

# ZAMBIA'S ROAD TO ECONOMIC RECOVERY

**THROUGH GROWTH, JOBS AND STABILITY**

POLICY BRIEF

OCTOBER 2022



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- Zambia Revenue Authority (ZRA)
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## Abbreviations

AfCFTA	African Continental Free Trade Area
DRC	Democratic Republic of Congo
GDP	Gross Domestic Product
FIC	Financial Intelligence Centre
ICT	Information and Communication Technology
IFFs	Illicit Financial Flows
MSMEs	Micro Small Medium Enterprises
NAIP	National Agriculture Investment Plan
NAP	National Adaptation Plan
PPDF	Public-Private Dialogue Forum
PPPs	Public Private Partnerships
PPPP	Public Private People Partnerships
8NDP	Eighth National Development Plan

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## BACKGROUND

Prior to the COVID-19 pandemic, the Zambian economy was experiencing serious macroeconomic challenges, such as high inflation, widening fiscal deficits, unsustainable debt levels, low international reserves, and tight liquidity conditions. This was due to a legacy of years of economic deterioration, with an incredibly inadequate public investment drive. These challenges were further exacerbated by the adverse impact of the COVID-19 pandemic, which saw the country default on its Eurobond payment in 2020 and later downgraded to a lower-income country in July 2022.

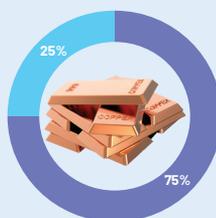
It is against this background that the policy brief proposes reforms and realignment of sector policies key for repositioning the country on the path of inclusive and sustainable economic growth.



## 1. INTRODUCTION

In recent years, Zambia's socioeconomic prospects have been constrained by – among other things, the COVID-19 pandemic. Prior to this, Zambia already faced serious economic challenges such as; high fiscal deficits, elevated debt levels and debt service, low international reserves, tight liquidity conditions and subdued growth. In this context, the COVID-19 pandemic undermined an already fragile economy. Nevertheless, in 2021 the Zambian economy grew by 3.3%, a turnaround which was attributed to a pick-up in performance in key sectors such as mining and quarrying, wholesale and retail, agriculture, energy, construction, and the Information and Communication Technology (ICT) sectors.

Zambia, however, remains a highly commodity-dependent economy, with copper alone accounting for at least 75% of export earnings. Limited diversification of the economy exposes the country to copper commodity price shocks. Therefore, this provides a need for economic transformation in the Zambian economic landscape through economic diversification and job creation. Against this backdrop, this policy brief seeks to present policy options arising from the policy dialogue on best practices for economic transformation through the mining sector, sustainable financing for the agricultural sector; debt sustainability; domestic resource mobilization and public-private partnerships (PPPs).



**“...copper alone  
accounting for at least  
75% of export earnings.”**

## 2. A NEW POLICY AGENDA FOR A MORE RESILIENT ZAMBIAN ECONOMY POST COVID-19

A new policy agenda for the country needs to focus on skills enhancement, as well as to ensure that Zambian citizens are better placed to take advantage of innovations. This position will contribute to Zambia's industrialization and economic transformation. Additionally, the Eighth National Development Plan (8NDP) provides a solid guide for a new policy agenda post-COVID-19 pandemic. Economic diversification requires the creation of an effective environment that supports and sustains industrialization, including beneficiation and the development of value addition in various value chains for the export of high-value-added products.

***Another added benefit of industrialization is that it facilitates competitive entry into the African Continental Free Trade Area (AfCFTA), which is a larger market with fewer barriers and thus extends Zambia's reach and diversity of exports. Exports are critical to the growth of Zambia's economy – and this growth must be driven by economic diversification. The Private sector will also be vital in developing an industrial capital base that can competitively participate in value chains and retain value domestically.***

## 2.1. PROPOSED INTERVENTIONS FOR ZAMBIA'S POST COVID-19 DEVELOPMENT AGENDA



Enhanced skills development among women and youth for inclusive participation in trade and entrepreneurial opportunities.



Strengthen implementation of economic recovery programmes and national development plans.



Enhance social sector spending to critical needs in education, health, water and sanitation and social protection.



Position Zambia to tap into market linkages for enhanced trade and industrialisation under the African Continental Free Trade Area (AfCFTA) and other regional collaborations through Special Economic Zones.



Increased investments in Micro, Small and Medium Enterprises (MSMEs) for sustained economic growth.

### 3. A REVIEW OF THE LEGAL FRAMEWORK OF THE MINING SECTOR: PROSPECTS FOR GROWTH IN THE MINING SECTOR

The mining sector presents several investment opportunities because of the variety of mineral resources in the country. Global trends indicate that the demand for copper is likely to remain high over the next decade due to the growing demand for energy transition and strategic minerals.



**Zambia possesses one of the world's highest-grade deposits of copper.**

Zambia possesses one of the world's highest-grade deposits of copper and is ranked the 7<sup>th</sup> largest copper producer. However, the country's copper production is currently only 800 metric tons, much lower than other regional producers, such as the Democratic Republic of Congo (DRC), whose production is approximately 2 million metric tons. Government plans to ramp up copper production to 3 million metric tons over the next ten years. The government has committed to reforming Zambia's mining policy and legal framework to attract more investment in the sector, ensure growth, and create an enabling environment by formulating policies, legislation, and institutional arrangements beneficial to both Government and investors.



**Zambia 7<sup>th</sup>**  
*largest copper producer  
in the world.*

### 3.1. PROPOSED INTERVENTIONS FOR GROWTH PROSPECTS IN THE MINING SECTOR

	<p>Harmonisation of the legal framework to respond to current trends and maintain stability.</p>
	<p>Investment in geological surveys for the development of new mines and minerals.</p>
	<p>Enhance compliance and legalisation of mining entities.</p>
	<p>Reorganise the Ministry of Mines and Minerals Development to deal with challenges in the sector, particularly the Artisanal Small Mining sub-sector.</p>
	<p>Adequately address financing challenges in the mining sector.</p>

#### 4. SUSTAINABLE OPTIONS FOR FINANCING THE AGRICULTURAL SECTOR

Zambia's agricultural sector is predominantly made up of smallholder farmers. Its overall trend is one of decline (Reduced share in GDP from 15.6% in 2010 to 2.7% in 2020 and a reduced budget allocation from 6.7% in 2011 to 4.7% in 2021).



*Preconditions for sustainable agriculture finance in Zambia will require favourable and harmonized policy and institutional framework (such as the 8NDP, National Adaptation Plan (NAP), National Agriculture Investment Plan (NAIP), and Vision 2030). Secondly, there is a need to have an appropriate blended credit guarantee and insurance products to de-risk this sector by ensuring that there is national insurance attached to agricultural input supply as well as credit guarantee options to facilitate entry into this sector.*

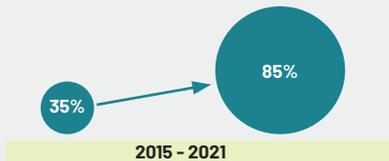
#### 4.1 PROPOSED INTERVENTIONS FOR SUSTAINABLE FINANCING OF THE AGRICULTURAL SECTOR

	There is a need for increased agricultural investment through the annual national budget to at least 10% of the overall budget as stipulated in the Maputo Declaration.
	Design incentives for targeted small-holder farmers to boost productivity.
	Develop tailor-made financing models such as the PPPs.
	Reform Farmer Input Support Programme (FISP) to target emergent farmers.
	Increase funding for research and development, rural roads, climate-smart agriculture, irrigation and value addition.
	Develop predictable agricultural sector policies.

## 5. ACHIEVING DEBT SUSTAINABILITY AMID A NEARING BULLET PAYMENT FOR THE FIRST EURO-BOND

A review of the period 2015 to 2021 reveals an upward trend in the growth of External Public Debt to GDP, rising from 35 % to 85 %. **During this period, external debt service to revenue simultaneously rose from 12 % to 50%.** Some of the key factors that led to the rapid accrual of debt included but were not limited to; rapid and extensive borrowing to finance infrastructure projects, and; weak controls and limited Parliamentary oversight in the debt contraction process.

### EXTERNAL PUBLIC DEBT TO GDP



### EXTERNAL DEBT TO REVENUE



**Zambia thus currently finds itself in a debt distress situation. Zambia's Debt Position as of end of June 2022 was US \$ 26.85 billion (excluding interest arrears). The prevailing debt situation in the country and poor macroeconomic and fiscal performance led to Zambia's debt being classified as "unsustainable". This escalating debt situation, coupled with liquidity constraints, led to the implementation of the external debt service stand still in October 2020.**

### 5.1. PROPOSED INTERVENTIONS FOR GROWTH PROSPECTS IN THE MINING SECTOR



Legal reforms that will enhance accountability and transparency in the application of public resources as well as increased oversight in the contraction of new debt.



Enacting the Access to Information Bill empowers the general citizenry with information for increased public participation in governance issues and increased accountability and transparency.



Ensuring debt is applied prudently in productive projects and critical sector of growth that can consequently service the debt.



Depoliticizing the contraction of debt through developing a long-term debt strategy that stipulates how much debt is expected to be contracted over time and how it is structured to be repaid.

## 6. DOMESTIC RESOURCE MOBILIZATION AND ILLICIT FINANCIAL FLOWS (IFFS).

The use of domestic resource mobilization to finance development remains a key strategy for Government; thus, broadening and deepening the tax base can help advance Zambia's development by investing in more productive sectors of the economy thereby driving economic diversification and job creation. There is need to increase tax revenues by broadening the domestic tax base, improving tax compliance, and curbing tax evasion, which is critical to ending extreme poverty and ensuring shared prosperity. Findings by the Zambia Financial Intelligence Centre (FIC) reported that in 2017, multinational mining companies were getting away with an estimated US \$3 billion annually through tax evasion and illicit financial flows. Closing up of avenues for illicit financial flows will be critical in having a sustainable domestic resource mobilization



**US\$3 Billion**  
lost annually through  
tax evasion and illicit  
financial flows

### 6.1 PROPOSED INTERVENTIONS FOR ENHANCING DOMESTIC RESOURCE MOBILIZATION AND PREVENTING ILLICIT FINANCIAL FLOWS



Strengthen compliance through awareness and advocacy on the need to comply with tax provisions.

Develop mechanisms to capture the large informal sector.



Strengthen the legal framework to curb IFFs and tax evasion. The domestic legal framework **must permit suspicious transaction reports to be used at the tax administration level not only for identifying tax crimes but also for civil purposes in connection with tax compliance.**



Strengthen the capacity of institutions to enhance revenue generation and seal financial leakages.



Enhance the autonomy of oversight institutions to conduct their duties with minimal interference.

Harmonise tax rates to increase compliance.

1:1

Introduce a unitary taxation system to remove the incentives for Trans-National Corporations (TNCs) to shift their tax burden towards more favourable tax regimes.



Review unfavourable tax treaties which are currently used to provide other states with information concerning taxable revenue.



Improve the exchange of tax information between countries to ensure no lost taxation occurs through double 'non-taxation.'

## 7. EXPLORING THE POTENTIAL FOR PUBLIC-PRIVATE PARTNERSHIPS AS A VEHICLE FOR INDUSTRIALIZATION

The Government has prioritised the Public Private Partnership (PPP) model to foster private sector investments in public entities to support the government's development agenda. This is necessary because, despite financing options being limited in the face of a huge infrastructure deficit, huge debt and limited fiscal space, development such as infrastructure support is a crucial driver of economic transformation.

***PPPs help reduce administrative costs on Government's side while leveraging the private sector to enhance the quality and efficiency of infrastructure services. Although Zambia has a supportive legal framework for this model, there are still several risks associated with it. These include; delays in negotiations, higher user charges and political interference in projects.***

### 7.1 PROPOSED INTERVENTIONS FOR BETTER USE OF PPPS



Reform and strengthen the regulatory and legal frameworks for enhancing the potential of PPPs to thrive.



Build the capacity of institutions in the negotiation of PPPs.



Ensure representation and participation of social groups in PPPs (Zambia can learn from Asia to engage various actors in agreements).



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