inflation. In this regard, your Committee resolved to study the effectiveness of Zambia's pension system so as to establish the challenges facing the sector and recommend to the Government possible measures to improve its operation.

In order to ensure that your Committee gathered enough information on this subject, they sought written memoranda and oral submissions from the Zambia Association of Pensions Fund Managers (ZAPFM), the Zambia State Insurance Corporation (ZISC), the Workers Compensation Fund Control Board (WCFCB), the Mukuba Pension Scheme, Africa Life Financial Services (Z) Limited (ALF), the National Pension Scheme Authority (NAPSA), the Local Authority Superannuation Fund (LASF), the Ministry of Finance and National Planning (MoFNP), the Central Statistics Office (CSO), the Zambia Congress of Trade Unions (ZCTU), the International Labour Organisation (ILO), the Retirees' Welfare Bureau of Zambia (RWBZ), the Zambia Federation of Employers (ZFE), the Pensions Insurance Authority (PIA) and the Ministry of Labour and Social Security (MLSS). The summary of the findings of your Committee are outlined below.

An overview of the current Pension System in Zambia

5.1 Your Committee was informed that Zambia's Social Security System consists of both public and private pension schemes. They were further informed that in line with the reforms to the pension schemes, Zambia's pension system is based on three pillars. The first pillar is a basic mandatory scheme, which is the National Pension Scheme Authority (NAPSA) established in February, 2000.

The second pillar includes statutory schemes and private occupational pension schemes. The Public Service Pensions Fund (PSPF) and Local Authority Superannuation Fund (LASF) are two statutory pension schemes which form part of the second pillar. The two institutions provide benefits to retirees in public service and local authorities respectively. In addition, there are private occupational schemes providing supplementary pensions to their respective employees. These private occupational schemes were established under trust in accordance with *Land (perpetual) Succession Act*, Chapter 186 of the Laws of Zambia, and are managed by different insurance and non-insurance companies.

Lastly, the third pillar covers individual accounts and voluntary pension plans. In addition to the three pillars, there is the Workers' Compensation Fund Control Board (WCFCB) which is responsible for occupational diseases and work injuries.

Apart from the National Pension Scheme Authority (NAPSA), all the schemes are obliged to register with the Pension and Insurance Authority (PIA) in accordance with section 8 of the *Pension Regulation Act*, No. 28 of 1996. All the pension schemes are contributory in nature, that is, both the employer and employee make contributions towards the pension benefits.

Public Pension Schemes in Zambia are defined benefit in nature where the benefit formula is specified. Most of the private pension schemes are defined contributions where the contribution rate is specified and the benefits are determined by accumulated contributions and interests that accrue on them. These schemes depend on the performance of investment and as such, they are risky. This explains why it was a problem for the members to exit the scheme during the 2008/09 financial crisis as the accumulated amounts declined as annuity prices went up. It was argued, therefore, that since the Direct Contribution Schemes (DCS) are risky, they are not suitable for a mandatory basic scheme. This is because a mandatory scheme is meant to guarantee all employees' reasonable benefits at retirement.

Challenges facing Pensions in Zambia

5.2 The witnesses that appeared before your Committee raised various challenges besetting pensions in Zambia. Some of these challenges are outlined below.

a) **Fragmented supervision of Pension Schemes**

Your Committee was informed that there was an apparent lack of coordination in the supervision of public pension schemes. This was evidenced by the fact that each pension is supervised by a separate ministry. For example, the National Pension Security Scheme is supervised by the Ministry of Labour and Social Security (MLSS), while the Local Authority Superannuation Fund (LASF) is supervised by the Ministry of Local Government and Housing (MLGH). The Public Service Pensions Fund (PSPF) is supervised by Cabinet Office. The Pensions and Insurance Authority (PIA) which regulates all the private and public pension schemes is supervised by the Ministry of Finance and National Planning (MoFNP). However, the National Pension Scheme Authority (NAPSA) is exempted from regulation by the Pensions and Insurance Authority (PIA). The PSPF and the LASF have been resisting regulation by the Pensions and Insurance Authority (PIA) because they are established by an Act of Parliament and as such are required to report to Parliament. This fragmentation, therefore, poses a big challenge in regulating pensions.

b) **Delayed remittance of contributions and payment of benefits**

Delayed remittance of contributions was another challenge faced by Pensions in Zambia, especially, public institutions. The Local Authority Superannuation Fund (LASF) is the most affected, mainly because local authorities are in serious actuarial deficits. The Public Service Pension Fund (PSPF) is also going through similar problems due to delayed remittance of contributions by Government ministries.

Your Committee was also informed that benefits to retirees were not paid on time. This situation subjected retirees to unbearable conditions. It was highlighted that in certain cases retirees have died before getting their terminal benefits.

c) **Composition of the Governing Boards**

Several stakeholders were concerned about the unequal representation between workers and employers on the governing boards for pensions. The *Pension Scheme Regulations (Amendment) Act*, 2005 stipulates that the boards should have equal representation of the employers and employees. However, it was noted with regret that the composition of LASF, NAPSA and PSPF boards was skewed towards employers.

d) **Actuarial deficits**

Most schemes are in actuarial deficits arising from accrued pension liabilities exceeding the assets held. Poor financing of pension schemes resulted into serious actuarial deficits particularly in public pensions. The deficits make it difficult to pay the beneficiaries on time.

e) **Coverage**

The current pension system is limited to the formal sector and excludes the informal sector which constitutes the majority of Zambia's labour force. The exclusion of certain members of the workforce is unhealthy and leads to destitution on retirement. In addition, the situation deprives the pension funds of the contributions needed for investment.

f) **Taxation of pension contributions and returns on investments**

Zambia's tax system provides for the taxation of the contributions and the returns on investment of pensions which amounted to double taxation. This system was unfavourable for the development of the pension system in Zambia. It also affected the payment of meaningful benefits accruing to the pensioners.

g) **Good Corporate Governance**

Your Committee was informed that there was limited appreciation of issues of pensions among members serving on various governing boards for pensions. This had led to poor adherence to good corporate governance principles leading to unfavourable performance of various funds. It was contended that good corporate governance should be instilled in the members and that members serving on the boards of trustees should have knowledge of issues regarding pensions.

h) **High supervisory and administrative costs**

The high administrative costs continued to be a source of concern. Most pensions have high administrative costs due to bloated organisation structures and high salaries. In addition, the current levy of 0.3% of the net assets imposed by the Pension and Insurance Authority (PIA) was high, and negatively affected contributions and investment. Most of the Fund Managers have also failed to take advantage of information and communication technology (ICT) in order to be cost effective.

i) **Narrow capital markets**

The Lusaka Stock Exchange (LuSE) was not fully developed. The limited investment opportunities at the Exchange poses a big challenge to the growth of pension funds in Zambia.

j) **Limited scope and adequacy of benefits**

The scope of the pension industry in Zambia was limited to retrenchments benefits, death and invalidity. However, this was at the exclusion of other areas prescribed by the International Labour Organisation (ILO) Social Security Convention number 102 which include among others, sickness, unemployment and old age. Regarding the adequacy of the benefits, it was observed that some pensions paid extremely low benefits making life for retirees unbearable.

k) **Limited Infrastructure**

There was limited access to banking services in the rural areas and as such retirees were required to travel long distances to collect their benefits. In addition, there was poor service delivery as a result of poor roads and telecommunication facilities.

m) **The Impact of HIV/AIDS**

The devastating effects of HIV/AIDS has had adverse effects on pensions. The pandemic has led to reduced membership and increased number of claims which were a drain on pension funds.

n) **Social Security Policy**

Zambia did not have a social security policy. This was a source of concern needing urgent attention by the Government. The policy will outline the direction for social security and address challenges facing the social security system in Zambia.

COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS

5.3 After careful consideration of various submissions by the witnesses, your Committee is dismayed that, despite the reforms to improve operations of pensions, the sector continues to face several challenges. Your Committee is aware that the reforms envisaged a three tier system with the first pillar providing a basic compulsory scheme. NAPSA is designed to be a basic mandatory scheme assuring workers of a decent pension regardless of the fluctuations in the performance of the economy.

In addition, the reforms envisaged the second tier scheme to supplement the mandatory pension scheme. This includes the Public Service Pension Fund (PSPF) and Local Authority Superannuation Fund (LASF). It also includes several private occupational schemes provided by employers.

Your Committee is aware that the reforms envisaged the operationalisation of the third tier to provide for individual and personal savings. Your Committee, however, is concerned that despite all these well set out plans, the reforms are still facing daunting challenges. Therefore, your Committee makes the observations and recommendations outlined below.

a) **NAPSA as a basic Compulsory Scheme**

Your Committee observes that NAPSA is supposed to be a basic compulsory scheme, but that it is taking long to operationalise it as such.

In this regard, your Committee recommends that NAPSA should be fully transformed into a basic mandatory scheme as was envisaged by the reforms. The scheme under NAPSA should continue to be a defined contribution benefit and that these benefits should continue to be indexed to inflation. This will assure pensioners of secured benefits even in depressed economic times such as the recent global financial crisis.

b) **Exemption of certain Institutions from contributing to NAPSA**

Your Committee observes that Konkola Copper Mines (KCM) and Mopani Mines are excluded from contributing to the National Pension Scheme Authority (NAPSA). There are also other members of the defence and civil service who contribute to the PSPF and LASF, but do not contribute to NAPSA.

Your Committee recommends that all institutions should be compelled to contribute to NAPSA since it's a basic mandatory scheme. Workers cannot only depend on Occupational Schemes because they are supplementary schemes.

c) **PSPF and LASF as Supplementary Schemes**

Your Committee observes that the Public Service Pensions Scheme (PSPF) and the Local Authority Superannuation Fund (LASF) were envisaged to be transformed into occupational schemes to supplement the mandatory schemes. However, your Committee is concerned that the two are still operating as mandatory pensions.

Your Committee recommends that the two pension schemes be transformed into occupational schemes and supplementary schemes and that all employers contributing to these schemes must be compelled to contribute to NAPSA as provided for in the NAPSA Act.

d) **Supervision of PSPF and LASF by the PIA**

Your Committee observes that the Public Service Pension Fund (PSPF) and the Local Authority Superannuation Fund (LASF) have been resisting supervision by the Pensions and Insurance Authority (PIA).

In order to enhance good corporate governance, your Committee recommends that all pensions should be supervised by the Pensions and Insurance Authority (PIA). In this regard, the *National Pension Scheme Act* should be amended to allow for the supervision of NAPSA by the Pensions and Insurance Authority (PIA).

e) **Strengthening Governance of Pension Schemes**

Your Committee observes that the level of appreciation of issues of pensions among the members of the various boards was low. Your Committee also observes that in most cases, principles of good corporate governance are not being adhered to, thereby contributing to the poor performance of pensions.

In light of this, your Committee recommends that persons appointed to the boards should be well versed in issues of pensions. It also urges the Government to promote good corporate governance in pensions by ensuring timely auditing of their accounts and commissioning of actuarial valuation of the schemes. The criteria for selection must be specified in an Act of Parliament.

f) **Increasing Coverage of Pensions**

Your Committee observes that the coverage of pensions in Zambia is limited to the formal sector. This excludes the majority of the people in the informal sector and as such, relegates them into destitution at retirement. Your Committee also observes that the old who were previously not in formal employment and not contributing to any scheme are excluded from pensions.

Your Committee recommends that measures should be put in place to extend coverage to the informal sector. It also urges the Government to scale up awareness activities to encourage workers in the informal economy to take up pension schemes.

g) **Adoption of the National Social Security Policy**

Your Committee observes that there is no policy on social security.

It recommends that a national policy on social security be developed to address the challenges facing the social security system in Zambia. Other than retirement benefits, the Draft National Policy should provide for maternity, redundancies, health and old age.

h) **Harmonisation of the Supervision and Regulation of Pensions**

Your Committee observes that the coordination and supervision of social security in Zambia is fragmented, as various pensions are regulated by different pieces of legislation and supervised by different ministries.

Your Committee recommends that these pieces of legislation should be harmonised so that the pension system in Zambia can operate effectively. Further, it recommends that all pensions should be regulated by the Pension and Insurance Authority (PIA) and that the PIA should continue to report to the Ministry of Finance and National Planning because of the financial aspects of pensions. However, the Ministry of Labour and Social Security should remain in charge of labour-related aspects of pensions policy.

i) **Taxation**

Your Committee observes that pensions in Zambia have a high tax burden.

It urges the Government to exempt from taxation, contributions and returns on Investment arising from pensions. This will increase investment funds and allow for meaningful benefits.

j) **Actuarial Deficits**
Your Committee observes that most of the pensions are heavily indebted partly because of poor remittances by the Government and local authorities.

In order to avoid actuarial deficits, your Committee recommends that the Government should make timely contributions to pensions. It also recommends that the Government should encourage the establishment of actuaries to provide actuarial valuations of pensions.

k) **Outdated Legislation**
Your Committee observes that some pension laws are outdated and out of touch with reality and lead to retirees getting low benefits.

Your Committee recommends that the old and outdated pieces of legislation should be reviewed to allow retirees get meaningful benefits. It also urges the Government to compel all pensions to ensure that benefits to retirees should be indexed to inflation.

l) **Portability of benefits**
Your Committee observes that it is not possible to transfer the benefits from one pension scheme to another.

It recommends that the law should be amended to provide for portability of benefits.

m) **The High Supervisory and Administrative Costs.**

Your Committee observes that the current levy of 0.3% of the net assets imposed by the Pension and Insurance Authority (PIA) was high and contributing to the high administrative costs.

Your Committee recommends a reduction of this levy.

PART II

THE UNEMPLOYMENT SITUATION IN ZAMBIA

6.0 The problem of unemployment has been affecting Zambia for some time. This situation was compounded by the global economic crisis of 2008/9, which led to reduced economic activity particularly in the mining and the tourism sectors. With the economy looking up, it was still not clear how many jobs have been restored.

In order to ascertain the unemployment situation in Zambia, your Committee resolved to study the subject in detail. The objectives of the study were to establish the causes of unemployment in Zambia and recommend measures to reduce the same.

To appreciate the subject of unemployment, your Committee requested both written and oral submissions from the Ministry of Labour and Social Security (MLSS), the International Labour Organisation (ILO), the Zambia Federation of Employers (ZFE) and the Central Statistical Office (CSO). The summary of their submissions is outlined below.

Causes of unemployment in Zambia

6.1 Your Committee was informed that there were several factors affecting the unemployment situation in Zambia. Some of these factors are set out hereunder.

i) **Globalisation**

Your Committee was informed that globalisation has removed restrictions to the movement of labour. In view of Zambia's liberal policy, there were more people coming to work in Zambia compared to Zambians going abroad. This situation exerted pressure on the labour market in Zambia.

ii) **Structural Adjustment Programmes**

The Structural Adjustment Programmes in Zambia imposed by the International Monetary Fund (IMF) contributed to economic contraction and retrenchments. These programmes were partly the source of the current unemployment levels.

iii) **Mismatch in training programmes**

Most training providers did not match their training programmes with the skills needed in the industry. In this light, graduates were unable to get employed because they had taken training in fields that were irrelevant to industry.

iv) **Export of raw materials**

Zambia's main exports are primary products. Raw materials are exported with little or no value addition. This means that Zambia was effectively exporting employment to other countries.

v) **Capital constraints faced by Micro, Small and Medium Enterprises MSMEs**

The majority of the Zambians were involved in the Micro, Small and Medium Enterprises (MSME's). However, this sector was marred with various constraints such as inadequate capital, low level of skills and limited access to credit. These constraints hampered the capacity by the MSMEs to develop their businesses and create employment.

COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS

6.2 After careful consideration of various submissions, your Committee makes observations and recommendations set out hereunder.

a) **Inadequate Funding to the Ministry of Labour and Social Security**.

Your Committee observes that the Ministry of Labour and Social Security (MLSS), in conjunction with the Central Statistical Office (CSO), have not been able to make the available labour statistics on the employment situation in Zambia since 2005. This is, mainly, because of inadequate funding to the Ministry of Labour and Social Security (MLSS).

Your Committee, therefore, recommends that the Government should improve the funding situation to the Ministry of Labour and Social Security (MLSS) for it to adequately implement its programmes including conducting studies on the employment situation in Zambia.

b) **Generation of local employment opportunities**

Your Committee observes that the large multi-national companies with no clear policy on skills transfer to Zambians receive generous incentives while local companies do not. Your Committee is aware of the importance of attracting foreign investment to Zambia and that the Country is competing with other destinations for the same investors.

Your Committee recommends that investment promotion incentives need to give considerable emphasis to the generation of local employment opportunities. In addition, investors receiving incentives should demonstrate their policy on skills transfer to Zambians. It also urges the Government to ensure that incentives do not only benefit foreign companies, but local companies as well.

c) **Skills Development**
Your Committee observes that skills relevant to industry are generally missing in Zambia.

In this regard, your Committee recommends that the Government, in collaboration with the industry and training institutions, should invest in skills development to ensure availability of relevant skills.

d) **Promotion of Value Addition**

Your Committee observes that there is limited or no value addition on exports from Zambia. This means that Zambia is effectively exporting labour to other countries.

Your Committee recommends the promotion of value addition on raw materials so as to increase the value of exports and create employment for local people.

e) **Foreign Labour**

Your Committee observes that most of the jobs whose skills are available in Zambia are being handled by foreigners while excluding the local people.

Your Committee recommends that measures be put in place to ensure the employment of local people. Only foreigners with skills that are not locally available should be allowed to work in Zambia.

PART III

UPDATE OF THE DIVERSIFICATION PROGRAMME

7.0 The Government has been striving to diversify the economy from over dependence on copper exports. The economic downturn experienced in the mid 1970s and the recent global economic crisis of 2008/9, exposed the vulnerability of Zambia's economy to external shocks as a result of its overdependence on copper exports. In this respect, the Government embarked on the diversification programme. In order to realise the benefits of the diversification of the economy, measures were outlined in the Fifth National Development Plan (FNDP) to facilitate the process of shifting the focus from copper mining as the main driver of Zambia's economy to other sectors, such as agriculture, tourism, manufacturing and mining of non traditional minerals.

In view of the above, your Committee resolved to get an update on the diversification programme from the Ministry of Finance and National Planning as set out hereunder:

a) **Agriculture**
Your Committee was informed that the goal of the diversification programme was to promote an export-led agricultural sector, for increased household income and food security. This was envisaged to be attained through enhancing financing to the sector in order to control diseases and pests, provide infrastructure, research and extension services and capacity building.

Your Committee was further informed that within the agricultural sector, the key goal had been to re-focus from growing maize to other crops such as cotton, coffee, horticultural and floricultural products. In general, limited progress has been made towards diversifying production within the agricultural sector. Funding to the sector had over the years been dominated by the Fertilizer Support Programme (FSP), whose bias towards maize had undermined the diversification to other crops. In addition, huge resources spent on the

Fertilizer Support Programme meant that limited resources were available for other key Fifth National Development Programmes such as irrigation, land, fisheries and livestock development.

b) **Tourism**

Regarding tourism, your Committee was informed that the sector was demand-driven and as such, it was susceptible to external shocks such as the global economic downturn. However, as the sector was largely pro-poor, the Government included it in the diversification package, especially in view of the many tourist attractions obtaining in the country.

On account of the recent global economic slowdown, the northern corridor had been earmarked for expansion of the tourism sector. The Government was committed to the development of the Kasaba Bay area in an effort to promote the Northern Tourism Sector. This would include rehabilitation of the Kasaba Bay Airport, as well as construction of a road from Mbala to Kasaba Bay.

c) **Manufacturing**

In the manufacturing sector, the goal of the diversification plan was to attain a dynamic, competitive and environmentally sustainable sector through setting up of a conducive, attractive business environment for investors. The Government had in this regard, established the Multifacility Economic Zones (MFEZ) to promote the manufacturing sector.

d) **Gemstone and Non-Traditional Mining**

Your Committee was informed that the performance of the gemstone and non-traditional mining diversification programme has been mixed. The flagship programme for this sector was the Mining Sector Diversification Programme which began in 2002 and was scheduled to end initially in 2006 but was extended to 2008. The programme was targeted at enhancing capacity in the Ministry of Mines and Minerals Development so that it would provide better support to small-scale miners. The support offered would include training of miners in mining and processing techniques, business management and gemstone valuation. In addition, the programme was designed to promote exports by providing miners with market information and facilitate their participation in local and international fairs.

LOCAL TOURS

7.1 In order for the members to have on the-spot-check of the implementation of the Zambia's diversification programme, your Committee resolved to tour the Nansanga Farming Block and selected areas of the Northern Circuit, namely, Mbala, Kalambo Falls, and Kasaba Bay. The objectives of the tours were:

i) to assess the progress made so far on the development of infrastructure such as roads and telecommunications in both Nansanga and Northern circuit;
ii) to establish the level of investment that has been attracted so far to the Farming Block and the Northern Circuit; and
iii) to assess the participation of Zambians in the Farming Block and the Northern Circuit.

a) **Nansanga Farming Block**

In order to ascertain the diversification of the economy to Agriculture, your Committee was privileged to tour the Nansanga Farming Block. The summary of the findings are outlined below:

i. The development of Nansanga Farming Block is being spearheaded by four Ministries, namely Ministry of Agriculture and Cooperatives which is responsible for ensuring that all the planned developmental activities in the farming block are implemented; the Ministry of Lands whose mandate is to ensure that the demarcated farms have beacons and are gazetted; the Ministry of Works and Supply whose focus is to construct the road network and bridges through the Road Development Agency (RDA); and the Ministry of Energy and Water Development which has the responsibility of developing the water resources in the farming block.
ii. There is inadequate coordination by implementing ministries with regard to infrastructural development and this is hampering progress.
iii. Phase one of the electrification of the Nansanga Farming Block is complete where 95Km of 33KV line has been constructed.
iv. There are other existing farming blocks in the area other than the Nansanga Farming Block such as Luombwa, Lunte and Sasa.
v. Nansanga Farming block does not define the core activity to be undertaken in the farming block, giving investors freedom to grow crops of their choice. It was argued that such an open provision would encourage investors to grow products that might have adverse effects on the surrounding agricultural activities.
vi. The Government has provided 9500 hectares of land for the core venture. It was argued that this size of the land was too big to be given to one investor without giving guidelines on how it should be utilised.
vii. A number of bridges are under construction in the Farming Block. However, most of the bridges are of poor quality and are already falling apart. It was revealed that one of the contractors who had already been paid had abandoned the project. There was also a complaint of non-payment to a contractor who had completed the works.
viii. There was no investor attracted to Nansanga at the time of the tour. However, various investors have shown interest, particularly the Chinese, Egyptians and some large scale commercial farmers from Mkushi Farming Block.

Part of the Luwombwa bridge being constructed in Nansanga Farming Block

Luwombwa substation to supply electricity to Nansanga farm block

b) **Northern Circuit**

In order to ascertain the diversification of the economy to tourism, your Committee toured the Northern Circuit. In particular, your Committee visited Lake Chila, Kalambo Falls, Motomoto Museum, Lunzua Hydro Electric Power Station and Mpulungu Harbour. Your Committee also visited the Kasaba and Nkamba Bays. The findings of your Committee are outlined below.

i. Mbala has very good tourist attractions, which, if properly developed and marketed, can contribute to the limited revenue base of the Country. Regrettably, these attractions are not properly developed and are poorly marketed.

ii. The infrastructure leading to all tourist attractions is in a deplorable state. The road leading to Kalambo falls is almost impassable. The communication infrastructure in Kasaba and Nkamba Bays is non-existent.

iii. The inter-ministerial linkages in the development and promotion of the Northern Circuit are not clear.

iv. The infrastructure in Kasaba Bay is completely run down. However, your Committee was pleased to see construction works taking place in Kasaba Bay. The Kasaba Bay Airport runway was being extended from 1.6 km to 2.1 km in order to facilitate the landing of bigger planes. The power supply was being connected to Kasaba Bay through the construction of a power line and the up-rating of the Lunzua Hydro Power Station from the existing 0.75MW to 10MW.

v. The road between Kasaba Bay and Mbala was impassable and your Committee was forced to use speed boats from Mpulungu Port to access Kasaba Bay.

Committee's Observations and Recommendations

7.2 Following an up-date by the Ministry of Finance and National Planning on the diversification of the economy, and the subsequent verification visits to Nansanga Farming Block and the Northern Circuit, your Committee makes observations and recommendations as set out hereunder.

a) **Slow pace of the Diversification Programme**

Your Committee observes that the diversification programme is important if the country's economy is to withstand external shocks. This observation is supported by the challenges the country faced as a result of the recent global financial crisis which led to a remarkable decline in copper prices. The country experienced a remarkable decline in foreign exchange leading to a sharp depreciation of the Kwacha. Some mines were closed or put on care and maintenance, causing severe job loses. Therefore, your Committee is concerned that the Government has been promulgating the diversification of the economy for some time and yet limited progress has been made in achieving this goal.

It, therefore, recommends that urgent measures should be put in place to speed up the diversification programme.

b) **Poor institutional coordination and supervision of development projects in Nansanga Farming Block**

Your Committee observes that there is lack of coordination and supervision among various ministries in the development of Nansanga and as such, the quality of work on roads and bridges is poor. As a result of poor coordination, there is limited monitoring of the activities by contractors and, therefore, one contractor, who was already paid, had abandoned the project. In some cases, the bridges are falling apart.

Your Committee recommends that the roles by various ministries and other institutions such as the Road Development Agency (RDA) in the development of Nansanga should be clearly spelt out to ensure accountability. There is also need for local focal point person to coordinate and supervise the activities.

c) **Development of the Kasaba Bay Airport**

Your Committee appreciates the efforts by the Government to expand the airstrip in Kasaba Bay to international stations. It is aware that the ZAF Airport in Mbala was created for military purposes.

Your Committee, however, recommends that the Government should put up corresponding infrastructure to accommodate airport, immigration and revenue authority staff including health and education facilities for their families.

d) **Poor Marketing of the tourism attractions in the Northern Circuit**

Your Committee observes that despite Zambia being blessed with beautiful tourism attractions in the Northern Circuit, the place has not been effectively marketed.

Your Committee recommends that more effort should be directed at marketing the Northern Circuit as a tourism destination. Further, it recommends that the roles in the marketing of tourism by various institutions such as the Ministry of Local Government and Housing (MLGH), the Ministry of Tourism, Environment and Natural Resources (MTENR) and the Zambia Tourism Board (ZTB) should be clearly spelt out to avoid conflict.

e) **Poor sequencing of development projects in Nansanga Farming Block**
Your Committee appreciates the development of Nansanga Farming Block. They believe that it will open up the area for development. However, your Committee notes with concern that there are areas near Nansanga where local farmers are already settled and yet they lack the necessary amenities.

Your Committee recommends that the development of Nansanga should include the existing surrounding farming blocks, such as Luombwa, Lunte and Sasa, where local farmers were already settled. This will enhance the participation of local people in the Nansanga Farming Block.

f) **Poor infrastructure**
Your Committee observes that the infrastructure in the Northern Circuit is poor. The road leading to the Kalambo falls is in a deplorable state. There are no communication facilities in Kasaba Bay.

Your Committee, therefore, recommends that roads in the Northern Circuit, especially, the one leading to Kalambo falls and Kasaba Bay should be rehabilitated as a matter of urgency. It further recommends that communication facilities should be made available for tourists in Kasaba Bay.

g) **Inadequate funding**
Your Committee bemoans the inadequate funding to the programmes in Nansanga Farming Block and the Northern Circuit. For example, the Motomoto Museum in Mbala is poorly funded and is unable to complete various projects to bring it to acceptable standards. The road network in Nansanga has been delayed due to poor funding.

Your Committee recommend that funding to the projects in Nansanga and the Northern Circuit should be increased.

h) **Inadequate guidelines for the Development of Nansanga**
Your Committee observes that there are no guidelines on how land in the Core Venture should be utilised.

In this regard, your Committee recommends that utilisation of the 9500 hectares of land for the Core Venture should be streamlined. In addition, clear guidelines should be drawn up to guide the selection of the type of crops and activities to be allowed in the farming block, especially the Core Venture.

PART IV

CONSIDERATION OF THE ACTION TAKEN REPORT ON THE FIRST REPORT OF THE COMMITTEE ON ECONOMIC AFFAIRS AND LABOUR FOR 2009.

8.0 In their previous report for 2009, your Committee had considered the impact of the current financial crisis on Zambia's economy and the pricing of sugar. Your previous Committee had raised various recommendations to the Executive on the topical issues. Your Committee had been satisfied with most of the responses given. However, it had sought clarification on the recommendations outlined below.

a) **Dollarisation**
Your previous Committee had recommended that the Ministry of Finance and National Planning should issue a Statutory Instrument compelling all business players to quote their

prices in Kwacha.

In response, the Government explained that in order to counter the practice of quoting prices in United States dollars, it had instituted measures to issue a Statutory Instrument compelling all business players to quote prices for goods and services in Kwacha. In this regard, the Government intended to amend the Bank of Zambia (Currency Regulations), 2009, to compel all business players to quote prices in Kwacha. A layman's draft of the proposed changes to the regulations had already been submitted to the Ministry of Justice for scrutiny, before the Statutory Instrument could be issued.

In view of the response given by the Government, your Committee requests to be updated on what has been done, to ensure that the Statutory Instrument is finally issued.

b) **Externalisation**

Your previous Committee had recommended that the Bank of Zambia (BOZ) should come up with a regulatory framework to curb the externalisation of all the earnings by investors.

The Government responded that they had, since the early 1990s, done away with foreign exchange controls. Zambians and foreigners alike were free to keep or take away their foreign exchange earnings without any hindrance from the Government. This had resulted in calls by many economic agents for the Government to put in place a regulatory framework to curb the externalisation of earnings by investors. The Government policy with regard to foreign exchange controls is to maintain the status quo.

Your Committee appreciates the Government’s position on the externalisation of earnings by investors. Your Committee has made several recommendations in the past to the effect that this policy is bad for the economy, while the Government has maintained that the status quo is preferred. Your Committee wishes to put it on record that it is against this policy of allowing wholesome externalisation of earnings. It implores the Government to study this matter further.

c) **Reduction of Lending Rates**

Your previous Committee had recommended that the Bank of Zambia (BOZ) should come up with workable measures to reduce lending rates, such as targeting interest rates, since the use of money supply as an operational policy instrument had not been effective.

The Government responded that their monetary policy was geared to achieving and maintaining low and stable inflation, so as to facilitate growth in the economy. In the current policy framework, this was done by maintaining the growth of money supply within levels that would achieve both the inflation and growth objectives. In other words, the operational monetary policy instrument in Zambia was money supply and not interest rates.

In such a policy framework, the Bank of Zambia did not deliberately target the interest rates. Rather, they targeted money supply growth towards attainment of the inflation and ultimately growth objective. The immediate implication of such a policy regime, especially, in a liberalised economy, was that the Bank of Zambia could mainly use moral suasion, rather than instructions to the commercial banks with regard to the interest rates that they could set. In this regard, only a change in the operational instrument used by the Bank of Zambia from targets money supply to interest rates could give the Bank of Zambia more leverage with regard to the interest rates that commercial banks should set.

The Government was, therefore, aware of the need to review its monetary policy framework, especially, with a view to facilitating a reduction of interest rates, which had remained high despite the significant reduction in the inflation rate. Towards this end, work was underway on the institutional, analytical and communication elements that were required for the shift to using interest rates as the main instrument to anchor inflationary expectations. Once the assessment was finalised, the Government would be in a position to determine a better method to use as the main monetary policy instrument. It is also important to note that whatever the monetary policy instrument to be used, achieving and maintaining low and stable inflation would be vital in reducing interest rates.

Your Committee appreciates the response and will await an update on the Government's assessment of the need to shift to the interest rates as the main instrument to anchor inflation expectations and reduce the high interest rates.

d) **Un-bundling of ZESCO**

Your previous Committee had recommended that ZESCO should be unbundled into Generation, Supply and Distribution components to run as separate entities. Unbundling ZESCO would make it more efficient and responsive to the current challenges in the sector. This would address the inefficiency that exists in ZESCO.

In response, the Government explained that its supported measures aimed at making ZESCO more efficient and responsive to the current challenges in the electricity sub-sector. However, due to the importance and strategic nature of ZESCO in the electricity sub-sector, dismantling ZESCO in separate units of Generation, Transmission and Distribution required serious consideration. In view of the above, the Government was reassessing this issue with a view to deciding the way forward. It was hoped that a viable option on this important matter would be reached.

In view of the response given by the Government, your Committee will await an up date on the reassessment of the proposal to unbundle ZESCO into Generation, Transmission and Distribution.

e) **Amendment of the Securities and Exchange Act**

Your previous Committee had recommended that the Government should bring to Parliament for amendment the Securities and Exchange Act to bring it in line with international best practices. The law, if amended, would provide for the regulation of the Central Securities Depositories and enhance market efficiency, reduce the risks attached to transactions in securities by eliminating manual processes and establishing electronic clearing and settlement.

In response, the Government welcomed the observation by the Committee that the current legislation is lagging behind current market developments, such as the Central Securities Depository. In order to overcome this shortcoming, the process of incorporating these new market developments has been initiated. The Government, through the Ministry of Finance and National Planning, is actively involved in the process of finalising the consultative process on the new law before it could be presented to Parliament for approval. Currently, a Cabinet Memorandum proposing these changes had been prepared for onward submission to Cabinet for consideration.

In view of the response given, your Committee will await an up-date on the progress made, to ensure that the Bill is finally brought to Parliament.

PART V

CONCLUSION

9.0 Your Committee wishes to express its indebtedness to you Mr Speaker, for the guidance rendered during the Session. It further wishes to express its gratitude to the witnesses for the cooperation and input into the deliberations.

Lastly, your Committee wishes to extend its appreciation to the Clerk of the National Assembly and her staff, for the services rendered during the session.

June 2010 Mr C W Kakoma, MP
LUSAKA **CHAIRPERSON**