Economic Recovery Programme Analysis
Zambia’s Economic recovery plan 2020-2023 will require a multistakeholder approach to align with the 8th NDP and medium term expenditure framework. Despite the progress made in the ESGP, budget credibility remains weak.

Multi-year planning and budget constraints are necessary to support budget credibility whilst separate strategies will be required for arrears dismantling and debt restructuring. Domestic resource mobilisation be become ever more important whilst providing an enabling environment for business and safeguarding livelihoods.

Chabuka Kawesha

President
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Introduction

For the past decade, the Zambian economy has experienced stagnation which has put a strain in the effort to tackle the historical structural inequalities, unemployment and poverty. There is a consensus amongst the social partners that there should be substantial structural change in the economy that would unlock growth and allow for development. Government’s conviction is that we have to massively mobilise all our resources and efforts in economic activities that will put the economy in a sustainable recovery trajectory.

We are expecting a changed economy to emerge as a result of COVID-19 and we need to adapt. Our Economic Recovery Plan Analysis sits as a key driver of how we as private sector in collaboration with Government will help address the damage done to our local economy. There will be a period of rebuilding as we re-open our town centres and high streets and help local businesses adapt to be ready to trade. This is our opportunity not just to make things right but to make them better for the future.

The outbreak of the Covid-19 pandemic in March, 2020, found a vulnerable Zambian economy. In fact, at the time pandemic, the Zambian economy had experienced a first quarter recession. As a result, the Covid-19 pandemic deepened the economic crisis. Many people lost their jobs, many went without income for extended periods, and many were going hungry every day. Inequality widened and poverty deepened. Given the extent of the devastation, the economic response required should match or even surpass the scale of the disruption caused.
The stagnation of the economy for a long period coupled with the Covid-19 crisis has also led to low levels of capacity utilization in the various sectors of the Zambian economy. This trend is projected to continue; painting a dire picture for gross fixed capital formation. A significant reduction in the gross fixed capital formation variable is a troubling development; given that this variable is critical in sustaining and growing the productive base of the economy.

Drastic declines in capacity utilization also imply that investment plans and projects that were affordable before the impact of the crisis face the possibility of not being affordable with a prolonged subdued capacity utilization.

However, in adversity so often comes opportunity. Zambia is now on the threshold of an important opportunity to imaginatively, and with a unity of purpose, reshape its economic landscape. The current conjuncture presents an opportunity to reset the Zambian economy. It is an opportunity to build a new, inclusive economy that benefits all Zambians. This is a moment to readdress falling per capita incomes, low investment, as well as high and deeply entrenched levels of inequality, poverty and unemployment.
Impact of Covid On Economy
Effects of COVID Pandemic on Businesses

Covid on the Economy by sector

Mining

Quarterly GDP findings on Mining show that output fell a few quarters before COVID hit the economy indicating that whilst COVID-19 had an impact on mining, other global factors also played a role.

Zambia’s development trajectory has been shaped by mining. For close to a hundred years, the extraction of copper has dominated the economy. Without exception, the firms that have controlled the sector have been large-scale, mostly foreign – albeit with periods of national ownership – had access to huge capital outlays, and have focused on copper mining. Relatively less is known about Zambia’s Artisanal Small-Scale Mining (ASM) sector.

In contrast to the firms dominating the copper extraction sector, the ASM sector is mostly done on a small scale, locally driven, has low barriers to entry, and involves different types of minerals beyond copper. It, however, represents an important and growing part of the mining industry in Zambia.
Quarterly GDP findings on Manufacturing indicate that COVID-19 had a negative impact on the sector with growth falling to negative in second quarter of 2020.
Quarterly GDP findings on Construction indicate that COVID-19 impacted the sector negatively. It must also be noted that this sector has had negative growth in 2019 and throughout the COVID period.

Whole Sale and Retail Trade

Quarterly GDP findings on Wholesale and Retail trade indicate that COVID had a negative impact on the sector with growth falling to negative from the fourth quarter 2019.
Quarterly GDP findings on Tourism (Accommodation and Food under ZSA) indicate the sector has been impacted negatively by COVID with growth falling to negative in both quarters on 2020.

Agriculture
Quarterly GDP findings on Agriculture indicate that COVID-19 has not had a detrimental impact on gross agricultural domestic product.

Quarterly GDP findings on Information and Technology indicate that COVID-19 has not had a detrimental impact on gross agricultural domestic product. On the contrary, COVID-19 has boosted the sector.

Real GDP Growth
IMF and Ministry of Finance both project a growth rate of -4.2% in 2020, however that would mean growth in q3 and q4 would be -7%. A modest recession of -1.5 to 2% is more in line with preliminary estimates subject to possible revisions.

**Covid on Business**

Earlier this year, The Ministry of Commerce Trade and Industry with support from the United Nations Development Programme (UNDP) conducted a business survey in order to assess the impact of the Covid-19 pandemic on various enterprises in Zambia, including large, medium, small and micro enterprises (MSMEs) and cooperatives. The objective of the survey was to learn about the socio-economic situation of large, micro, small and medium-sized enterprises affected by the COVID-19 crisis in Zambia, in order to propose comprehensive actions aimed at improving their economic situation and situation in the market.

Key findings in this survey were as follows:

- Covid-19 has adversely affected business operation with 71% of the respondents indicating that they were partially closed while 14% of businesses were totally closed. Only 15% reported to have maintained normal operations.
- Covid-19 caused a number of challenges to enterprises, with the most significant challenges being loss of customers. Other reported challenges include supply chain cuts, high commodity prices/ material prices and problems with late payments among others.
The Survey noted that the majority enterprises were determined to continue their operations by adhering to the new normal requirement during the Covid-19 outbreak. Enterprises further resolved to adopt new development strategy by embracing and exploration of new business models (45%), accelerating technological, product and services innovation (57%), and strengthening global reach of supply chain and expansion of overseas market (21%). However, 7% of the total responding enterprises reported to have failed to cope with the epidemic and expressed their intention to withdraw from the market.

In terms of support, an overwhelming number of enterprises indicated that it is of utmost important for government to come up with policy decisions that will support the business environment to economically re-activate business operation such as cash grants (76%), followed by loan facilities (51%), equipment (45%), improvements to market access (44%), improved information about markets and prices (41%), digital media training (23%), alternative payment methods to cash (16%) and legal support (13%).
Government’s response to the economic effects of the pandemic
Bank of Zambia

The Zambian economy has been facing significant macroeconomic challenges as reflected in low growth, high fiscal deficits, rising inflation and debt service obligations as well as low international reserves. The outbreak of Coronavirus (COVID-19) pandemic compounded the situation, resulting in unprecedented global public health and economic crises. Although the full impact of the COVID-19 shock on public health and the economy cannot be determined at the moment, indications are that it will be unprecedented. The Bank of Zambia introduced the some measures to address the impact of the pandemic on the economy.

![Policy rate graph]

Source: Bank of Zambia (2020)

In May 2020, the Central Bank has revised downwards the Monetary Policy rate by 255 points to 9.2 percent from 11.5 percent. This was done to mitigate the adverse impact of the COVID-19 on financial sector’s stability, economic activity and ultimately on people’s livelihoods.
Domestic credit to private sector refers to financial resources provided to the private sector by financial corporations, such as through loans, purchases of non-equity securities, and trade credits and other accounts receivable, that establish a claim for repayment.

Growth Credit growth in credit to the private sector slowed down in the second quarter to 10.4%, y-o-y, from 19.5%. This was on the back of depressed aggregate demand and reduced appetite by banks to lend in the light of heightened default risk due to weakened economic activity. However, credit to Government expanded by 46.9%, y-o-y, compared to 28.6% in March. Government continued to account for a larger proportion of growth in credit.
Advances Applied for (value in K’million)

Source: Bank of Zambia (2020)

*An application worth K3.5 billion was withdrawn and will be rechanneled through other FSPs

Under this Facility, the Bank provided liquidity to eligible Financial Service Providers (FSPs) for onward lending to viable non-financial corporates and households with Advances Applied for by Bank around 75% and advances applied for by non-banks at 25%.
Approved Advances (Value in K’millions)

Source: Bank of Zambia (2020)

Under this Facility, the Bank provided liquidity to eligible Financial Service Providers (FSPs) for onward lending to viable non-financial corporates and households with Advances Applied for by Bank around 75% and advances applied for by non-banks at 25%.

Approval Percentage

*Amount approved as a percentage of applications received.

Source: Bank of Zambia (2020)
Under this Facility, the Bank provided liquidity to eligible Financial Service Providers (FSPs) for onward lending to viable non-financial corporates and households with Advances Applied for by Bank around 75% and advances applied for by non-banks at 25%.

**Disbursed Advances (Value in K’millions)**

![Bar chart showing disbursed advances for banks and non-banks.](chart.png)

**Source: Bank of Zambia (2020)**

Under this Facility, the Bank provided liquidity to eligible Financial Service Providers (FSPs) for onward lending to viable non-financial corporates and households with Advances Applied for by Bank around 75% and advances applied for by non-banks at 25%.
Disbursements in K' million

- Altus: 1.93
- Xtenda: 74.0
- Izwe: 137.1
- Betternow: 2.98
- Pulse: 74
- Absa: 17.1
- First Capital: 61.0
- Stanbic: 494.4
- Access: 96.8
- Indo-Zambia: 323.9
- Atlas Mara: 533.0

No of Beneficiaries

- Other: 119
- Wholesale trade and retail trade: 156
- Transportation and warehouse: 38
- Tourism: 169
- Real estate: 133
- Financial services: 5
- Mining and quarrying: 5
- Manufacturing: 8
- Individuals and households: 16,860
- Health care: 8
- Energy: 12
- Educational: 54
- Construction: 12
- Community Services: 17
- Communication: 2
- Agriculture: 64

Legend: Non Banks - , Banks - 
**Medium Term Facility**

In order to compliment efforts by other arms of Government, The Bank of Zambia established a targeted medium term refinancing. The facility was to be made available to Financial Service Providers (FSP) to enable them restructure or refinance qualifying facilities or on-lending to eligible clients.

The facility has an initial amount of K10 billion and tenors of five (5) years for targeted sectors (agriculture, manufacturing, tourism and energy) and three (3) years for other sectors including households.

Businesses and individuals could access the Facility through their FSPs. Businesses and households interested in accessing this facility must therefore do so through their FSPs. Everyone was entitled to the fund on the facility through their respective FSP. However, priority was to support sectors that will propel economic recovery and stimulate private sector led growth. Sectors identified in the 7NDP as priority were agriculture, manufacturing, energy and tourism and these would receive 60% of the fund on the facility. The rest of the sectors would access the remaining 40%.

**COVID-19 Stimulus package**

In July 2020, Zambia’s cabinet approved a ZMW 8B (US$439M) economic stimulus package financed through a COVID-19 bond in an effort to alleviate the pandemic's impact.

The proceeds from the bond were to go towards needy areas, including payment of retirees, contractors and suppliers, which have been hit by reduced liquidity due to COVID-19.
Effectiveness of Government’s response to the economic effects of the pandemic

Without compensating policy action, the decline in economic activity and the drop in incomes for businesses and households will also impact the financial sector through rising non-performing loans and this may compromise financial system stability.

Medium Term Facility
FSPs that specifically service SMEs were eligible to participate in the Facility. SMEs could therefore benefit from the facility particularly through the FSPs that already serve small and micro enterprises. However, because these funds are a loan, SMEs needed to fulfil some minimum criteria required by FSPs hence the facility has not been as effective.

COVID-19 Stimulus package
Fiscal consolidation will have to be achieved at the same time as supporting small businesses reeling from the economic effects of COVID-19. Cabinet approved in principle the establishment of a K8 billion economic stimulus package. According to information so far only K5bn of that has been raised. Zambian bonds are currently undersubscribed forcing high yields.

Constraints limiting Zambia’s response to Covid-19
A large informal sector
In Zambia, 90% of the workforce is estimated to work in the informal sector, with the majority in subsistence agriculture. This is only counting businesses with a fixed location and excluding traders who operate from make-shift stalls or no stalls at all. Yet, informality is one of the biggest challenges that compounds the response to the COVID-19 pandemic. For the majority (90%) of Zambians working in the informal sector, most of their income is earned on a daily basis. This makes stay-at-home orders and lockdowns difficult to comply with.

Poverty and inequality
One in every two Zambians lives below the poverty line, with a substantial percentage living just above it and at risk of slipping into poverty. Even amidst a period of high economic growth, poverty in Zambia remained high and inequality worsened, revealing a deeply structural problem. Given the policy responses needed to quell the spread of
COVID-19 – lockdowns and restrictions on movement –, the pandemic undoubtedly worsened conditions for the poor.

Public Debt
One of Zambia's biggest structural problems is a heavy reliance on unsustainable debt. From 2010 to 2018, Zambia's debt increased from a debt-to-GDP ratio of 20% to 78% of GDP.

Debt in Economy

As of 2019 Private Sector debt not guaranteed by Government overtook public and publicly guaranteed debt. The cause of this sharp spike is uncertain, however it does lend support to the notion that domestic borrowing by Government has been crowding out the Private sector. Bank of Zambia monetary committee reports on reduced credit to the private sector supports this assertion.

However, there are still options on the table:

a) Zambia should refocus on restructuring its debt to mature at time periods of a more reasonable time frame. Currently the Eurobonds mature in 2022, 2024 and 2026. Negotiations to defer debt payments are a temporary option. The China Africa Research Initiative (CARI) estimates that Chinese loans account for about 44% of Zambia’s debt, so the negotiating of Chinese infrastructure loans will be particularly important.
b) The other is to try to access emergency funds that have been made available to poor countries through multilaterals such as the World Bank and the IMF. The long-term solution, though, should be to limit debt contraction and borrow on a sustainable level so as to withstand unexpected crisis such as the COVID-19 pandemic.

c) Third option is involves restructuring the debt with reserves of gold and copper. This option relates to sovereign wealth fund derivatives.

**Economic Stabilisation and Growth Programme (Zambia Plus)**

Launch of Zambia Plus: In September 2017, the Government launched the ESGP, Zambia’s bold and decisive plan of action for restoring fiscal fitness and overall macroeconomic stability for sustained inclusive growth and development during 2017-2019. It specified a range of policy and structural reforms, which the Government would pursue towards fiscal fitness and broad macroeconomic stabilization. Zambian Cabinet approved Economic Stabilisation and Growth Programme (ESGP) for the period 2017-2019.

The targets set in the programme included:

1. Attainment of sustained single digit inflation;
2. Stability in the exchange rate;
3. Rebound of GDP growth;
4. Reforming and removal of subsides in the energy sector, particularly for fuel and electricity;
5. Reforming the Farmer Input Support Programme (FISP) by fully migrating to the e-Voucher input system and rationalising the number of beneficiaries;
6. Development of a strategy for dismantling arrears and halting accumulation of new ones. The commencement of dismantling of arrears which are projected to reduce to around K12.0 billion at year end from K17.6 billion as at end 2016;
7. Reforms to anchor fiscal implementation in law, key among them the Loans and Guarantees (Authorisation), Planning and Budgeting, Procurement, Bank of Zambia Bill, and Deposit Protection Bill;
8. Situational Analysis and subsequent technical and operational studies for key SOE’s, namely Zesco; Zamtel; Tazama Pipeline; Indeni; Zambia Railways; and,
Zambia State Insurance Corporation. The studies will inform policy options for each of the SOE’s, aimed at reliving pressure on the Treasury.

These plans were expected to inform the fiscal path and macro framework over the medium term, which were to be mirrored in the 2018 Budget and Medium-Term Expenditure Framework (MTEF), 2018-2020.

Out the Targets discussed in the Zambia plus only number 4 and Number 7 on planning and budgeting act was achieved relating to removing subsidies and planning respectively.

On the 11th of November 2016, the theme of the 2017 National Budget was “Restoring Fiscal Fitness for Sustained Inclusive Growth and Development”. In order to restore economic stability, the Government designed an Economic Recovery Programme dubbed “Zambia Plus”. This Programme was aimed at ensuring sustained and inclusive growth. Zambia’s economic recovery programme ‘Zambia Plus’ was a home grown plan designed with the objective of attaining inclusive and sustained growth by Zambians and complimented by cooperating partners. The Zambia plus programme was anchored on fives pillars of economic recovery namely;

I. Enhancing domestic resource mobilisation and refocusing of public spending on core public sector mandates;

II. Scaling-up Government’s social protection programmes to shield the most vulnerable in our society from negative effects of the programme

III. Improving our economic and fiscal governance by raising the levels of accountability and transparency in the allocation and use of public finances;

IV. Restoring credibility of the budget by minimizing unplanned expenditures and halting the accumulation of arrears; and

V. Ensuring greater economic stability, growth and job creation through policy consistency to raise confidence for sustained private sector investment.
Economic recovery programme analysis (2020-2023)

The Economic Recovery Programme (ERP) is the successor to the Economic Stabilization and Growth Programme (ESGP) that was implemented over the period 2017-2019. During the implementation of the ESGP, a number of external and internal shocks continued impacting the economy negatively, setting off track some targets under the Programme.

The objectives of the ERP are to restore macroeconomic stability, attain fiscal and debt sustainability, restore growth, dismantle domestic arrears and safeguard social sector spending. The specific targets for ERP are to:

a) Attain real GDP growth rate of above 3 percent by 2022;

b) Reduce the fiscal deficit to no more than 9 percent in 2021, no more than 6.1 percent in 2022 and no more than 4.9 percent of GDP in 2023;

c) Increase domestic revenue to not less than an average of 18 percent of GDP over the period 2021 to 2023;

d) Reduce and sustain inflation within single digit by end 2022;

e) Raise international reserves to at least 3 months of import cover by 2023;

f) Significantly dismantle domestic arrears and curtail their accumulation; and

g) Reduce the pace of debt accumulation and ensure sustainability in the next 3 to 5 years.

Review of the Economic Stabilisation and Growth Programme

The ESGP, also known as Zambia Plus, was a home-grown economic recovery programme. The five-pillar programme was premised on the theme "Restoring Fiscal Fitness for Sustained Inclusive Growth and Development". Through the ESGP, Government had set out to:

1. Restore the credibility of the Budget;

2. Enhance domestic resource mobilisation;

3. Improve economic and fiscal governance;
4. Ensure greater economic stability, growth and job creation

5. Scale up Government’s social protection programmes.

**Pillar 1: Restore the Credibility of the Budget**

In order to restore the credibility of the budget, the Government committed itself to undertake a number of reforms aimed at supporting prudent fiscal management in light of growing economic constraints and pressing development needs. The measures included: improving budget execution; dismantling arrears; containing the wage bill; phasing out costly subsidies by reforming the Farmer Input Support Programme and the role of the Food Reserve Agency; and promoting accountability and transparency by revising the Public Finance Act, enacting the Planning and Budgeting Bill, rolling out the Integrated Financial Management Information System (IFMIS) as well as the Treasury Single Account (TSA).

**Improving Budget Execution:** The ESGP period was characterised by significant variations between the approved annual Budgets and the actual outturns. This was evidenced by persistently high fiscal deficits, averaging 7.5 percent of GDP during 2017-2019, compared to planned deficits of less than 5 percent of GDP. The outturns were largely driven by higher than planned disbursements on capital projects and the depreciation of the Kwacha, which resulted in higher than planned debt service payments.

**Dismantling Arrears:** The envisaged accelerated dismantling of arrears to suppliers of goods and services saw a strong positive outcome in the first year of the ESGP. The Government reduced domestic arrears to K12.7 billion by December 2017 from K18.8 billion in 2016. However, arrears accumulated to K19 billion in 2018 and K27.7 billion in 2019. The bulk of the arrears related to VAT refunds, road and other capital expenditures, pension obligations and agriculture subsidies. The arrears, especially to local suppliers of goods and services to the Government and local contractors, led to a tightening of financial conditions and constrained the growth of private sector credit. Further, arrears contributed to a rise in non-performing loans. Despite these challenges, some successes were scored. These included containing the central Government wage bill within the set
ceiling of 9 percent of GDP. The Public Finance Management Act (No. 1 of 2018) was also enacted in a bid to improve accountability and transparency

**Pillar 2: Enhance Domestic Resource Mobilisation and Refocusing of Public Spending**

In a bid to expand revenue collection and also improve the fiscal position, the Government sought to implement strategies and structural reforms for revenue mobilisation. Five strategies were outlined in the ESGP to enhance domestic resource mobilisation, namely:

(i) modernisation and automation of revenue collection;
(ii) taxing the informal sector;
(iii) enhancing the collection of revenue from property taxes;
(iv) increasing revenue collection from road tolls; and
(v) Stemming illicit financial outflows.

Government also included a strategy to refocus its public expenditure. The modernisation and improved administration of revenue collection methods led to increases in the revenue base. The Government implemented measures related to engagement of tax agents that improved collections under VAT while audits and regulations for large tax payers have been implemented leading to increased collections of income tax and mineral royalties. Over the period of the ESGP, domestic revenue collections were 17.4 percent of GDP in 2017, 19.1 percent of GDP in 2018 and 20.2 percent of GDP in 2019. The performance of the road tolling programme exceeded expectations. This was mainly attributed to the upward revision of the toll tariffs effected in 2016 and the increased number of inland toll points. The implementation of some revenue measures, however remains outstanding. These include the roll-out of the land titling project and the enhancement of the collection of withholding tax on rental income. The strategy to tax the informal sector was challenging because of the high administration costs involved in administering the tax.
In refocusing public expenditure, the Government aimed at restoring budget credibility and completing existing infrastructural works without taking on new commitments. However, the high fiscal deficit and the rapid accumulation of arrears is an indication of limited success in stemming spending deviations relative to approved appropriations.

**Pillar 3: Improve Economic and Fiscal Governance**

To improve economic and fiscal governance, the ESGP set out to: enhance fiscal and monetary policy coordination; develop a debt management policy; revise the aid policy; and to strengthen policies and institutions. Other measures included enacting pieces of legislation and strengthening administrative systems to improve commitment controls. With regard to monetary and financial stability, inflation largely remained within the 6-8 percent target range for most part of the ESGP period, while the financial system remained relatively stable. However, the Kwacha was characterised by high volatility and depreciated by 42 percent over the ESGP period. Reserves declined from US$2.4 billion at the beginning of 2017 to US$1.4 billion at the end of 2019, mainly on account of increased external debt service payments. The Government also implemented a number of reforms to improve economic and fiscal governance. The following are some of the major reforms and status:

1. Planning and Budgeting Bill: The enactment of the Bill had advanced. Once passed into law, it would enable integration of the national planning and annual budgeting processes with a focus on results.

2. Procurement Bill: Cabinet approved the introduction of the bill to reform public procurement during the ESGP period. The intention of the Bill, among others, was to promote empowerment of Zambian citizen owned institutions and local content, introduce benchmark pricing, impose restrictions on contract variations and facilitate the use of the e-Government Procurement System.

3. Pension reforms: The intention under Pension reforms was to consolidate social security and social protection laws into a single statute. This was not achieved, and the policy going forward is to amend existing relevant Acts.

4. Farmer Input Support Programme: Review of FISP commenced in 2017 with the implementation of the electronic voucher delivery modality. However, due to challenges
related to IT, this has over the years been reversed leaving huge outlays on the programme through the Direct Input Support modality.

5. Debt Management: Government developed and published the 2017-2019 Medium-Term Debt Management Strategy to minimise the costs and risks of public debt. At the end of 2019, Cabinet approved restructuring of the debt through cessation of new non concessional borrowing, cancellation of undisbursed loans, re-scoping of ongoing projects and refinancing of the already disbursed debt including the Eurobonds.

6. Output Based Budgeting: At the start of the ESGP period, only the Ministries of Higher Education and of General Education were on the Output Based Budgeting (OBB) system. By the end of 2019, five more ministries were added to the OBB system.

7. Energy sector reforms: There were delays in finalising energy sector and ZESCO reforms which posed a risk to the fiscal position. The cost of service study was not undertaken. Further, fuel procurement reforms for Government to disengage from importation of finished petroleum products were not fully operationalized.

**Pillar 4: Ensure Greater Economic Stability, Growth and Job Creation**

Agriculture, mining and tourism sectors were identified as the key drivers for economic growth and diversification, job creation and income generation. This was to be achieved through an industrialisation and export diversification strategy. Zambia’s economic performance was not favourable during the ESGP period. Growth slowed, averaging 3 percent between 2017 and 2019. This was less than half the growth of 6.5 percent recorded during the previous decade. The reduction in growth was at the back of a slowdown in global economic activity that resulted in low copper prices. Further, growth was impacted negatively by tight liquidity conditions and unfavourable weather conditions. Consequently, the performance of the ESGP was unsatisfactory in terms of enhancing growth, creating jobs and diversifying the economy.
Pillar 5: Scale up Government’s Social Protection Programmes

To protect the poor and vulnerable members of society, the Government scaled up the number of targeted beneficiaries under the flagship social cash transfer programme as well as the food security pack. The number of targeted beneficiaries under the social cash transfer was increased to 700,000 households from 242,000 households. The monthly amounts given to each household was also increased. Under, the food security pack the number of beneficiaries was increased to 40,000 vulnerable but viable farmers. These increases were in line with proposals in the ESGP. The ESGP had also set out to promote Girls’ Education and Women Empowerment. During the period, the Girls’ Education and Women Empowerment and Livelihoods (GEWEL) project was launched targeting 14,000 adolescent girls and 75,000 women. By the end of 2019, 15,000 girls were being supported while a cumulative total of 22,000 women had been empowered. The key challenge for Social protection programmes were the low disbursements relative to the budgetary allocations.
ERP skeleton plan

**PILLAR 1: RESTORING MACROECONOMIC STABILITY**

*Revive and Stabilise Growth*

*Ensure Monetary and Financial Stability*

*Narrow the Fiscal Deficit*

*Current Account Sustainability*

**PILLAR 2: ATTAINING FISCAL AND DEBT SUSTAINABILITY**

*Resource Mobilisation*

*Rationalising and Streamlining Expenditure*

*Reducing the Pace of Debt Accumulation*

**PILLAR 3: RESTORING GROWTH AND DIVERSIFYING THE ECONOMY**

*Agriculture*

*Manufacturing*

*Tourism*

*Mining*

*Climate Change*

*Energy*

**PILLAR 4: DISMANTLING OF DOMESTIC ARREARS**

**PILLAR 5: SAFEGUARDING SOCIAL PROTECTION PROGRAMMES**
ERP key structural and legal reforms

Business Promotion Reforms

In order to augment the expected gains from the anchor sectors, there will be need to undertake reforms to create an enabling environment for sustained growth. Reducing the cost of doing business and enhancing business support services will be key.

a) Reducing the Cost of Doing Business: Government will enhance initiatives through the Business Regulatory Review Authority aimed at minimizing the fragmentation of charges for permits and licenses. This will be augmented by rationalising the withholding tax on interest payment on investment loans borrowed locally as well as the enforcement of the use of the kwacha in the conduct of all domestic transactions.

b) Enhance Business Support Services: this will be achieved by facilitating the training of Cooperative Officers that are present in all the districts, with the view to reclassify them as trainer of trainers for Business Development. Additional effort will be channelled towards addressing the skills gap among SMEs and cooperatives by supporting tailored initiatives aimed at enhancing managerial and digital skills.

Citizen Empowerment

To promote local content and empower citizens, Government will undertake the following reforms:

a) Local Affirmation and Citizen Empowerment Reforms: In line with the measures under the Local Content Strategy, Government will undertake comprehensive review of the Citizen Empowerment Act and the Zambia Development Agency Act in order to facilitate empowerment interventions for businesses where a threshold of equity is owned by citizens. Additional reforms will be introduced to facilitate supply of locally produced goods in commerce, including the introduction of a local content allowance for income tax purposes.

b) Increase Competiveness of Local Products and Market Access: The development of a data base to support formulation of initiatives around market linkages and ultimately value chains has been identified as one of the key factors in enhancing
market access. In this regard the Government will establish a trade and industry
data base, promote quality goods through the Proudly Zambia Campaign as well
as ease access of certification of goods by the Zambia Bureau of Standards by
developing of road map for identifying product of good standard and facilitating
for their accreditation. The Government, through the Industrial Yards and other
avenues such as the Cooperative College introduce common user facilities for
SMEs in order to address challenges of accessing capital equipment.

Farmer Input Support Programme

The policy of the government is to operate the e-voucher system, however, there have
been ICT challenges to fully implement the system. In the medium term, Government will
redesign the Farmer Input Support Programme to improve institutional arrangements
and targeting so as to ensure the future sustainability of the programme. In addition, the
programme will be migrated fully to the e-voucher system to promote cost efficiency and
crowding-in of the private sector. Currently, 80 percent of the beneficiaries are under the
Direct Input Supply (DIS) system while 20 percent are on the more efficient and cheaper
e-voucher input supply system. In the 2021/2022 agricultural season, the proportion of
beneficiaries under the DIS will be reduced to 60 percent of the beneficiaries. Full
migration to e-voucher will be completed in the 2022/2023 agricultural season. As part
of transparency in the implementation of FISP, the office of the Auditor General will
continue to conduct independent audits.

Public Investment Management

Government established the Public Investment Management System (PIMS) to facilitate
the appraisal of capital projects before inclusion in the National Budget. With the coming
into operation of the PIM system, all MPSAs will now be required to develop projects in
line with the PIM Guidelines and submit their project concept notes, pre-feasibility
studies and feasibility studies to the Ministry of National Development Planning for
review and approval by the Public Investment Board. Only projects approved by the
Public Investment Board and included in the Public Investment Plan will be considered
for implementation through the Budget or any other mode of financing.
Public Procurement Reforms

The current Public Procurement Act No. 12 of 2008 is being repealed and replaced to enhance transparency, efficiency, effectiveness, economy, competition and accountability in public procurement with the aim of achieving value for money in the procurement process. The new Act will give more opportunities to citizen owned companies to participate in public procurement. The Act will also require Government agencies to include local content in the selection criteria for awarding of contracts. The new Act will provide for the usage of e-Government Procurement System that allows procurement entities to electronically engage bidders or suppliers in the acquisition of goods, services and works. It will also address issues of benchmarking of prices through the publication of quarterly price indices and restrictions on contract variations to not more than 25 percent and introduce penalties for non-compliance to the provisions in the new Act.

Public Financial Management

Government will fully enforce the Public Finance Management Act of 2018 so as to strengthen public financial management and adherence to regulations by building capacities in all MPSAs. Government will also facilitate the enactment and implementation of the National Planning and Budgeting legislation to ensure compliance to planned expenditure including through the Public Investment Management System. This will improve transparency and value for money. The Integrated Financial Management Information System (IFMIS) integration and payment gateway will be implemented for real-time revenue consolidation.

Debt Reforms

To enhance transparency in debt management and increase Parliament's oversight in borrowing activities, Government will repeal and replace the Loans and Guarantees (Authorisation) Act. The review of the Act is to update it so that it complies with the requirements of the Constitution of Zambia (Amendment) Act of 2016 which requires Parliamentary approval for contracting loans and issuing guarantees.

Amendment of the Bank of Zambia Act

The Constitution of Zambia (Amendment) Act of 2016 has placed additional functions for the Bank of Zambia under Article 214(2). Further, the Southern Africa Development
Community (SADC) has adopted the SADC Central Bank Model Law with a focus on monetary and financial integration. In view of these developments, the Bank of Zambia Act No. 43 of 1996 requires to be amended to inter alia provide for its operational independence, additional functions as envisaged by the Constitution and to meet the requirements on monetary and financial integration in SADC.

Commitment Control System

The IFMIS functionality relating to controls will be enhanced, with priority given to areas with weak controls to avoid build-up of domestic arrears. In addition, there is need to review the provisions in the contracts especially in the road sector, to ensure that they are not onerous on the Government.

Fuel Procurement

Government Policy is that fuel pricing should be cost reflective. In the recent past, however, arrears have arisen which is not consistent with the Policy stance. As at end-June 2020, Government had a debt of US$727.3 million owed to suppliers which has accumulated since 2016. The debt has accumulated as a result of the price differential between the purchase price and the landed cost of petroleum products. The debt is further exacerbated by the exchange rate losses due to the depreciation of the Kwacha to the United States Dollar. In order to prevent the exposure of the fuel suppliers from growing,

Government will implement the following during the programme period:

- Direct Sales of Outstanding Contract Import Balance to Oil Marketing Companies: In order to prevent continued accumulation of debt and reduce, the quantities remaining on their contracts, Government will negotiate with the current suppliers to facilitate direct sales to OMCs.

- Standardisation of Suppliers’ Contract Prices: As a stop gap measure to address the growing exposure and losses, standardisation of the contract prices of
Suppliers will be done with a view of ensuring that the landing cost falls below the ERB Wholesale price.

- Price Adjustments: The growing exposure of suppliers is a result of price differentials between the ERB wholesale price and Suppliers Price. To avoid price differentials and restore the self-financing mechanism of the open account system, there should be adherence to price reviews every 60 days.

Henceforth, price adjustments should be effected every time the 2.5 percent trigger band in the Cost-Plus Model (CPM) is exceeded to ensure cost reflective pricing and positive yields in the sale of petroleum products. With cost reflective pricing in place, there will be no losses and Government will be able to liquidate the exposure over time without allowing it to grow.

Electricity Reforms

Government will undertake a comprehensive review of all the processes in ZESCO with a view to promoting efficiency in the corporation and the wider electricity sub-sector. Additionally, the Cost of Service Study will be completed to inform the tariff structure. Outstanding arrears owed by ZESCO to various Independent Power Producers will be dismantled in the medium term, using innovative market-based instruments. The realignment of ZESCO operations into separate entities for generation, transmission and distribution will also be undertaken in order to enhance efficiency. Furthermore, Government will promote competitive procurement of projects in order to reduce the cost of infrastructure development in the sub-sector.

State Owned Enterprises

The IDC has improved oversight over SOEs. This has resulted in improved performance of some companies in the portfolio. In order to enhance the financial viability and performance of companies under the portfolio, there will be need to undertake a comprehensive restructuring of operations as well as the Balance Sheets of most SOEs in the medium term. This will include asset revaluation; debt swaps (including Debt to Equity Swaps); transformation of business models; divestiture of shares; promotion of
joint ventures and Public Private Partnerships (PPPs) and alignment of developmental versus profit objectives. This will be guided by the State Ownership Policy.

E-Government Systems

Government will continue rolling out e-Government systems to all MPSAs to reduce on human contact and increase transparency, efficiency, security and compliance by utilising solutions such as mobile payments, debit cards, vendor terminals, e-kiosks, electronic point of sale, web based online payments and electronic bank transfers. Additionally, Government will roll out the Government Service Bus (GSB) to integrate new and existing information technology solutions from various agencies, and thereby, enhance revenue collection.

Review of the Penalty Regime in the National Pensions Scheme Act

Government will review the penalty regime in the National Pensions Scheme Act No. 40 of 1996. The main objective will be to make the regime less punitive, to take into account extreme events that may disrupt normal business operation such as COVID-19 pandemic. The penalty regime will, however, remain adequate to deter would-be defaulters.
**Macro - Economic Targets 2021**

**Fiscal Deficit**

Budget deficits have continued as a result of tight liquidity conditions in the domestic market together with unfavourable global environment.

“According to the system of national liberty, the sovereign has only three things to attend to... first, the duty of protecting the society from the violence and invasion of other independent societies... secondly, the duty of protecting ... every member of the society from the injustice or oppression of every other member... and thirdly, the duty of erecting and maintaining certain public works and certain public institutions, which it can never be in the interest of any individual to erect and maintain”, Adam Smith, 1776.
A current account deficit by itself should not scare us, but if it is occurring for the wrong reasons, then we indeed should be very nervous about it. When the Zambian Kwacha depreciated in 2015, the value of the foreign-denominated debt went up in domestic currency terms. Because many of the firms that are borrowing are in no tradable sectors and so had the value of the goods they produce and therefore their assets priced in domestic currency, the depreciation did not raise asset values while it did cause liabilities to rise.

The Current Account comprises the visible account (trade in goods) and the invisibles account (trade in services plus net external investment income plus net transfer payments).

\[
\text{current account} = \text{primary current account} + \text{net external income} (\text{investments + employment}) + \text{net transfer payments}
\]

A current account deficit must be financed by a capital account surplus. As can be observed above the trade in goods and trade in services fell in 2015 coinciding with a fall in the capital account as well.
The Capital account went negative in 2015 to 2017, this coincides with rise in debt payments over the same period.

In spite of the emergence of a new view on macroeconomic policy, there are still some areas of disagreement. The most important one refers to the appropriate degree of capital mobility in emerging and transition countries.

The Capital Account comprises international transactions in assets (physical and financial). The capital account is a record of the inflows and outflows of capital that directly affect a nation’s foreign assets and liabilities. It is concerned with all international trade transactions between citizens of one country and those in other countries. Capital mobility in Zambia is still largely affected by the extractive sector.

Source: Bank of Zambia (2020)
The foreign reserves available to Zambia have been depleting to a large extent ever since 2015. If a country cannot fund its imports through exports of capital, it must do so by running down its reserves. This situation is often referred to as a balance of payments deficit, using the narrow definition of the capital account that excludes central bank reserves.

Foreign exchange reserves (also called forex reserves or FX reserves) are cash and other reserve assets held by a central bank or other monetary authority that are primarily available to balance payments of the country, influence the foreign exchange rate of its currency, and to maintain confidence in financial markets.
As can be observed from the graph above the fiscal expansionary stance has led to more spending on education than roads and more spending on roads than health with the exception of 2021 which has seen the economy hard hit by COVID.

There is now a substantial body of literature\(^1\) which argues that public investment, notably on infrastructure, can have a positive supply-side effect on private capital formation and the supply rate of growth. Government spending on transport and communication, education and health infrastructure has significant effects on economic growth.

Choosing how to best allocate public infrastructure investment is of fundamental importance for policymakers across the globe. For simplicity, we can think of decomposing public investment into ‘roads’ and ‘schools’. While the former stands for economic infrastructure, i.e. the capital inputs that allow the economy to function better (such as roads, railways, ports, water, power, and telecommunications), the latter stands for social infrastructure, i.e. the capital that primarily delivers social services (such as schools, universities, and hospitals).

\(^1\) (see for example, Aschauer, 1989, Easterly and Rebelo, 1993, Erenburg and Wohar, 1995, Martinez Lopez, 2006),
The 2021 budget has clear focus on social programmes with categories like empowerment fund receiving allocations since 2017. However the sporadic allocation to the food security pack indicates some inconsistency in the medium term planning framework. Additionally the nomenclature of the foods security pack has not been consistent with budget classifications for adequate planning.

Social protection consists of policies and programs designed to reduce poverty and vulnerability by promoting efficient labour markets, diminishing people's exposure to risks, and enhancing their capacity to manage economic and social risks, such as unemployment, exclusion, sickness, disability, and old age.
The allocation of K5.7bn to FISP is five times the amount it was in the 2020 budget, which quite high as can be observed in the graph above. This has several implications going into an election year. A strategic grain reserve is a government stockpile of grain for the purpose of meeting future domestic or international needs.

Although the main function of a strategic grain reserve is social/humanitarian in nature it also has to be recognised that there are often political connotations related to its management and operation which need to be taken into account. While basic principles can be laid down for the management and operation of a reserve, because the social, and possibly political, implications of food shortfalls can be extremely sensitive, government would normally want to retain some powers of discretion over the use of the reserve. This would be particularly the case when such decisions involve the government in additional costs. The extent to which the government would want to, or should, exercise such control would vary from country to country.

There however remains a need to continue strengthening private sector confidence in the government’s policy of non-interference in the grain market.
**Budget Planning**

A full understanding of the budget planning and preparation system is essential, not just to derive expenditure projections but to be able to advise policymakers on the feasibility and desirability of specific budget proposals, from a macroeconomic or microeconomic perspective.

**Weaknesses**

The Zambian government budget system is not really unified. It is a dual-budget system with separate recurrent and capital or "development" budgets that are based on inconsistent macroeconomic assumptions and budget classifications.

The macroeconomic constraint is not explicitly nor implicitly taken into account in the budget process and the economic assumptions underlying some macro targets are erroneous. For example targeting inflation towards the 6-8% range when inflation has been in double digits the whole of 2020 is problematic.

The projections for the outturn of the previous and current years' budgets were not prepared and the experience to date was not analysed, so that budget preparation in Zambia became a simple incremental exercise based on the previous years (often erroneous) budget estimates. Satisfactory procedures need to be enhanced to review expenditure policies and program prioritization.

**Multiyear Planning**

In September 2017, the Zambian Government launched the Medium Term Debt Strategy 2017-2019, which would aim to reduce the risk of public debt distress, and also planned to revise the Loans and Guarantees (Authorization) Act in 2018. These measures together with the systems strengthening measures (IFMIS and Treasure Single Account) were expected to yield notable dividends in containing the accumulation of arrears or commitments and stemming the contraction of new debt. However, the multi-year framework planning in Zambia is not properly aligned to national planning objectives.

According to the National Planning Bill (2019)²

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² Parliament of Zambia, National Planning and Budgeting No. of 2019
“Medium Term Development Plan” means a development plan which contains five year national, provincial and local development plans as a basis for implementation of a long term plan which may be adjusted, where, necessary, following a material change in the macro economic and financial circumstances and development priorities of the Republic;

“Medium Term Budget Plan” means a three year projection of the resources of the Government and their allocation across heads of expenditure and functions to finance the operational and development expenditures of the Government in line with a National Development Plan;

As you can observe above the medium term development plan is 5 years, whilst the medium term budget plan is 3 years. This may have a negative impact on fiscal sustainability: short-sighted policies often cannot be maintained in the long term. Alternatively, a lack of effective planning means imminent problems or recurrent consequences of capital spending are not foreseen.

Focusing on the current or next fiscal year’s expenditures alone can be misleading. Expenditure planning should be extended beyond three years, not least to gain a full appreciation of the future spending implications of present policy decisions. Nowhere is this more important than on the recurrent costs of capital spending. For Zambia, such plans need to be reintegrated with recurrent expenditures and into a medium term development plan that provides the basis for establishing a realistic overall budget. Although the introduction of a regular procedure of medium-term planning frameworks by function, by ministry, and (ideally) by program takes time to develop, those analyzing and preparing the budget should begin this process by preparing medium-term fiscal scenarios.

According to the National Planning and Budgeting bill,

“A state or non-state actor may, by the last Friday in April of each year, submit to the Minister for consideration, revenue or expenditure policy proposals for the forthcoming financial year.” (Section 33, National Planning and Budgeting bill)

There are several variants of such a planning framework. The simplest has only aggregate projections for public spending for the two or three succeeding years beyond the budget year. A second has “illustrative” figures by line ministries--sometimes on a mechanistic
basis (e.g., shares of a total are assumed to be held constant to the proportions in the budget year). A third is normative in that it projects costs of existing and any new policies agreed for introduction over the medium term, but these medium-term figures play no role in subsequent-year budget negotiations. The best approach uses these figures for the past budget year as the starting guideline for the next year's budget negotiations.

**Budget Classifications**

An economic classification is most useful when designing a fiscal adjustment program. Sometimes the only classification available is administrative by budget institution so that reducing the budget requires cuts by institution, and the quality of the fiscal adjustment suffers. Nor is it possible to understand how expenditures are distributed among different items or for what purpose.

Budget classification refers to nomenclature according to an implementing institution (administrative) for the purpose of expenditure (functional), and use of expenditure (economic). Over the past ten years of the budgeting process in Zambia, there has been a recurrent theme of inconsistent nomenclature, mixing functional and economic or budget nomenclature is not consistent with the chart of accounts nomenclature. For example, sinking fund and sovereign wealth fund have been used interchangeably, both of which don't appear in the 2021 budget. Additionally, resource mobilisation has been used to refer to ZRA funding whilst energy arrears and other infrastructure have been consistently misclassified.

**Priorities**

Procedures for resource prioritization in the Zambian budgeting process need to be implemented early in budget preparation. No direction in priority setting, or attempt to prioritize until too late in the budget preparation process will lead to problems especially when not anchored in a robust medium term plan. Procedures for prioritization are especially important for meeting deficit targets or spending targets. If priorities are not communicated in a top-down approach early in the budget preparation process, overspending relative to budget is a likely outcome. Knowledge and analysis of previous years projected outturn expenditures will prove useful for context and availability of volume indicators.
As can be observed by the graph above, Zambia has had a recurrent trend of requesting for supplementary budgets over and above what was initially requested. This recurrent behaviour underlines a deeper issue of a weak medium term framework.

Extra budgetary funds generally refer to accounts of government transactions that are not included in budget totals or documents and typically do not operate through normal budgetary execution procedures. Such transactions may, for example, be financed through foreign aid or earmarked revenues not included in the budget. There is need in Zambia to evaluate the trend of supplementary budgets. The rationale for consistently keeping such a fund off-budget must be properly clarified.

Source: Bank of Zambia (2020)
Debt and Budget Deficit

Source: Ministry of Finance (2020)

As can be shown by the graph above, the growth of both the external and domestic stock has been driven to a large extent from the recurrent budget deficits. This concern is valid, in that a continuing budget deficit would be unsustainable, as the borrowing adds to the government debt with debt and interest payments rising over time without limit. The sustainability of a budget deficit has to be considered from the perspective of the purpose for which a budget deficit is incurred and the effects of the public expenditure that is undertaken.

**Debt:** The amount a government owes to those who have loaned it money (individuals, firms, or foreign governments). *Debt is a stock.*

**Deficit:** The amount by which a government’s spending exceeds its revenues in a given year. A negative deficit is called a surplus. *Deficit is a flow.*

Evolution of debt from year to year:

\[ Debt(t + 1) = Debt(t) (1 + rt) + Deficit(t) \]

With rt interest paid on government debt.
If there is a budget deficit, and the government must borrow to finance the difference between its revenues and its expenditures. The key concern about budget deficits is that the government’s borrowing might compete with the borrowing of private firms. The high interest rates in Zambia seem to support this theory. If a fixed supply of savings is used to finance both the capital of private firms and the borrowing of the government, then the government’s borrowing may crowd out the borrowing of the private sector and lead to a lower level of capital accumulation.

![External Debt/ Tax Revenue % Graph](image)

*Source: Bank of Zambia, Ministry of Finance (2020)*

As can be observed by the graph above, Zambia’s external debt as a percentage of tax revenues (Not GDP) has climbed to levels which in some circles can rightly be deemed unsustainable. As one year’s budget deficit adds to the public debt and leading to future interest payments, the question arises as to the sustainability of a budget deficit that is without involving continuous rising public debt. The continuation of a primary budget deficit (deficit excluding interest payments) involves the build-up of interest payments, and further borrowing to cover those interest payments and the continuing primary deficit. Although the budget deficit is growing (when interest payments are included) and the public debt is also growing, their relationship with GDP depends on the growth of the economy as well as on the level of interest rates.

It is well-known that a continuing primary budget deficit equivalent to a proportion $d$ of GDP will lead to a debt to GDP ratio stabilising at $b = d/(g - r)$ (where $g$ is the growth rate...
and $r$ interest rate, either both in real terms or both in nominal terms).\(^3\) It is evident that the stabilisation of the debt to income ratio (with a given primary deficit) requires that $g > r$. Zambia’s growth rate has unfortunately, been consistently lower than the interest rate.

**Macroeconomic Constraint**

The graph above shows total budget growth for the last 10 years, year on year and growth under a budget constraint. With inadequate macroeconomic analysis, there can be insufficient discipline to limit the size of the sustainable budget deficit at the beginning of the budget process. As a consequence, the Zambian budget preparation procedure has been principally driven by the requests from the ministries for increased spending (i.e., the bottom-up approach). Without a firm top-down limit, the ministry of finance can only

\(^3\) Let the outstanding public sector debt be $D$, and then the budget deficit is $\frac{dD}{dt}$ and is equal to $G + rD - T$ where $r$ is the post-tax rate of interest on public debt, $G$ is government expenditure (other than interest payments) and $T$ is taxation (other than that based on receipt of interest from government). With $Y$ as national income, we have: $d \left( \frac{D}{Y} \right) / dt = \left( \frac{1}{Y} \right) \frac{dD}{dt} - \left( \frac{1}{Y} \right) (G + rDT)/Y = \left( \frac{G + rDT}{Y} \right) - \left( \frac{D}{Y} \right) g$, where $g$ is the growth of national income. The debt to income ratio rises (falls) if $(G - T)/Y > (<) (D/Y) (g - r)$. 

*Source: Ministry of Finance, ZACCI Calculations (2020)*
challenge proposals on technical or policy grounds, rather than in terms of affordability constraints and priorities within a fixed total.

There will be a higher probability that the deficit obtained through this procedure will not be sustainable, even if justifiable. Fiscal adjustment will be easier if the macroeconomic constraint and the acceptable deficit is defined first (i.e., a top-down approach). From this, spending departments can be given some guidelines to limit their requests.

**Intertemporal Government Budget Constraint - The National Budget Constraint**

The basic idea of the Intertemporal budget constraint is, as the name suggests, that the government, like any other economic agent, faces a budget constraint, which is such that borrowing can be undertaken in some periods, but not in all, and that overall the debt position of the government sums to zero.

The *Intertemporal budget constraint* says that if a government has some existing debt, it must run surpluses in the future so that it can ultimately pay off that debt. Specifically, it is the requirement that

\[
\text{current debt outstanding} = \text{discounted present value of future primary surpluses.}
\]

This condition means that the debt outstanding today must be offset by primary budget surpluses in the future. Because we are adding together flows in the future, we have to use the tool of discounted present value. If, for example, the current stock of debt is zero, then the intertemporal budget constraint says that the discounted present value of future primary surpluses must equal zero.

The stock of debt is linked directly to the government budget deficit. As we noted earlier, when a government runs a budget deficit, it finances the deficit by issuing new debt. The deficit is a flow that is matched by a change in the stock of government debt:

\[
\text{change in government debt (in given year)} = \text{deficit (in given year)}.
\]

The stock of debt in a given year is equal to the deficit over the previous year plus the stock of debt from the start of the previous year. If there is a government surplus, then the change in the debt is a negative number, so the debt decreases. The total government debt is simply the accumulation of all the previous years’ deficits.
When the Zambian government borrows, it must pay interest on its debt. These interest payments are counted as part of the deficit (they are included in transfers). If government wants to balance the budget, then government spending must actually be less than the amount government receives in the form of net taxes (excluding interest).

This presentation of the tool neglects one detail. There is another way in which a government can fund its deficit. As well as issuing government debt, it can print money. More precisely, then, every year,

\[
\text{change in government debt} = \text{deficit} - \text{change in money supply}.
\]

Written this way, the equation tells us that the part of the deficit that is not financed by printing money results in an increase in the government debt.

The Zambian government faces budget constraints just as do households and firms. Consolidating households and firms budget constraints gives the budget constraint of the private sector. The national budget constraint is the sum of the public and private sector budget constraints.

A sovereign government’s debt evolves period to period according to a stock-flow equation we call the government budget constraint. At each date t: the following equation must hold.

\[
B_t = B_{t-1} + rB_t - 1 + G_t + TR_t - T_t
\]

Where

- \(G_t\) = government purchases during period t
- \(TR_t\) = transfer payments (e.g. social security) during period t
- \(T_t\) = taxes collected during period t
- \(B_t\) = this period’s t government debt
- \(R\) = real interest rate

**Fiscal prudence**

Fiscal prudence stems from the economic philosophy of the political administration in Government. Zambia took on a highly expansionary fiscal path in 2012 when the Patriotic Front (PF) political party assumed office of the Government. The PF Manifesto 2011-2016
asserts that: “Under the MMD government, investment in infrastructure development has been limited and the pace of development slow. Part of this is due to an obsession with maintaining ‘tight money’ through fiscal and monetary policies. This has resulted in many parts of Zambia resembling ghost towns despite more than five years of record mineral prices and a production boom”. The PF Manifesto thus inevitably locked the then new Government into a very ambitious infrastructure development programme, thus ushering in fiscal expansion. The real growth rate of the national budget rose from 2.1% per annum during 2002-2011 to 10.2% per year during 2012-2018 despite the severe hikes in inflation in 2015 and 2016

More Capital, More Growth

As there is more capital in an economy, each worker is more productive, and total social product rises. A larger capital stock means more total output for any level of labor supply. Thus, the size of the capital stock might be a primary driver of growth. Neo-classical aggregate production function: K capital stock, L labor, A technology

\[ Y = F(K, L) = A \cdot K^\alpha L^{1-\alpha} \]
Domestic Resource Mobilisation

In underdeveloped regions, especially sub-Saharan Africa, domestic resource mobilization (DRM) has a significant international dimension. In most instances, resources lost to capital flight and transfer pricing exceed aid flows; remittances are becoming increasingly important; revenues from trade taxes are in decline; and aid accounts for a large (in many cases growing) share of the government budget. The dramatic reversal of trade and financial flows during economic crisis that saw a plunge in commodity prices has heightened the need to think about more stable and sustainable modes of development finance and Zambia is not an exception to this.

Public Finance

Improving our economic and fiscal governance by raising the levels of accountability and transparency in the allocation and use of public finances is critical. The Public Finance Act No. 15 of 2004 provided for the formation of Audit Committees in all Ministries, Provinces and Spending Agencies (MPSAs). However, the Auditor General’s report (2015) reported that; although formed in the MPSAs, most of the Audit Committees had not been operational and therefore had not provided the required oversight on enhancing Corporate Governance in the MPSAs. The subsequent repeal of the Public Finance Act No. 15 of 2004 and enactment of the Public finance Act (2018) has addressed this problem by providing for a strengthened institutional and regulatory framework for management of public funds, the strengthening of accountability, oversight, management and control of public funds in the public financial management framework and enhancement of cash management systems to ensure efficient and effective utilisation of cash for the Government.

In order to establish trust, it is important that the government provides accurate and complete information on assets and liabilities as well as revenues and expenses in a timely manner. Providing complete information on all transactions will demonstrate accountability. For citizens to fully hold Government accountable, there must be constant flow of information from the Government relating to finances to development delivery.
The accumulation of government expenditure arrears is one of the most common problems in Public Financial Management (PFM) and it is a persistent problem among African countries. These arrears are financial obligations that have been incurred by any level of the public sector for which payments have not been made by the due date such as payment of social security benefits and payments of road construction which are the most common type of arrears in Zambia. These arrears distort the planned implementation of the budget and negatively impact on the government’s finances and ability to deliver essential public services. In addition, incomplete information on arrears presents a risk that the real size of the government’s deficit is concealed and the level of its liabilities understated.

**Priority Interventions**

In terms of the Plan, the following priority interventions should be considered:

- Employment orientated strategic localization, reindustrialization and export promotion;
- Energy security;
- Support for tourism recovery and growth;
- Gender equality and economic inclusion of women and youth;
- Green economy interventions;
- Strengthening food security; and
- Macro-economic interventions

To ensure the successful implementation of the Plan, the following key enablers should be put in place:

- Resource mobilisation;
- Regulatory changes, a supportive policy environment and enabling conditions for ease of doing business;
- Building a capable state;
- Social compacting;
- Skills development
- Economic diplomacy and further integration into the African continent
Trade Reform
Zambia is not well positioned vis-à-vis market and trade influence in an ACFTA environment. Insufficient large scale manufacturing, power outages and load-shedding, high cost of doing business in relation to Bank interest rates and regulatory tax regimes all beg for a deliberate choice of adjust downwards if we are going to avoid the continued false starts in industrialization and vision of being a hub in many economic areas.

- Abuse of free trade areas by our partners.
- We accept products from all our trading partners while access to markets is not reciprocated e.g. customs duty on uniforms exported to Zimbabwe attract 35% duty. Water cannot be exported to DRC without an import permit.
- Set up a compliance section under the 3 Free trade area protocols that ensure adherence by trading partners. Action must be swift to ensure we all benefit from the principles of Free Trade.
- Non-Tariff and Tariff barriers continue to hinder Zambia’s access to Markets.

Export Processing Zones
We have continued to concentrate on the MFEZ model and ignored the ability to create jobs through the use of EPZ’s. Opportunity to create jobs by instituting EPZ policy like Swaziland, Lesotho and Kenya. (these have become major hubs for Garment manufacture.) Either assign a location or a Factory as an EPZ.

Local Content
There is need to explore a variety of avenues including Import Substitution Industrialization policies, which focus on rational protectionism to local content development. For example there is need to come up with a statutory instrument to actualize Section 20 of the mines act in order to provide preference for Zambian products, contractors and services and employment of citizens. Policy is not enough - we need to create a business environment to produce the goods needed.

Business Regulatory Environment
The Business Regulatory Review Agency (BRRA) was established under the Business Regulatory Act No. 3 of 2014. The Act is an instrument under business licensing and regulatory reforms which are aimed at creating a conducive environment within which the private sector.
This is a problem that has been noted even the BRRA. In a press statement recently issued, BRRA indicated its concern about the recent trend by local authorities to introduce various levies which can potentially impact negatively on businesses, especially small-scale enterprises. There is an observed lack of integration and coordination between Government agencies, ministries and even local authorities in harmonizing regulation for a conducive business environment. The single licensing framework, as well as environmental obligations.

**Regulatory and Legislative Reform**

Ensuring ease and reducing the cost of doing business are some of the critical enablers of the economic recovery and reconstruction effort. In this regard, government will introduce regulatory changes that seek to optimise the regulatory environment as well as facilitate the ease and reduce the cost of doing business. The regulatory changes will also attract much needed private sector investment into the economy.

**Support Business to create Jobs**

- Busting congestion for agricultural exporters — improving the ease of doing business
- Deregulation Package
- Simplified trade system
- Supporting small business and responsible lending
- Modern Manufacturing Strategy
- Research and Development Tax Incentive — supporting Zambia's economic recovery
- Skills Reform Package
- JobMaker Hiring Credit

**Local Content and beneficiation**

Support for the local beneficiation of minerals, the building of minerals value chains and strengthening broad-based industrialization should be prioritized. Linked to this is the identification of strategic minerals that will be designated for local beneficiation (Gold
Bullion is a quick win. Special Economic Zones and preferably export processing zones should be used to maintain the investment pipeline momentum in the short term. Government should also work with the private sector in order to enhance the localization of their supply chains as a critical short to medium term intervention that will be sustained.

State procurement should shift decisively to local procurement, while enforcement of local procurement requirements should be strengthened. The weight placed on pricing can be reviewed to enable deeper levels of local procurement. Competition policies can be utilised to ensure that the state does not face unreasonable pricing. Centralised procurement can be used for all identified products, with transversal contracts to enable long-term procurement commitments with reciprocal commitments by manufacturers to transformation, investment and pricing. The different tools available to the state, all public entities and the three spheres of government; including industrial funding, tax incentives, licensing, tariffs and others public measures can be reviewed to enable conditionalities to be placed for localisation.

**Manufacturing**

A focused manufacturing programme will be implemented to build and support SMME participation in the manufacturing value chain for purposes of localization based on the following principles:

- Accelerating the involvement of township and rural enterprises in the manufacturing value chain;
- Intensifying SMME participation in the light and fast consumer goods manufacturing;
- Facilitating the participation of SMMEs in the high-demand minerals beneficiation, such as chrome and ferrochrome; and
- Revitalizing dormant industrial production infrastructure.
Energy

Energy security is critical for the maintenance of a stable economy and is also important in ensuring growth. Zambia’s industrialisation and manufacturing depends on its energy industry. In addition, the Zambian energy industry plays a major role in the regional energy demand. However, energy demand in the country and the continent has been growing faster than the available supply and that necessitates a further diversification and strengthening of the energy pool and capacity through innovation and efficiency.

Gender equality and economic inclusion of women and youth

The interventions that form part of the post-Covid recovery Plan will be geared towards promoting greater participation by women, youth and persons with disability at all economic levels. This will be done as part of transforming patterns of asset ownership and income distribution in our society. There is a need to ensure effective gender mainstreaming in all aspects of the Plan, through the participation and mobilization of women at all levels. This includes such mechanisms as the 30% set aside for women in public procurement, legal remedies to empower cross border traders and women’s participation in key economic sectors, access to assets such as land, and women’s financial inclusion and empowerment.

Young people, women and persons with disability will be encouraged and supported to form cooperatives in key economic sectors such as retail, agriculture and agro processing, financial services (Cooperative Financial Institutions), manufacturing and infrastructure development. In addition, young people, women and persons with disability should be prioritized in accessing funding for initiatives that will drive the recovery and reconstruction effort.

As part of building the skills base required by our changing economy, young people, women and persons with disability will be provided with tools and training to enable them to access online learning and economic opportunities. Linked to this will be the re-orientation and alignment of the skills strategy to be more demand led and responsive to the changing nature of work, including prioritising the up-skilling of women and girls with due regard to reversing the deterioration of the gender division of labour;
Recovery

The Post COVID-19 Economic Recovery Plan should reflect the overarching objective to return Zambians to work and boost prosperity as Zambia emerges from the COVID-19 crisis. This fact sheet outlines the key measures from the COVID-19 Economic Recovery Plan. This response and recovery support under the COVID-19 Response Package and the proposed Job Maker Plan include indirect and direct economic support.

In addition, specific interventions in sectors that have emerged as important areas of growth and employment will be made to strengthen the economic reconstruction and recovery. Interventions in the Plan will be underpinned by the need to protect vulnerable workers, households and firms; build consumer, investor and public confidence; deepen industrialization through localization; pursue environmental sustainability, deliver quick wins; and continue providing relief to mitigate the impact of Covid-19. Ultimately, the end goal is to pursue and infrastructure led economic reconstruction and recovery with investment in infrastructure that will stimulate the various sectors of the economy.

To support economic recovery, the following structural reforms should be implemented:

- Modernizing and reforming network industries and associated state owned enterprises;
- Re-orienting trade policies and pursuing greater regional integration to boost exports, employment and innovation;
- Lowering barriers to entry to make it easier for businesses to start, grow, and compete;
- Supporting labour-intensive sectors such as tourism and agriculture to achieve more inclusive growth;
- Creating greater levels of economic inclusion, including through addressing high levels of economic concentration;
- Addressing the weak job-creating capacity of the economy;
- Boosting education and skills development;
- Promoting greater beneficiation of raw materials; and
- Addressing gender and geographical inequalities which hamper deeper economic growth and development

Job Maker Plan

Measures under the Job Maker Plan will drive stronger economic recovery and drive
down the unemployment rate. The five-year Job Maker Plan focuses on driving sustainable, private sector led growth and job creation, recognising that a stronger economy will strengthen the budget and ensure Zambia is well placed to respond to future shocks.

**Growth of the tourism, cultural and creative industries**

The tourism, cultural and creative industries were among the hardest hit by COVID-19. Accordingly, efforts aimed at ensuring these sectors’ recovery and growth will form an integral part of the overall reconstruction and recovery effort. The tourism industry is a growth focal point, able to absorb varying skills levels through employment. Industrial linkages of the sector have important implications for the general stimulation of Zambia’s economy through the multiplier effect from the expenditure side, and the fall in demand of related sectors such as agriculture, transport, petroleum industry has started filtering through the economy. Gross value addition in this sector is rooted in its value chain that has a strong relationship and linkages with other sectors of the economy.

*Figure 1 - Measure to protect supply side Tourism*

They include cooperation with neighbouring destinations towards a regional value proposition and a seamless visitor experience should be prioritized. Attention can also be paid to catalysing domestic tourism demand through the phases of economic re-opening with informative and inspirational messaging that encourages safe tourism and domestic
vacation experiences. Further attention should be given to the maintenance of attraction to prevent the collapse of the tourism supply base.

SMME funding in the tourism sector can be directed in a manner that deepens the spatial tourism subsector product offerings in villages and small towns. Sector transformation aimed at facilitating participation of black people, especially women can also be facilitated through implementation of Tourism Equity Fund.

To unlock both the demand and supply side constraints in the cultural and creative industries, the following focus areas can be prioritized:

- Stimulation of demand;
- Audience development and consumption;
- Support the development of local content, including digital content
- Develop cultural value adds to the tourism packages and enhance the profile of the coordinated value proposition.

**Green economy interventions**

The pursuit of green industrialization and a green future is an important intervention not only in addressing the persistent challenges of inequality, poverty and unemployment, but also in offering a sustainable solution to climate vulnerability and driving economic competitiveness. Green industrialization also guarantees the security of energy, food, water and electricity supply. Accordingly, Zambia's post Covid economic recovery effort will include a significant green component. This will help in creating new green jobs, industries and firms.

Expanding the programme to retrofit public and private buildings with measures to improve energy and water efficiency, will form a major part of Zambia's green agenda. The extension of this programme to schools, human settlements, clinics and other public buildings has a potential to build a local industry that is labour intensive and anchored on a sustainable value chain that supports SMME participation, income generation by households and skills development for unemployed youth.
Macro-economic policy interventions

The macro-economic framework required to support Zambia’s Post COVID Economic recovery should be underpinned by effective coordination of fiscal and monetary policies as well as the mobilization of other financing instruments to ensure that the Plan is sufficiently funded while maintaining financial sustainability.

Promoting good governance through the provision of sound fiscal stewardship will be a key area of focus. In this regard, concerted efforts will be directed towards prudent financial management, while expenditure will be in line with policy priorities, which goes hand in hand with public accountability and transparency. Work will continue to ensure improved audit outcomes and the elimination of wasteful expenditure.

Accordingly, the following priority actions should be undertaken:

- Medium term debt management strategy restructuring debt like the Eurobond to mature at more reasonable time intervals. The current bond mature in 2022, 2024 and 2027, it is advised that they be spread out over the foreseeable future.
- Investment in the modernisation of the state and improving its capabilities and efficiencies, including the implementation of the Open Tender system.
- Embarking upon a multi-stakeholder campaign to deal with the illicit economy.
- Increasing the human and financial resources of law enforcement agencies and the judicial system including specialised courts whilst strengthening Arbitration Centres for dispute resolution.
- Ensuring that all government procurement transactions are reported in a transparent manner on an open platform;
- Business organisations should commit to taking firm and decisive action, together with law enforcement agencies, against private companies and professional services firms in the business community that facilitate collusion and corruption.

To further strengthen resource mobilisation the following should be implemented:

- Enhancing productivity and customer centricity;
- Support for international and domestic resource mobilization;
• Promoting full tax compliance;
• Support all levels of government to collect taxes, rates and other revenue
• Support efforts to drastically improve efficiency of spending.

Skills development
Skills development is critical not only in driving Zambia’s post-Covid economic recovery, but also in sustaining it. The COVID-19 crisis has had profound implications for the world of work. Working remotely has grown in application and in significance. The use of technology has taken centre stage in all economic sectors. COVID-19 has also laid bare the frailties in the labour market; with certain jobs more secure than others. Given the problem of the skills mismatch that is characteristic of the Zambian labour market, there is a real danger that as the use of technology grows, many semi and unskilled workers will be left behind.

There is, therefore, a need to manage this transition with a view to ensuring that it does not lead to massive job losses. In this regard, opportunities for the reskilling and retraining of workers will be expanded. Linked to this is the need to build a skills base for the economy, industries and jobs of the future. In this regard, a comprehensive skills audit to ascertain Zambia’s skills requirements and to determine what skills are already available will be undertaken. This work should be done in collaboration with industry and the tertiary education sector.

Sector Assessment
Legislation and Policy across different sectors must be harmonised in a manner that brings the maximum revenue to the treasury whilst enabling business to thrive. This section carries out a sector assessment of current policy in various sectors and looks at possible amendments that will improve the business environment.

Construction
The Citizens Economic Empowerment Act No. 9 of 2006, as read with Statutory Instrument No. 36 of 2011 and the Public Procurement Act No. 12 of 2008, provides for preference and reservation schemes in public procurement. The objective of the
preference and reservation schemes is to enhance the meaningful participation of citizen-influenced, citizen empowered and citizen-owned companies in public procurement. Reservation schemes set aside certain procurement requirements for citizen-influenced, citizen-empowered and citizen-owned companies by restricting bidding to these targeted citizen companies. Thresholds for reservation schemes include:

(a) Public procurement of goods not exceeding K3 million; and

(b) With respect to works: (i) building construction works not exceeding K20 million; and

(ii) civil and road works not exceeding K30 million.

However, the values exceeding the thresholds prescribed in (a) and (b) above were not subject to reservation schemes. Twenty (20) Per Cent Mandatory Sub-Contracting Policy The study learnt that the Government through the Ministry of Transport, Works, Supply and Communications had issued a policy to allow twenty (20) per cent of the large contracts obtained by foreign contractors to be assigned to local contractors. The objective of the policy was to enhance local contractors' participation in the construction industry and thus build their capacity. The policy, however, is only being applied in the Road Sector.

Recommendations

The definitions of the ‘citizen’ companies as provided in the Citizens’ Economic Empowerment Act No. 9 of 2006 and in the Public Procurement Act No. 12 of 2008 are different.

The Government should ensure that the Citizens’ Economic Empowerment Act No. 9 of 2006 and the Zambia Public Procurement Act No. 12 of 2008 are harmonised so as to facilitate consistency in the definitions of ‘citizen’ companies provided in the Acts;

There is need for the Government to introduce a contractor rating system which should be in the custody of the NCC for all the sub sectors in the construction industry that would rate local contractors according to their possible performances. This would enable contracting agencies to identify low risk contractors for possible contract award thereby minimising the perception that local contractors were “poor performers”.
Mining

Any investment that involves unrecoverable costs relies on the good faith of the government not to raise taxes substantially after costs have been incurred. The royalties paid by the mining sector make a vital contribution to Zambia’s fiscus⁴. But, because a royalty is levied on revenue for example, on every tonne of copper produced rather than on the profits a company may make, royalties do represent a significant cost to a business. A balance must be struck if growth and development are not to be stifled. Governments and societies must grapple with these policy issues. But they cannot be decided without a common understanding of the subject matter.

Recommendations

Simply raising taxes does not necessarily translate into more taxes, if one factors in investment opportunities that are discouraged in the process. Instead, encouraging those opportunities, with the vision to see the possibilities of what could result, can deliver far more jobs, more business opportunities, more industriousness and optimism, and more tax revenue from an expanding tax base.

A stable tax rate system is the best solution couple with adequate and transparent dialogue.

Agriculture

Agricultural support institutions world over evolve with time in terms of their nature, scope, funding, spatial distribution, efficiency and management. Agricultural support institutions in Zambia have not been immune to such developments.

Over the past several decades, the role of markets and trade in supporting national food security, price stability, and rural income growth has become widely recognized. However, there are widely different views as to how marketing and trade policies should be structured to best achieve these objectives.

In countries where government involvement in food markets is seen as part of a transitional phase towards full market reform, predictable and transparent rules governing state involvement in the markets would reduce market risks and enable greater coordination between private and public decisions in the market.

⁴ Taxing the mining sector, Goodwell Mateyo, 2019
Many agricultural market failure problems in Zambia reflect an under-provision of public goods investments to drive down the costs of marketing and contracting. Getting markets to function effectively is likely to require increased commitment to investing in public goods (e.g., road, rail and port infrastructure, R&D, agricultural extension systems, market information systems) and institutional change to promote the functioning of market-oriented trading systems. Unfortunately the large share of government expenditures devoted to food and input marketing operations represents a high opportunity cost in terms of foregone public goods investments to promote the functioning of viable food markets and foregone private investment that is crowded out by government operations.\(^5\)

**Manufacturing**

Legislation recognising and supporting the development of the small business sector has been enacted through the Small Enterprises Development Act of 1996, which was an improvement on the Small Industries Development (SIDO) Act of 1981. The act stipulated a provision for manufacturing enterprises to operate without a manufacturing license as required under the law for up to five years.

The legislative provisions and incentives that would facilitate the manufacturing sector development through the Small Enterprises Development Act of 1996 need to be reviewed.

**Support for SMMES, cooperatives and start-ups**

SMMEs, cooperatives and start-ups also have an important role to play in facilitating economic transformation and empowerment. Providing a supportive ecosystem to SMMEs, cooperatives and start-ups is among the critical enablers for recovery and reconstruction. Accordingly, the following will be undertaken to support SMMEs, cooperatives and start-ups:

- Reviewing and integrating government support for formal and informal SMMEs, start-ups and cooperatives, including removing red tape and reducing timeframes for relevant licenses and permits to improve the ease of doing business; and

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• Designing more appropriate financing products, such as microfinance, gap housing products and blended financing including for emerging farmers.
• The support to SMMEs to participate in the localization opportunities.

Legal Framework

In Zambia, the Government started pursuing the development of the small business sector in the late 70s when it was becoming quite clear that the large business sector, which continues to be predominantly mining, could not absorb all those in need of employment. At the time, the country also faced the problem of people migrating from the countryside to the urban areas in search of formal employment.

In order to reverse this trend Government started by creating the Village Industry Service (VIS) in 1978, which was meant to encourage as well as provide support to rural communities to develop and utilise artisan craft skills and thereby produce crafts that could be sold in exchange for money. Later in 1981, through an Act of Parliament, Government created the Small Industries Development Organisation (SIDO), which through an amendment of the Act during 1996 is now known as the Small Enterprises Development Board (SEDB). This organisation was meant to provide larger volumes of support to those venturing into small businesses.

Legislation recognising and supporting the development of the small business sector has been enacted through the Small Enterprises Development Act of 1996, which was an improvement on the Small Industries Development (SIDO) Act of 1981. The act laid out the following:

• incentives to micro and small enterprises in terms of tax exemption on income for up to five years
• provision for manufacturing enterprises to operate without a manufacturing license as required under the law for up to five years
• exemption from the payment of licensing fees required for such an enterprise under the law

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6 The Experience of the Zambia Association of Chambers of Commerce & Industry (ZACCI), Webby Mate, November 1999
- exemption from the payment of rates on factory premises for five years
- the Trades Licensing Act shall not apply to an enterprise registered under the Small Enterprises Act
- secure incentives through relevant authorities for any financial institution which undertakes to finance or develop an enterprise registered under the Act

SIDO was established to cater for financing needs of small-scale companies as defined in the SID Act. In 1996, SIDO was transformed into Small Enterprises Development Board (SEDB) through the Small Enterprise Development (SED) Act of 1996 and, in 2006 it was amalgamated into the Zambia Development Agency (ZDA) Act No. 11 of 2006 as an MSE Division where it has remained to this day. Few people know of this legislation nor its applicability given its amalgamation into ZDA.

It is necessary to review the legislative provisions that would facilitate the SME sector's development. Another important factor is that even where these incentives or favourable legislation exist, very few small businesses will take advantage of them if there is no framework on the ground to sensitise these businesses on the availability and interpretation of such. Sometimes there are no delivery mechanisms to enable the sector utilise or access the incentives. For instance while the Act is in existence not all incentives provided can be accessed due to bureaucratic hindrances.

**Institutional Framework**

While previously government was pursuing the development of small businesses single-handedly, it has now recognised that there is need for others to play a role, particularly after the prodding by the donor community. Consequently, other stakeholders are now actively involved in the development of the small business sector. These stakeholders include private and non-governmental organisations (NGOs).

Presently, a number of organisations are providing support to the small business sector. Some are government and quasi-government, others are private and non-governmental organisations. The support provided by most of these organisations ranges from training in business and management skills, consultancy services in business, technical assistance, marketing assistance, provision of credit, lobbying, etc.
However, due to lack of capacity in some of these organisations, only some of these services are being provided. For example, in the past SEDB and VIS were unable to recover more than 50% of the loans they disbursed within the stipulated time periods mainly as a result of poor credit management systems. Over time, the loan funds meant for onward disbursement to the small business sector were tied up in uncollected debts. Eventually, this type of service ceased to be available.

**Policy Framework**

Policy on small businesses is being reviewed to make it more appropriate. However, more still needs to be done in this area so that the right policies are formulated that can move the sector forward. Policies that are small business focused need to be formulated in all areas of business and the economy. There is need for deliberate policies aimed at small business promotion.

**Policy**

In the MSME Policy (2009)\(^7\) it was anticipated that the challenges facing the local MSME sector would be resolved through strengthening of the capacity of MSE Division of the ZDA, establishment of an independent National Council for Micro, Small and Medium Enterprise Development and the implementation of the provisions of the MSME Policy. This has proved easier on paper than in reality.

**Access to Finance/credit**

Foreign firms operating in Zambia usually have access to finance from either outside the country or have little challenges acquiring finance from banks. The situation is not the same for local MSMEs. A survey by Deressa (2014)\(^8\) examined the level of local MSMEs access to Bank Finance in order to determine the demand for and supply of financial services to the local MSME sector, and the potential for broadening and deepening existing linkages between the banking community and Local MSMEs. The survey found that several local MSME operators understood little about the basic principles of commercial bank lending and borrowing practices. The survey also showed that commercial banks had limited experience with the Local MSME sector and lacked the know-how to assess the associated credit risks, and were therefore unwilling to meet the sector’s growing demand for financial services. Banking institutions were concerned

\(^7\) Micro, Small and Medium Enterprise Development Policy, Foreword, 2009
\(^8\) MSMEs Access for Finance in Zambia, Chera E. Deressa, Research Journal of Finance and Accounting, 2014
many local MSMEs did not understand how to work with financial institutions and needed to improve their business and credit practices before banks can look at the sector as a viable and profitable business. As a result of these historical perspectives, both the supply of and demand for local MSME financial services are not being adequately addressed in Zambia.

Micro, Small and Medium Enterprises can act as the engine of national economic growth for Zambia’s economy if they have access to market resources, including financing, and the right enabling environment.

**Tax Policy**

The tax policy for small businesses is somehow not in tandem with supportive legislation. Local businesses do not get 5 year relief as stipulated in the Small Enterprises Development Act of 1996.

**Recommendations**

*Recommendation Policy and Legislation*

Review the legislative provisions that would facilitate the SME sector’s development through the Small Enterprises Development Act of 1996.

*Recommendation Business Development services*

For these sectors to understand each other very well, the BDS providers must be incentivised to intervene in reducing the level of mistrust by providing training that will help the local MSMEs be attractive to banks and through technical training for bank staffs to better understand the local MSMEs. This way the prospect for access to finance for Zambian local MSMEs may improve.

*Recommendations - ZDA*

ZDA are playing a role in creating small businesses “business models” and identifying gaps in value chains where they could actively participate. That’s a step in the right direction. However, there are some issues with regards to their power to influence where pro-small business policies and incentives is concerned.
For legislative reasons, it is recommended that the MSE division (specifically the SIDO legislation) in ZDA be separated from ZDA to create an institution similar to SIDO with a more agile and nimble structure or simply revert back to the original plan of the legislation. ZDA currently is overburdened with focusing on local and foreign businesses at the same time hence an apparent mismatch in incentives.

### Alignment of the ERP to other Government Policy Documents

The ERP comes at a time when the formulation of the Eighth National Development Plan (8NDP), that will run from 2022 to 2026, is underway. In this regard, the Programme will feed into both the Issues Paper and the Macroeconomic Framework for the 8NDP.

### Innovation

Science, technology and innovation (STI) have a key role to play in supporting economic reconstruction and recovery, as well as in improving service delivery. The national and international response to the COVID-19 pandemic has underlined the central role played by STI. Both developed and developing countries have singled out investment in research, development and innovation (RDI) as a driver for economic recovery and a distinct input into measures to address the social distress caused by the pandemic and lockdowns implemented to slow the spread of the disease.

### Conclusion

Zambia's Economic recovery plan 2020-2023 will require a multistakeholder approach to align with the 8th National Development plan and medium term expenditure framework. Despite the progress, budget credibility remains weak.

Multi-year planning and budget constraints are necessary to support budget credibility whilst separate strategies will be required for arrears dismantling and debt restructuring. Domestic resource mobilisation will become ever more important whilst providing an enabling environment for business and safeguarding livelihoods will remain imperative.