STUDY ON RESOURCE MOBILIZATION THROUGH ADOPTION AND IMPLEMENTATION OF OPTIMAL EXPORT POLICIES IN ZAMBIA

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ACRONYMS

AfCFTA	Continental Free Trade Area
AfDB	African Development Bank
BoZ	Bank of Zambia
CCPC	Competition and Consumer Protection Commission
COMESA	Common Market for Eastern and Southern Africa
DRM	Domestic Resource Mobilization
ECF	Extended Credit Facility
ECOWAS	Economic Community of West African States
FDI	Foreign Direct Investment
FIC	Financial Intelligence Centre
FISP	Farmer Input Subsidy Program
FRA	Food Reserve Agency
HFOs	Hydro Fuel Oils
IFFs	Illicit Financial Flows
IMF	International Monetary Fund
MCTI	Ministry of Commerce, Trade and Industry
MoFNP	Ministry of Finance and National Planning
MSME	Micro Small and Medium Enterprises
NDPs	National Development Plans
NTBs	Non-Tariff Barriers (NTBs)
NTEs	Non-Traditional Exports
NTP	National Trade Policy
PACRA	Patents and Companies Registration Agency
PAYE	Pay-As-You-Earn
PPPs	Public Private Partnerships
RCA	Revealed Comparative Advantage
RECs	Regional Economic Communities
SADC	Southern African Development Community
SDRs	Special Drawing Rights
SPS	Sanitary and Phytosanitary
TFTA	Tripartite Free Trade Area
UNCTAD	United Nations Conference on Trade and Development
VAT	Value Added Tax
ZABS	Zambia Bureau of Standards
ZACCI	Zambia Chamber of Commerce and Industry
ZCSA	Zambia Compulsory Standards Agency
ZAM	Zambia Association of Manufacturers
ZamStats	Zambia Statistics Agency
ZDA	Zambia Development Agency
ZMA	Zambia Metrology Agency,
ZRA	Zambia Revenue Authority
7NDP	Seventh National Development Plan
8NDP	Eighth National Development Plan

EXECUTIVE SUMMARY

Background

To attain middle-income status by 2030 Zambia will need to effectively implement its subsequent development plans, including the current one -- the Eighth National Development Plan (8NDP). Implementing the development programs in the 8NDP will require significant resources, and given the recent global developments, domestic resources will be crucial. However, Zambia's domestic revenue as a share of its gross domestic product (GDP) stagnated over 2010-2020, lagging behind its peers in the Southern African Development Community (SADC) region and its national targets. The recent global events have also exposed Zambia's vulnerability to external shocks, questioning its reliance on external financing and elevating the domestic resource mobilization (DRM) dialogue. Given the recent economic dislocations Zambia needs to heighten its resource mobilization efforts to provide some economic relief to populations that have been hard hit by the global economic disruptions. Unfortunately, Zambia's DRM record remains poor. Not only has Zambia been missing its national targets as a share of GDP, but the country's tax-to-GDP ratio also averaged 14.9 percent, well below the regional average of 20.2 percent from 2002 to 2021.

Although tax revenues have performed relatively well, the non-tax revenues have continued to be a drag on the domestic resource envelope, posing a severe threat to achieving fiscal and debt sustainability. Overall, non-tax revenues averaged 18.9 percent over 2018-2020, way below tax revenues that averaged 81.1 percent of total domestic revenue over the same period.

Given the foregoing, the enhancement of domestic revenue mobilization calls for aggressive measures, including sealing revenue leakages, strengthening tax administration capacities, and boosting alternative revenue sources.

This study uses a desk review and stakeholder insights to explore the potential role of exports in DRM. While the traditional approach primarily views exports as a significant driver of economic growth, this paper makes a departure from the usual focus on traditional revenue sources (tax and non-tax) by recognizing them as viable revenue sources.

Key Findings

Zambia trails its peers in the SADC region in terms of domestic revenue mobilization. Zambia's tax GDP averaged 14.9 percent, well below the regional average of 20.2 percent from 2010 to 2019. Critical impediments to effective revenue mobilization include: subdued economic growth and a weak macroeconomic environment, the hard-to-tax informal sector, unstable fiscal regimes and policy inconsistencies, inadequate infrastructure, low tax compliance, tax capacity and morale, widespread use of tax, and incentives and complex tax schedules, lack of an integrated approach to revenue mobilization, inadequate policy, institutional and regulatory frameworks, and illicit financial flows.

Zambia's institutional and policy frameworks for cross-border trade are fragmented and weak. While the Ministry of Commerce, Trade and Industry (MCTI) has the primary mandate over trade, the ever-evolving institutional landscape, mainly driven by ministerial realignments, presents coordination challenges. Further, some of the pieces of legislation are too weak and outdated to respond to the ever-changing international trade landscape. The policy inadequacies explain the poor export performance Zambia has experienced over the years.

Over the last decade, Zambia's trade performance has been poor and still dominated by copper. As a result, the country experienced a negative trade balance between 2016 and 2019, albeit diminishing. By 2020 and 2021, Zambia had recorded a positive trade balance of US$ 2.4 billion and US$ 4.6 billion, respectively. Nevertheless, Zambia's overall trade profile highlights a limited export base that has existed over the years, with Zambia's top export product, copper, still accounting for about 75 percent of export earnings.

Zambia is losing out on revenue from regional trade, particularly within SADC. Zambia's negative regional trade position is primarily due to the "South Africa" factor. Zambia has had a negative annual trade balance with South Africa, averaging about US$ 1.5 billion from 2002-2021. Nonetheless, the SADC region remains a key market for non-traditional exports (NTEs) such as electrical energy, non-alcoholic beverages, sulphur, and cement, as evidenced by Zambia's top export products to the region. The Common Market for Eastern and Southern Africa (COMESA) provides a potentially beneficial market for Zambia's products. Since 2019 Zambia has enjoyed a positive trade balance with COMESA. The COMESA region remains an important market for NTEs such as non-alcoholic beverages, cement, sulphur, and electrical energy.

Diversification and value addition in critical sectors such as agriculture and mining are crucial to growing exports. Key policy documents and plans, including Vision 2030, 8NDP and the National Industrial Policy (2018), the National Trade Policy, and the National Export Strategy, all point to the need for diversification and value addition. Specifically, the 8NDP identifies manufacturing, agriculture, mining, and tourism as priority sectors to foster the country's development. The agricultural sector's key value chains include the sugar-to-sugar confectionery value chain and the soya beans to animal feed value chain.

In addition to mineral exports, Zambia has a comparative advantage in agriculture and agroprocessing. This is reflected in its export portfolio where the country has seen an increase in exports of agricultural products, including live animals, to regional and international markets. Furthermore, the rapid population growth and urbanization among its neighbouring countries provide a ready market for Zambia's products. However, Zambia will have to resolve the inefficiencies in the agriculture sector, including the poorly targeted Farmer Input Subsidy Program (FISP), dependency on rainfed agriculture, and poor marketing and storage facilities to optimize the sector's export potential.

Operational challenges and policy inconsistency in mining and other vital sectors hamper export growth. For Zambia to get the most from its mineral wealth the government will have to address the operational challenges and policy inconsistencies in the sector that have impeded productivity and revenue mobilization.

Export growth is impeded by weak productive capacities, low productivity, limited market access, and obstacles toward production. Key production-related impediments include macroeconomic instability, limited access to finance, uncertainty in the regulatory environment, and inadequate infrastructure.

1 INTRODUCTION

1.1 Background

Zambia has been wrestling macroeconomic instabilities and fiscal constraints in the recent past. These economic and fiscal fragilities have been exacerbated by recent global shocks, including the resurgent Covid-19 pandemic and the war in Ukraine. The expansionary policies of the past decade driven by a ramp up in infrastructure spending left the country with severe fiscal imbalances and a mountain of debt. Moreover, any efforts towards recovery have been weakened by the global shocks (Covid-19 pandemic and Russia-Ukraine war) stifling effects on supply chains and economic activity. The recent global events have also exposed Zambia's vulnerability to external shocks, questioning its reliance on external financing and elevating the DRM dialogue. Given the recent economic dislocations, Zambia needs to heighten its resource mobilization efforts to provide some economic relief to populations that have been hard hit by the global economic disruptions.

Unfortunately, Zambia's domestic revenue mobilization record remains poor. Not only has Zambia been missing its national targets as a share of GDP, but the country's tax-to-GDP ratio also averaged 14.9 percent, which is well below the regional average of 20.2 percent from 2002 to 2021. Providing some form of social safety net will require resource injections into the social sectors and other stimulus packages targeted at vulnerable groups. On 1st September 2022, the International Monetary Fund (IMF) Board approved Zambia's request for a US$ 1.3 billion Extended Credit Facility (ECF) support package, an essential step toward restructuring the country's external debt. The IMF deal provides a more flexible fiscal framework and access to an expanded resource envelope for debt restructuring under the G20 Common Framework. Though the IMF bailout package provides significant fiscal relief, Zambia will need to enhance its domestic resource mobilization to attain the economic objectives set out in the IMF program. This study takes a different approach to the resource mobilization issue by exploring the potential role of exports in DRM. Extant empirical evidence indicates that exports are an engine of economic growth (Furuoka,2018; Nguyen, 2020). While the traditional approach primarily views exports as a significant driver of economic growth, this study makes a departure by recognizing them as a viable revenue source.

1.2 Objectives and Rationale

Several impediments stand in Zambia's way to exploiting the revenue potential of international trade, including high transportation costs (due to its landlocked position), underdeveloped value chains, high production costs, and a poor mix of trade policies, among others. Against this backdrop, the African Development Bank (AfDB) has commissioned a study on "Resource Mobilization through Adoption and Implementation of Optimal Export Policies in Zambia." The main objective of the study is to assess the potential role of exports in Zambia's resource mobilization. This entails identifying optimal policies for an optimal mix of trade policies that could enable Zambia to boost its domestic revenues.

The recent global developments, including the Russia-Ukraine War and Covid-19, have exposed Zambia's (and other developing countries') fiscal and macroeconomic vulnerabilities and risks associated with international sources of finance. Thus, Zambia cannot afford to be overreliant on international financing sources to fund its development projects. Given the narrow revenue base, Zambia should aggressively explore other sources of revenue, including international trade. The findings from this study will help Zambia identify an optimal mix of trade policies for diversifying its revenue base and boosting its domestic resources. A robust and sustainable domestic revenue mobilization strategy will contribute to economic growth, placing Zambia on a faster and more resilient path to middle-income status by 2030.

This study will also contribute to the knowledge base on value chain development and potential funding mechanisms for developing value-additions in viable sectors. Additionally, the study will help inform policy on possible means of harnessing the revenue and economic growth potential of the export sector.

1.3 Methodology

1.3.1Data Collection

A multi-pronged approach that includes desk review, mapping of key stakeholders, and robust stakeholder consultations was employed to gather information needed to meet the study objectives and conduct the analysis. The data collection methods are highlighted below.

1.3.2 Desk Review

This involved a detailed review of relevant official national documents, including reports, policies, plans and strategies, legal frameworks, and other relevant literature. In addition, literature related to resource mobilization and the role of exports in revenue mobilization was reviewed.

Documents consulted include the Eighth National Development Plan, the National Trade Policy, the National Industrial Policy, the National Investment Strategy, and the National Export Strategy. The focus will mainly be on the existing priority sectors in the National Industrial Policy, namely: processed foods, textiles and garments, engineering products, wood and wood products, leather and leather products, mineral (metallic and non-metallic) processing and products (beneficiation, and pharmaceuticals. Other documents reviewed include the Immigration Acts as well as the Control of Goods Act, both of which are essential in regulating trade in the country. From a regional perspective the COMESA and SADC protocols were reviewed given their role in governing trade between Zambia and its regional partners.

Additionally, secondary data from various sources such as the Zambia Statistics Agency (Zamstats), the World Bank, and the UN Comtrade Database, be used to gather the necessary data. Further, websites for key stakeholder institutions were scavenged for data. The key stakeholders include: the Ministry of Commerce, Trade and Industry, the Ministry of Finance and National Planning (MoFNP), the Ministry of Small and Medium Enterprise Development (MSMED), the Zambia Development Agency (ZDA), the Zambia Revenue Authority (ZRA), the Bank of Zambia (BoZ), the Zambia Development Bank (ZDB), and private sector (Zambia Chamber of Commerce and Industry (ZACCI), the Zambia Association of Manufacturers (ZAM)), financial institutions, cooperating partners, civil society, regional groupings (COMESA, SADC), among others.

1.3.3 Data Analysis

A combination of qualitative and quantitative data analysis methods were used to accomplish the study objectives. Descriptive statistical analysis methods were applied to quantitative data. The qualitative data benefited from thematic, gap and connect analyses.

1.4 Structure

The remainder of this report is structured as follows. First, Section 2 outlines the country context. Next, Section 3 describes the overview of domestic revenue mobilization, followed by Section 4, which highlights the institutional, regulatory and policy frameworks for cross border trade. Economic sectors with competitive advantage are covered in Section 5, while Section 6 provides an analysis of specific value chains to enhance domestic revenue mobilization. This also includes an analysis of sectoral comparative advantage. Finally, conclusions and policy recommendations are presented in Section 7.

2 COUNTRY CONTEXT

Recently, Zambia has grappled with a prolonged economic slowdown, persistent macroeconomic instabilities, and constrained fiscal space. Although the GDP recorded some gains between 2016 and 2018, peaking at four percent in 2018, from 3.6 percent in 2016, the sluggish growth could not withstand the hits from Covid19 (Table 1). Consequently, the economy contracted by 2.8 percent in 2020, before rebounding to 3.6 percent in 2021.

Zambia's infrastructure spending spree, coupled with poor policies and limited financing options, pushed it towards the more expensive financing option —non-concessional loans— thereby worsening the fiscal imbalances. The fiscal instabilities manifested in the form of widening fiscal deficits and soaring debt levels.

Fiscal deficits as a share of GDP increased from 5.7 percent in 2016 to 14.5 percent in 2020, way above the three percent rule of thumb. Although Zambia narrowly missed its fiscal target of 5.1 percent in 2021, the current aggressive fiscal adjustments and the recently clinched IMF deal bring renewed energy to economic recovery and macroeconomic stabilization efforts. Going forward, Zambia plans to reduce fiscal deficits to 5.2 percent of GDP by 2024. Narrowing fiscal deficits is in line with the country's plan to restore macroeconomic stability and attain fiscal sustainability.

Over the same period, Zambia has also been buckling under the heavy debt leaving the country with limited fiscal space to finance the key sectors of the economy. The total debt as a share of GDP increased from 35 percent in 2014 to 105.3 percent in 2021. With limited financing options, the government turned to domestic borrowing, pushing lending rates up and crowding out the private sector. Consequently, domestic debt sharply increased by 373.4 percent to ZMK 130.21 billion in 2020 from ZMK 27.51 billion in 2015. Further, Zambia's accumulation of domestic arrears peaked in 2016, soaring by 571.8 percent, to ZMK 18.8 billion from ZMK2.8 billion in 2015. As part of fiscal adjustments, the government has prioritized the dismantling of arrears and debt restructuring.

The rapid deterioration in economic fundamentals, as reflected in the surge in inflation and the weakening Kwacha experienced in 2020 and 2021, is attributed to the poor fiscal policies and recent global shocks. The weak macroeconomic environment exacerbated by the global shocks — lingering Covid19 and the Russia-Ukraine war — threaten to unravel the already slim and dwindling economic gains of the past few years, placing the country in fiscal and economic jeopardy. Zambia's recent economic woes can be traced back to extended periods of weak policy frameworks and misplaced fiscal priorities.

Table 1: Select Macroeconomic Indicators

	2016	2017	2018	2019	2020	2021
Real GDP Growth (%)	3.6	3.7	4	1.4	-2.8	3.6
Fiscal Deficit (Percent of GDP)	5.7	7.8	7.6	9.1	14.4	9
Average Inflation (%)	7.1	6.6	7.5	9.1	15.7	22.1
Average Exchange Rate (K/$)	10.3	9.5	10.5	12.9	18.3	19.9

Source: Ministry of Finance, ZamStats

To attain middle-income status by 2030, Zambia will need a significant and reliable resource pool to implement its successive National Development Plans. The Eighth National Development Plan covering 2022-2026 is crucial in attaining economic recovery, achieving fiscal sustainability, and restoring macroeconomic stability. However, the effective implementation of this ambitious economic program could be derailed by inadequate financing. In addition, the lingering Covid19 pandemic, and the recent conflict in Ukraine could significantly alter the international finance landscape, exacerbating the already dwindling external finance pool. Specifically, supply chain disruptions and inflation containment measures in the advanced economies (monetary tightening) have narrowed Zambia's external resource mobilization options. Given the uncertainties in the global financial system, Zambia will need to rely increasingly on domestic revenue sources to finance its development plans.

The global catastrophes (pandemic, war, and other emerging threats) have aggravated Zambia's fiscal and economic challenges with dire impacts on the social and economic vulnerabilities. The debt crisis and its associated colossal debt servicing costs have almost wiped out Zambia's fiscal space, posing a challenge to the attainment of its macroeconomic and fiscal objectives. This erosion of fiscal space poses a considerable threat to social sector spending that is crucial to cushioning the public from the debilitating effects of the global shocks. With a fragile macroeconomic environment characterized by widening fiscal deficits, unsustainable debt levels, a weakening exchange rate, rising and double-digit inflation, low reserve coverage, and fading international finance opportunities, Zambia will need to devise innovative and robust domestic resource mobilization strategies.

The change of government in August 2021 has brought new energy to the economic recovery agenda. Even before the IMF deal was secured, Zambia had already started making economic progress. The IMF deal comes with several perks including fiscal consolidation and Special Drawing Rights (SDRs). Zambia has been drawing on the US$ 1.33 billion SDRs to finance its budget and fortify its international reserves. While these facilities have provided the desperately needed fiscal and economic relief, they are not sustainable. Zambia's economic woes and fiscal instabilities require a robust and sustainable domestic revenue mobilization strategy. To achieve its revenue targets of 21 percent of GDP in 2022 and 20.8 percent of GDP in 2023 and other macroeconomic objectives, Zambia will need to heighten its revenue (tax and non-tax) mobilization capacities, paying particular attention to the underperforming non-tax revenues. In the first quarter of 2022, tax revenues were 7.4 percent above target, but non-tax revenues were 13.6 percent below target. It is worth noting that fiscal stability is critical for Zambia's attainment of broad macroeconomic objectives and economic recovery.

Zambia, must thus look to non-conventional fiscal policies, including export promotion. There is evidence linking trade liberalization to increased revenue mobilization. Ndoye (2021) finds that countries in the Economic Community of West African States (ECOWAS) that practiced more open trade policies attained higher domestic revenues. This suggests that with the right mix of trade and economic policies, Zambia could enhance its revenues from trade.

Zambia recognizes the critical role of international trade in its economic development. This is demonstrated by its participation in multilateral and regional trading arrangements namely the Common Market for Eastern and Southern Africa, the Southern African Development Community and the World Trade Organisation (WTO). More recently, the country joined the Tripartite Free Trade Area (TFTA) and ratified at the Africa Continental Free Trade Area (AfCFTA). Zambia also made investment in trade infrastructure such as one-stop border posts and trading centers to enhance regional trade.

From the mid-2000s, the Country's export goals were outlined in the Vision 2030 crafted in 2006. Other policy documents include the Seventh National Development Plan (7NDP) covering the period 2017 - 2021, the Eighth National Development Plan (2022-2026), the National Trade Policy launched in 2019, and the National Export Strategy 2018 - 2022. More specifically, Zambia has placed export development at the center of its economic diversification agenda. However, despite these strides, the country has not harnessed the revenue potential of international trade.

Zambia's trade performance over the last five years has been poor, highlighting structural challenges that existed even prior to the Covid19 pandemic. Consequently, the country experienced a negative trade balance between 2016 and 2019, albeit declining. This culminated in a positive trade balance of US$ 2.4 billion in 2020, partly attributed to the effects of the Covid19 pandemic disruptions on imports. This temporary trade gain notwithstanding, the overall trade profile highlights poor performance and limited export base, resulting in limited revenues and inflows in terms of foreign exchange.

The minuscule contribution of customs and export duty to total tax revenue is indicative of Zambia's belief in trade liberalization. Between 2016 and 2020, the share of customs and export duty contributed the least to Zambia's total tax revenue, with an average of 6.78 percent over the review period. This is relative to other taxes such as income, value-added, and excise taxes, which averaged 53.98 percent, 30.88 percent, and 8.36 percent, respectively.

3 DOMESTIC REVENUE MOBILIZATION: AN OVERVIEW

3.1 Zambia's Resource Envelope

Zambia development finance envelope contains domestic revenues (tax revenues, non-tax revenues), grants and financing. Over the period 2017 to 2021domestic revenues averaged ZMK 66 billion, compared to ZMK 30.1 billion and ZMK K1.2 billion for financing and grants respectively (Table 2).

Table 2: Zambia's Finance Pool (K'Million; Share of GDP)

	2017	2018	2019	2020	2021	Average
Tax Revenue	36,489.90	44,239.90	60,492.30	52,181.80	71,151.30	52,911.04
Non-Tax Revenue	6,075.60	8,562.50	12,079.90	13,539.90	25,312.20	13,114.02
Domestic Revenues	42,565.50	52,802.40	72,572.20	65,721.70	96,463.50	66,025.06
Grants	466.6	635.4	838.7	1,715.40	2,481.40	1,227.50
Total Revenue and Grants	43,032.20	53,437.90	61,331.10	67,437.20	98,944.80	64,836.64
Domestic Financing	11,889.10	7,116.40	8,859.90	31,018.40	31,195.90	18,015.94
External Financing	7,140.90	13,990.30	18,442.90	15,568.50	5,518.10	12,132.14
Total Financing	19,030.10	21,106.70	27,302.70	46,586.90	36,713.90	30,148.06
	2017	**2018**	**2019**	**2020**	**2021**	Average
Tax Revenue	14.8%	15.8%	20.1%	15.7%	16.8%	16.7%
Non-Tax Revenue	2.5%	3.1%	4.0%	4.1%	6.0%	3.9%
Domestic Revenues	17.3%	18.9%	24.2%	19.8%	22.7%	20.6%
Grants	0.2%	0.2%	0.3%	0.5%	0.6%	0.4%
Total Revenue and Grants	17.5%	19.1%	20.4%	20.3%	23.3%	20.1%
Domestic Financing	4.8%	2.5%	2.9%	9.3%	7.3%	5.4%
External Financing	2.9%	5.0%	6.1%	4.7%	1.3%	4.0%
Total Financing	7.7%	7.6%	9.1%	14.0%	8.6%	9.4%

Source: MoFNP Fiscal Tables

Lax domestic revenue mobilization strategies coupled with weak policy frameworks could explain the poor domestic revenue mobilization over the recent past. Faced with constrained fiscal space, subdued economic growth, and a weak macroeconomic environment, Zambia became heavily reliant on debt to bridge the financing gaps.

The government borrowing escalated to unprecedented levels after the country embarked on an aggressive infrastructure development plan. The expansive infrastructure development and weak public finance management frameworks combined to push the country into a fiscal and debt crisis.

Despite efforts to enhance domestic revenue mobilization, Zambia has not registered much progress.

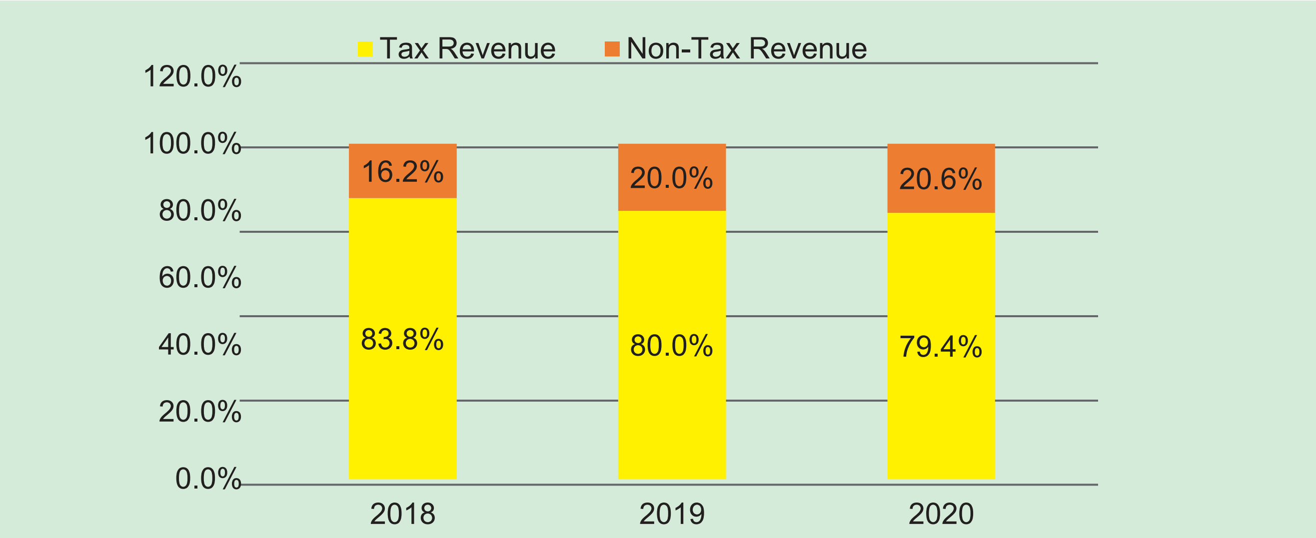
Domestic revenues relative to the size of the economy remained primarily stagnant between 2017 and 2020, ranging from 17.3 percent in 2017 to 19.8 percent in 2020, before rising to 22.7 percent in 2021.

Overall, domestic revenues averaged 20.6 percent of GDP, compared to grants which only accounted for 0.4 percent of the economy over the reference period. Together, domestic revenues and grants stood at 20.1 percent of GDP (on average), lower than the 2025 target of 22.8 percent.

3.2 Domestic Revenues

Zambia has not fully exploited the potential of non-tax revenues, as evidenced by its stagnation from 2018 to 2020. The share of non-tax revenues in total domestic revenue increased from 16.2 percent in 2018 to 20 percent and 20.6 percent in 2019 and 2020, respectively (Figure 1). Overall, non-tax revenues averaged 18.9 percent over 2018-2020. This pales in comparison to tax revenues that averaged 81.1 percent of total domestic revenue over the same period.

Figure 1: Composition of Domestic Revenues (share of total domestic revenue)

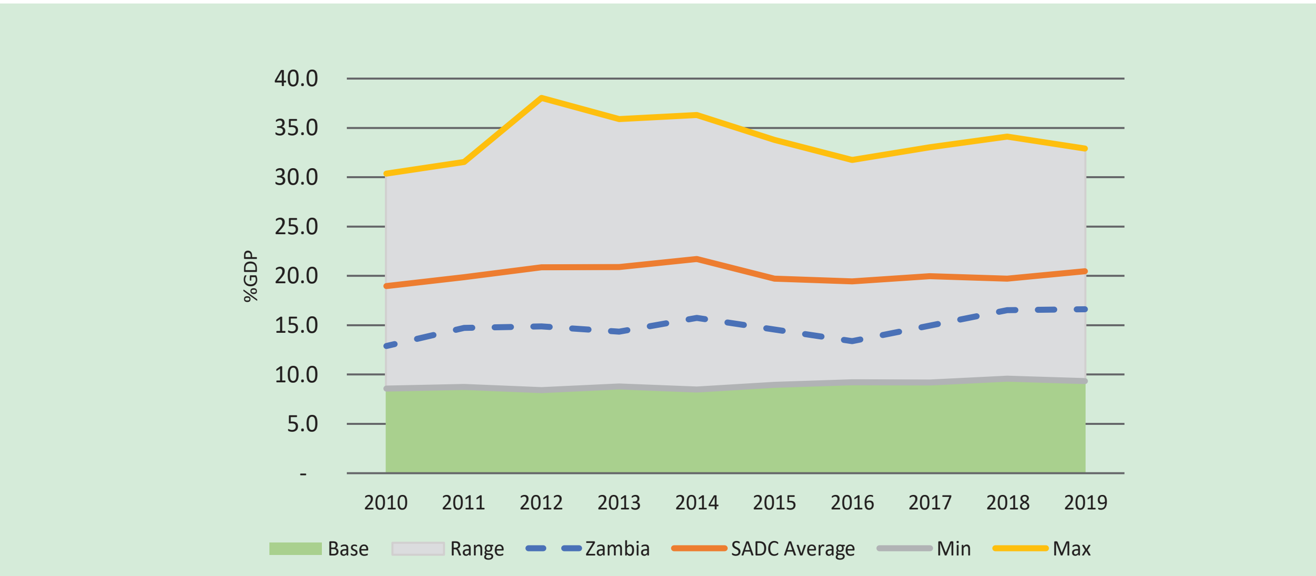


Source: Fiscal Tables

3.2.1 Tax Revenues

Zambia's aspirations to attain middle-income status by 2030 hinges on its ability to sustainably finance its national development plans. Thus, the country has been actively pursuing and implementing various strategies to broaden the tax base, improve compliance, and boost tax collections. However, Zambia's dependence on mining revenue and external financing, recently through debt, has hurt its revenue performance. Compared to its peers in the SADC region, Zambia's tax-to-GDP ratio averaged 14.9 percent, well below the regional average of 20.2 percent over the 2010 to 2019 (Figure 2). Not only has Zambia lagged the regional average, but the country has also been missing its own revenue targets.

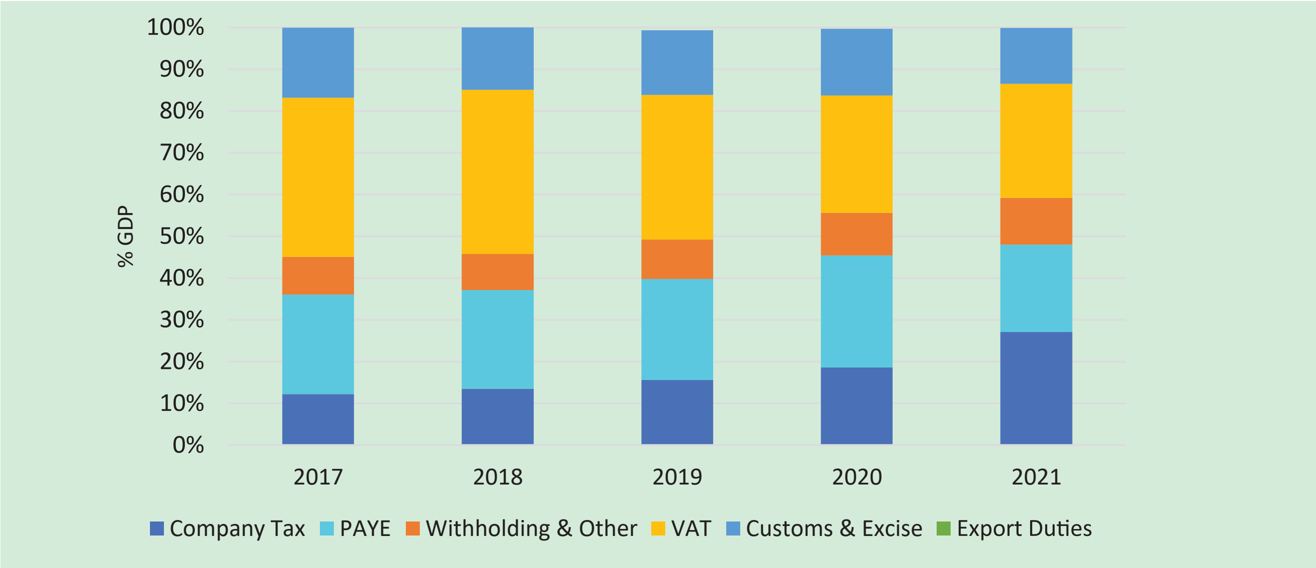
Figure 2: Revenue Performance within the SADC Region



Source: World Development Indicators

Analysis by tax type indicates that Value Added Tax (VAT) dominates the tax revenue collections over the reference period, accounting for 6 percent of total tax revenues (Figure 3). Pay-As-You Earn (PAYE) and company tax follow in second and third places, averaging 4.3 and 3.2 percent respectively.

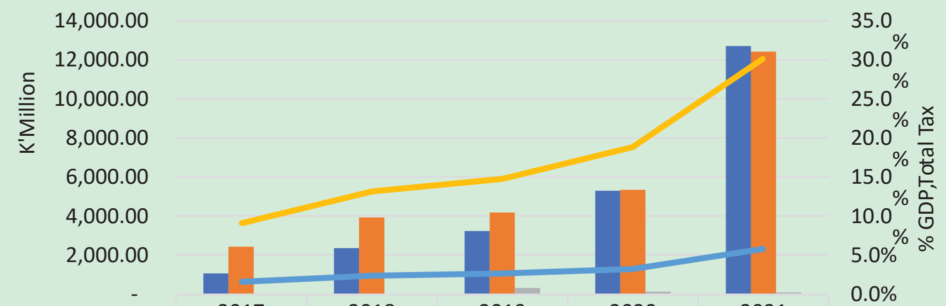
Figure 3: Composition of Tax revenue



Source: ZRA Reports and Fiscal Tables

The mining sector is a major foreign exchange earner for Zambia and contributes significantly to domestic revenues. Despite the challenges of taxing the sector, the share of mining revenues in total taxes has been on an upward trajectory over the period 2017-2021. The contribution of mining taxes to total taxes increased from 9 percent in 2017 to 30.2 percent in 2021 (Figure 4). Similarly, the share of mining tax revenues to GDP rose from 1.5 percent in 2017 to 5.9 percent in 2021. It is worth noting that unstable mining fiscal regimes and external shocks, reflected in volatile mineral prices, are the key factors influencing the trends in tax collections from the mining sector. It should be noted that mineral royalty falls under non-tax revenues.

Figure 4: Mining Sector Revenues (K'Million)



	2017	2018	2019	2020	2021
Company tax	1,067.60	2,356.80	3,232.70	5,299.90	12,702.30
Mineral royalty	2,435.20	3,936.70	4,184.80	5,348.20	12,417.30
Export Duty	13.708	.603	23.801	32.509	9.20
% TaxRev	9.0%	13.1%1	4.7%	18.8%3	0.2%
% GDP	1.5%	2.3%	2.6%	3.2%	5.9%

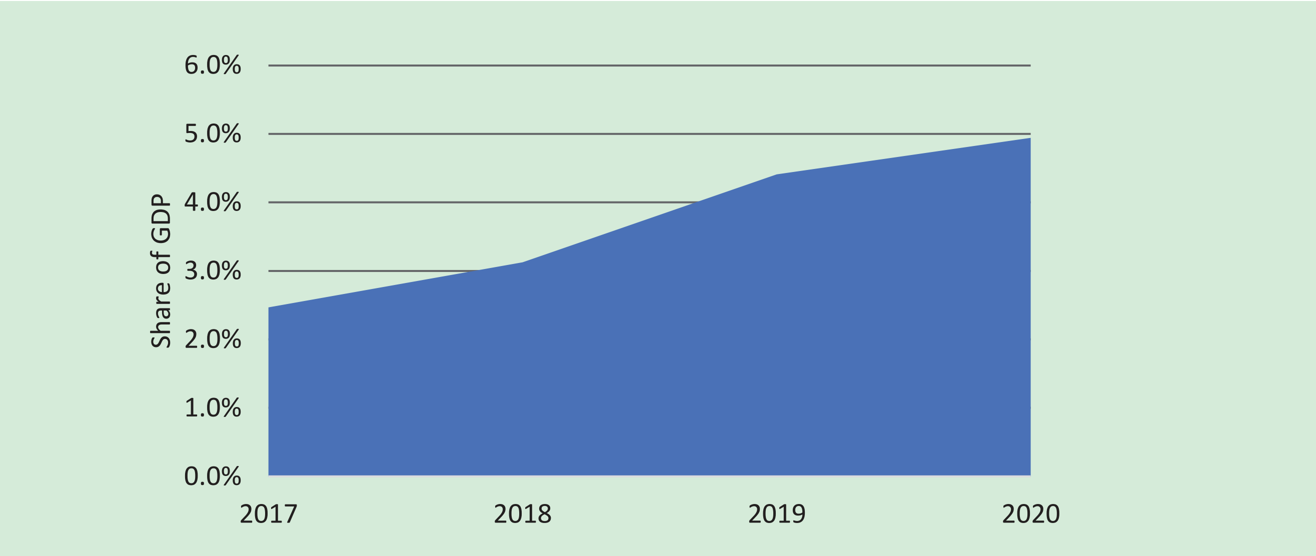
Company tax   Mineral royalty   Export Duty   % TaxRev   % GDP

Source: ZRA Annual Reports

3.2.2 Non-Tax Revenues

Zambia's domestic revenues also include non-tax sources such as mineral royalties, proceeds from crop sales, user fees and fines, road tolls and proceeds from crop sales, among others. Over the years, Zambia has not made progress in boosting collections from non-tax sources, contributing to fiscal issues. Between 2017 and 2021, the share of non-taxes to GDP averaged 3.7 percent and remained stagnant for most of the period (Figure 5).

Figure 5: Trends in Non-tax revenues



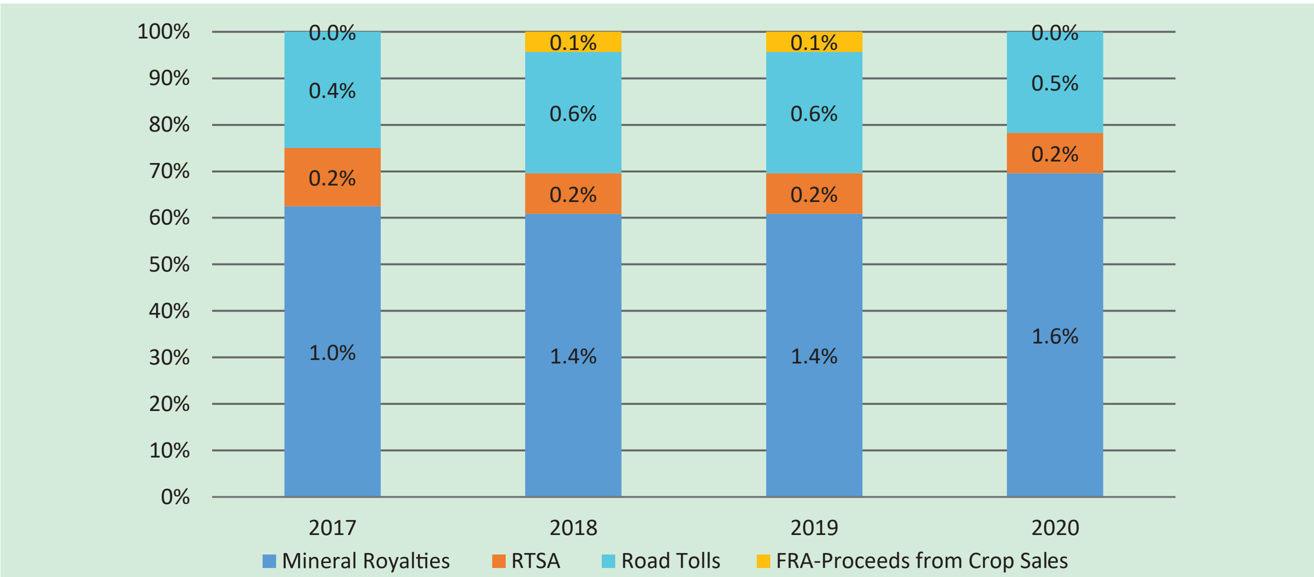
Source: MoFNP Fiscal Tables

Mineral royalties account for the largest share of non-tax revenues in Zambia, signifying the mining sector's critical role in Zambia's economic development (Figure 6).

However, the reliance on mining sector revenue presents risks given the unstable mining fiscal regime and the sector's susceptibility to external shocks.

Zambia stands to gain from infrastructure development through transportation-related fees such as road tolls. In addition, recent financing innovations such as Public Private Partnerships (PPPs) offer a great opportunity to mobilize non-tax revenues. However, recent trends indicate that revenues from road tolls are highly sensitive to changes in economic conditions.

Figure 6: Nontax Revenue Collection as a % of GDP, 2017 - 2020



Source: MoFNP Fiscal Tables

Although Zambia has been making significant agricultural investments, the poor marketing systems have inhibited the country from realizing the full revenue potential of the sector through crop sales. The poorly designed agricultural subsidy programs have also been a major drain on public finances, contributing to fiscal instabilities. It is therefor, not surprising that revenues from crop sales only averaged 0.05 percent of GDP over 2017 to 2020.

Further, while fines and fees provide another non-tax revenue source, the government must navigate a delicate balance between mobilizing revenues and ensuring that fees do not suffocate businesses.

3.3 Impediments to Domestic Revenue Mobilization

The paper identifies the following impediments to effective domestic resource mobilization in Zambia.

Subdued economic growth and weak macroeconomic environment: A stronger economy and stable macroeconomic environment are crucial for broadening the revenue base thereby boosting domestic revenues. Evidence indicates a positive association between economic growth and tax revenue (Zeng, 2013).

Hard-to-tax informal Sector: Zambia has a large informal sector that presents challenges to effective domestic revenue mobilization. The 2020 Labour Force Survey puts the informality estimate at 73.8 percent. Due to difficulty of taxing the informal sector, Zambia has largely relied on the much smaller formal sector for tax collections, overburdening the taxpayers.

Unstable fiscal regimes: Unstable fiscal regimes have been a characteristic of the mining sector, resulting in low tax collections. Zambia has one of the most volatile mining tax regimes in Africa. The country changes a mining tax on average every eighteen months, which is above the African average and only second to Ghana (Siwale & Chibuye, 2019). These mining tax instabilities are costly to the country. As Mwaba & Kayizzi-Mugerwa, 2021, point out, mining tax instability costs Zambia an estimated 300,000 metric tons of copper or US$ 300 million annually. Mining tax policies are tied to copper prices and political cycles.

Inadequate infrastructure: Infrastructure is crucial for revenue mobilization. However, Zambia's infrastructure is inadequate and in a need of upgrading, contributing to revenue underperformance. Being landlocked, Zambia is uniquely positioned to raise revenue through trade routes and road fees. By improving trade infrastructure Zambia could broaden its revenue base and boost revenue mobilization.

Low tax compliance, tax capacity and morale: Zambia is characterised by low tax compliance, capacity, and tax morale, particularly among informal players and micro, small and medium enterprises (MSMEs). The low tax compliance and morale could be attributed to poor service delivery and weak tax enforcement frameworks. Zambia's tax capacity averaged 16.9 percent of GDP over the last decade compared to the actual revenue collection of 15.6 percent.

Widespread use of tax Incentives and complex tax schedules: The widespread use of tax incentives to attract foreign direct investment (FDI) induces tax avoidance activities among the beneficiaries and contributes to low tax compliance among small taxpayers. Additionally, the multiplicity corporate income of tax rates contributes to higher tax avoidance levels among businesses.

Lack of integrated approach to revenue mobilization: Zambia lacks an integrated framework to guide its domestic resource mobilization. This contributes to lower revenues, particularly from the non-tax sources. While taxes are administered by one institution, the ZRA, this is not the case for non-tax revenues that include multiple institutions.

Inadequate policy, institutional and regulatory frameworks: The available frameworks (institutional and legislative) are inadequate to respond to Zambia's evolving financing needs and tax bases. As already pointed out, the gaps in institutional frameworks are a hindrance to effective mobilization of non-tax revenues. The major impediments include inadequate laws, regulations statistics, poor infrastructural facilities and equipment, inadequate statistics, and dated infrastructure facilities, among others.

Illicit Financial Flows: Illicit Financial Flows (IFFs) continue to pose challenges to Zambia's efforts to boost domestic revenues. IFFs take various forms including trade invoicing, illegal mining, and money laundering. In May 2018, the Financial Intelligence Centre (FIC) uncovered illicit losses of about ZMK 4.5 billion. Evidence indicates that Zambia is losing significant revenues due to IFFs. Between 2017 and 2020, loses due to IFFs averaged ZMK 3.7 billion (Table 3). Thus Zambia, stands to gain from curbing IFFs through enhanced domestic revenues, narrower fiscal deficits and improved macroeconomic environment. Evidence indicates stemming IFFs would increase Zambia's tax revenues by one to three percent of GDP (ZIPAR, 2018).

Table 3: Losses due to IFFs in Zambia, 2017 - 2020 (K' Millions)

	2017	2018	2019	2020
Tax Evasion	3900	1000	144	717
Corruption	500	4795	332	2228
Fraud	3	110	53	26
Money Laundering	91	195	450	4
Illegal mining in precious metals and stones	0	0	0	165
Others	0	0	5	2
Total	4494	6100	984	3142

Source: FIC Annual Reports

4 INSTITUTIONAL, REGULATORY AND POLICY FRAMEWORKS FOR CROSS BORDER TRADE

4.1 Institutional Arrangements

At the core of Zambia's trade administration is the Ministry of Commerce Trade and Industry. The Ministry is responsible for formulating and administering policies as well as regulating activities in the trade and industrial sectors to enhance the sectors contribution to sustainable social economic growth and development for the benefit of the people of Zambia. The MCTI currently has seven implementing agencies under it, including the Business Regulatory and Review Agency (BRRA), the Zambia Metrology Agency (ZMA), Zambia Development Agency (ZDA), Zambia Bureau of Standards (ZABS), the Patents and Companies Registration Agency (PACRA), the Competition and Consumer Protection Commission (CCPC) and the Zambia Compulsory Standards Agency (ZCSA).

The MCTI formulates trade policies and makes policy decisions in consultation with the relevant stakeholders. The current guiding document on trade policy – the National Trade Policy -- was adopted in 2018. Other polices exist that indirectly relate to trade such as the National Industrial Policy.

Trade policy formulation, monitoring, and review within the National Development Plan are conducted by technical working groups on trade. In terms of formulating trade related policies and negotiation strategies, MCTI has various national working groups on trade, which consist of representatives from other government ministries including the ministries in charge of agriculture, livestock and fisheries, justice, finance, tourism, and the Zambia Revenue Authority, as well as stakeholders from the private sector such as the Zambia National Farmers Union (ZNFU), the Zambia Chamber of Commerce and Industry (ZACCI), the Zambia Chamber of Small and Medium Business Associations (ZCSMBA), and the Zambia Association of Manufacturers (ZAM). The private sector is involved in formulating trade policies on a de facto basis. Table 4 summarizes the major policies governing Zambia's trade.

4.2 Legislative Frameworks

Beyond the policies and strategies highlighted above, Zambia also has several regulatory frameworks that govern cross-border trade. These regulatory frameworks cover various areas of the trade space by regulating trade to achieve several public outcomes such as safeguarding health and protecting local industry among others.

The main legislation on international trade remains the Customs and Excise Act (on the management of customs duties and excise taxes) and the Control of Goods Act No. 12 of 2004 (on the general trade procedures). However, there are other pieces of legislation such as the Zambian Development Agency Act, the Compulsory Standards Act, the Metrology Act, the Food Safety Act, the Food and Drugs Act, the Plant and Pests Diseases Act, the Plant Variety and Seeds Act and the Animal Health Act all of which regulate trade. Table 5 summarizes the two main Acts that govern trade in Zambia.

4.3 Regional Treaties

Zambia, being party to COMESA and SADC is governed by the COMESA and SADC treaties, both of which establish the respective regional communities. The agreements set out the main objectives of the regional bodies to achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the peoples of Southern Africa and support the socially disadvantaged through regional integration. The agreements also have governing frameworks for regional trade and promote harmonization of standards and regulations among others.

Zambia's poor export performance can be attributed to the weak policy and institutional frameworks.
Key stakeholders consulted alluded to various policy and institutional weaknesses, including a lack of technical capacities in trade related issues, and poor negotiation skills. The institutional realignments that accompany government changes also contribute to the low export volumes.

Table 4: Key Policies Governing Trade in Zambia

Policy	Brief Description	Key Actors /Implementing bodies
National Trade Policy (NTP)	The goal of the NTP is to create sustainable jobs and wealth for the benefit of the Zambian people. The NTP therefore guides Zambia's engagement in regional trade arrangements with a view of ensuring that adequate policy space is secured at the national level to pursue initiatives that promote the development and growth of productive sectors.	MCTI, MoF, ZRA, ZABS, ZCSA, Ministry of Justice, BoZ, Zamstats, Ministry of Education
National Export Strategy	Sets out a strategic vision to structurally transform and diversify Zambia's export base to enhance competitiveness at both regional and multilateral level (MCTI, 2018).	MCTI, ZDA, CCPC, Ministry of Education, Zamstats, Ministry of Agriculture, MoFNP
National Industrial Policy	Aims to stimulate and encourage value addition activities on primary commodities as a means of increasing national export earnings and creating employment opportunities and ultimately transform the Zambian economy into a diversified and competitive industrialized economy which is well integrated into the international trading system.	ZDA,PACRA,CPC,ZABS,BRRA, Line Ministries

Source: Author's construction using various policy documents

Table 5: Key Acts Governing Trade in Zambia

Legislative framework	Brief Description	Key Actors/Implementing bodies
The Control of Goods Act, 421	Provides for the control of the distribution, disposal, purchase and sale, and the wholesale and retail prices of any manufactured or unmanufactured commodity or of any animal or poultry, or of any class of any such commodity, animal or poultry, for the control of imports into and exports from Zambia, and for other purposes incidental and supplementary to the foregoing.	MCTI
Customs and Excise Act	Provides for the imposition, collection and management of customs, excise and other duties, the licensing and control of warehouses and premises for the manufacture of certain goods, the regulating, controlling, and prohibiting of imports and exports, the conclusion of customs and trade agreements with other countries, forfeitures and for other matters connected therewith or incidental thereto.	ZRA, MoF

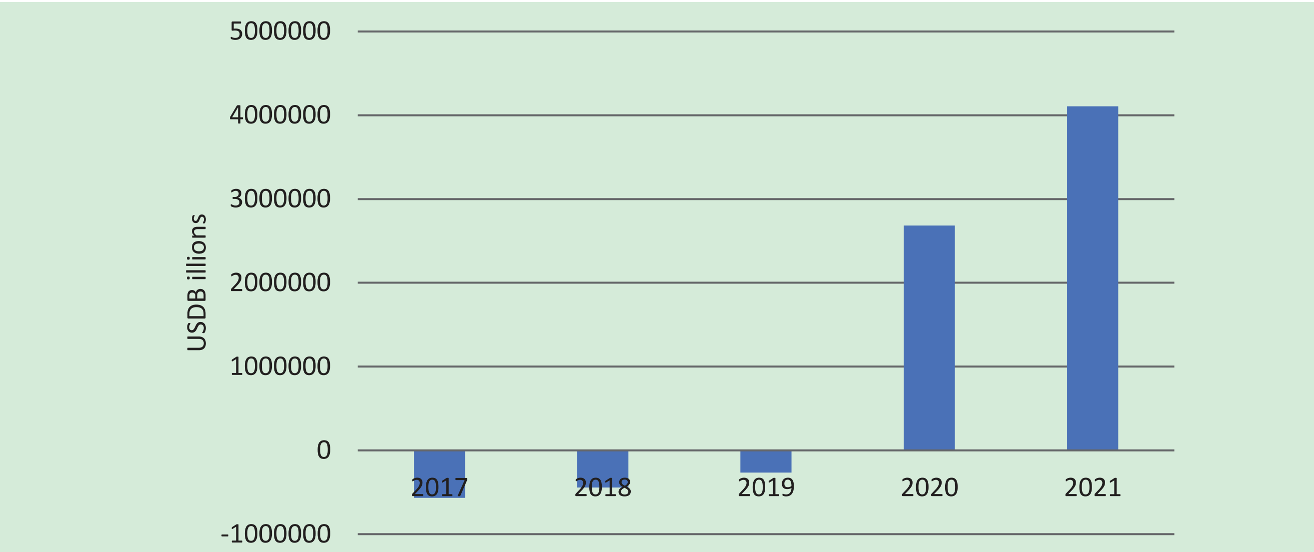
Source: Author's construction using various literature

5 ZAMBIA'S TRADE PERFORMANCE

5.1 Overall Trade

Over the last decade, Zambia's trade performance has been poor. Subsequently, the country experienced a negative trade balance between 2016 and 2019, albeit diminishing. By 2020 and 2021, Zambia had recorded a positive trade balance of US$ 2.4 billion and US$ 4.6 billion, respectively (Figure 7). The improved trade balance is mainly on account of increased earnings from the earnings from the mining (copper) sector and NTEs.

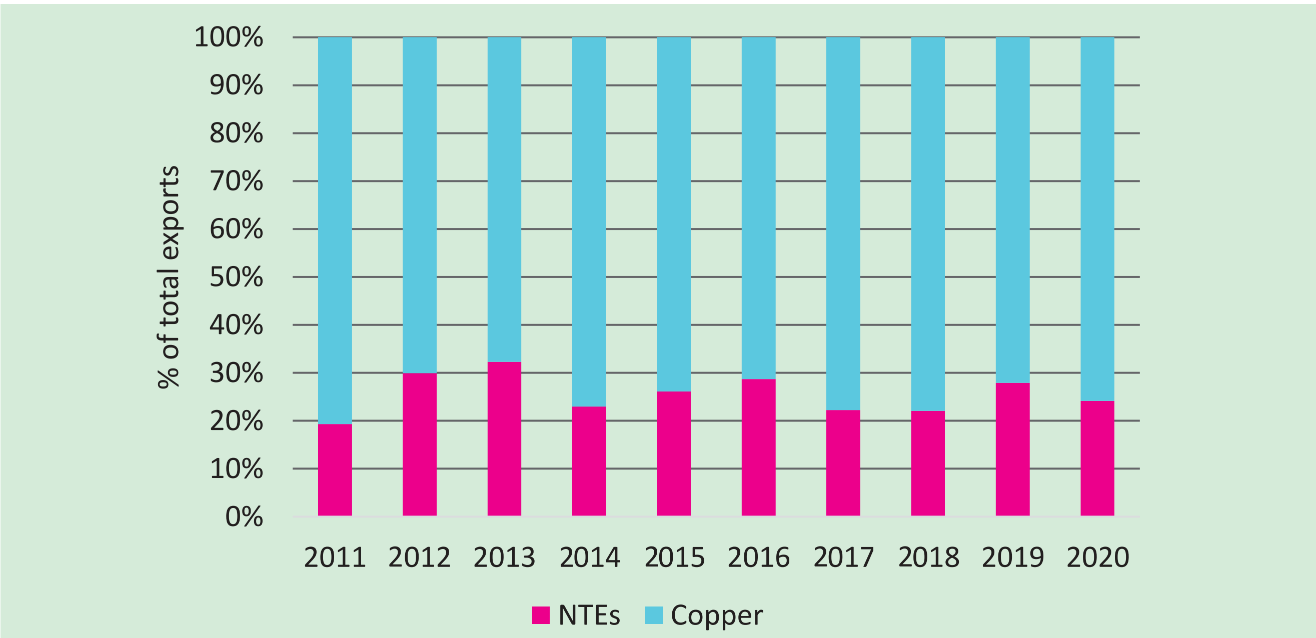
Figure 7: Zambia's Trade Balance - 2017 - 2021



Source: Author's construction using ITC Trade Map data

Nevertheless, Zambia's overall trade profile highlights a limited export base which has been existent over the years with Zambia's top export product, copper, still accounting for about 72 percent of total exports on average (Figure 8).

Figure 8: Zambia's Traditional and Non-Traditional Exports Trend (2011 - 2020)



Source: Author's construction using BOZ BOP data

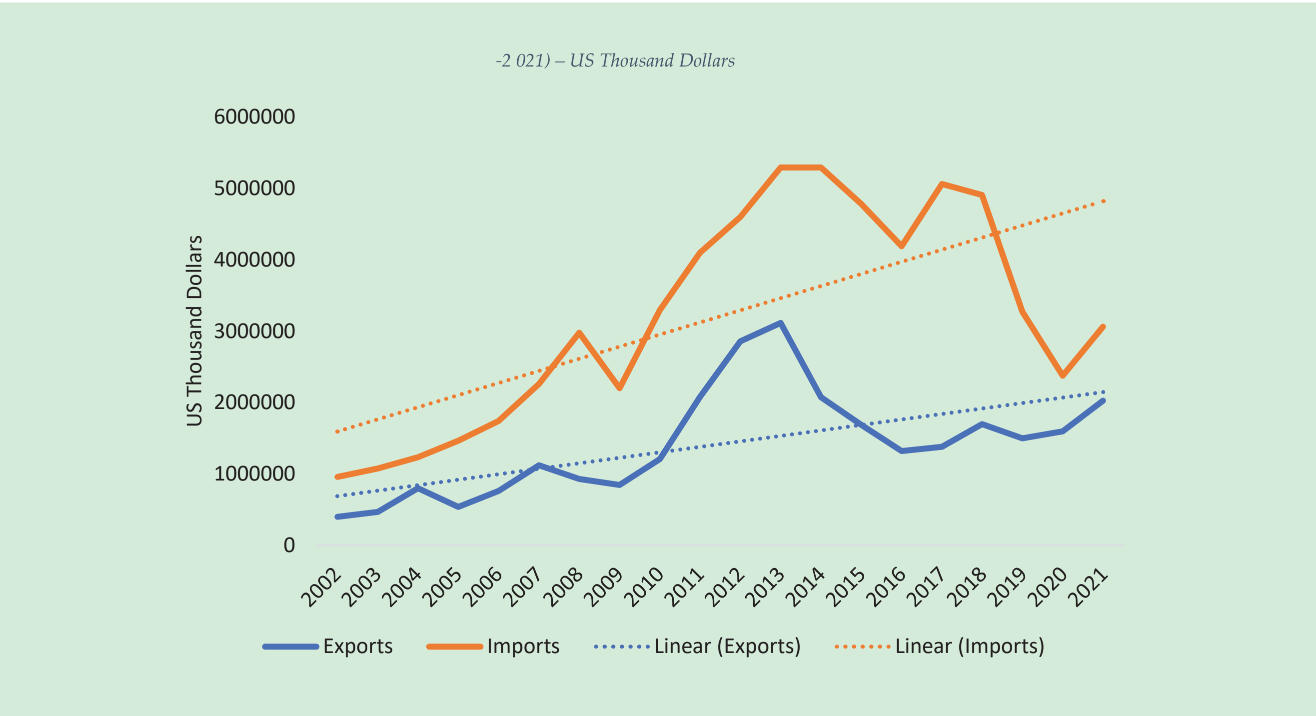
5.2 Regional Trade

The adequacy of Zambia's policy, legal, and institutional frameworks relating to exports and domestic resource mobilization can be assessed within the context of the country's trade performance in its two regional trading blocs, COMESA and SADC.

Due to Zambia's current and past export policies, institutional frameworks and regulatory regimes, imports and exports from the SADC region have generally been on an upward trend. Between 2002 and 2013, both imports and exports exhibited an upward trend until 2013 when some fluctuations were experienced. The increased trade volumes over this period were mainly driven by increased volumes of NTEs such as electricity, construction supplies, and select agriculture products. During the same period, Zambia's imports from the SADC region exceeded exports to the region (Figure 9).

This regional negative trade position is largely due to the "South Africa" factor. Zambia has had a negative annual trade balance with South Africa averaging about US$ 1.5 billion over the 2002-2021 period (ITC, 2022). As a share of Zambia's total exports, the SADC region accounted for an average 25 percent over the 2002 to 2021 period.

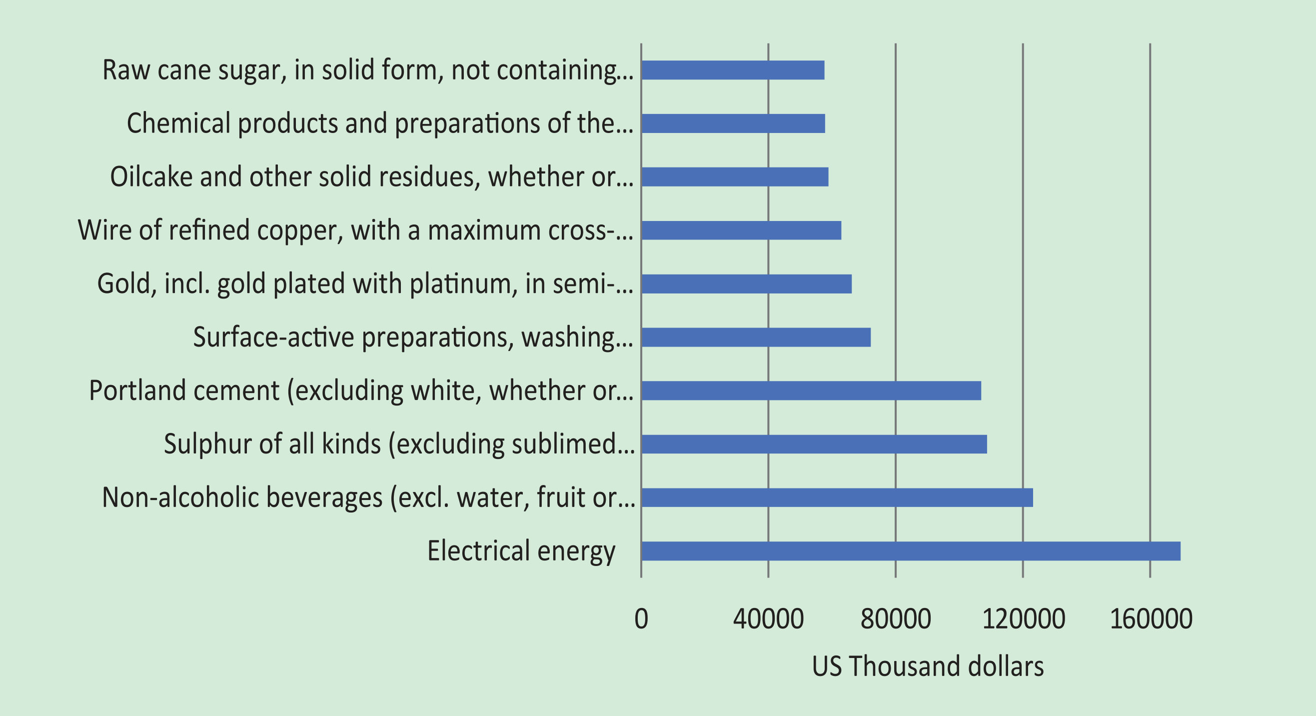
Figure 9: Zambia's Trade with SADC (2002 - 2021) – US Thousand Dollars



Source: Author's construction using ITC Trade Map data

The SADC region remains a key market for NTEs such as electrical energy, non-alcoholic beverages, sulphur, and cement as evidenced by Zambia's top export products to the region as shown in Figure 10. Zambia could thus mobilize additional revenues by devising effective policies for the energy, food, chemicals and construction sectors/subsectors.

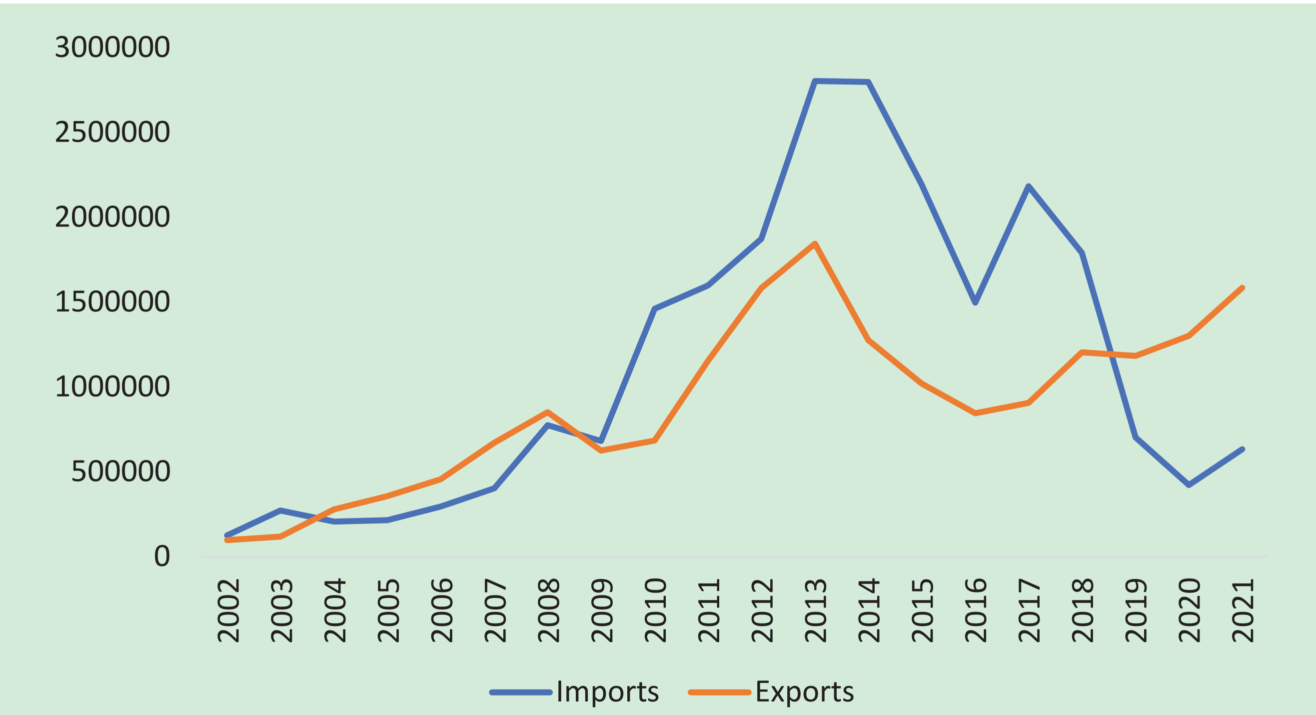
Figure 10: Zambia's Top Export Products to the SADC Region- US Thousand Dollars



Source: Authors' construction using ITC Trade Map data

For the COMESA region, both imports and exports were on an upward trajectory between 2002 and 2009 with the gap between the two almost nonexistent (Figure 11). However, from 2009, imports outstripped exports until 2019 when exports surpassed imports to date. The higher imports were largely on account of a negative trade balance with countries such as the Democratic Republic of Congo, Mauritius, Egypt and Eswatini. Further, the increased NTE volumes could explain the breaks observed around 2013.

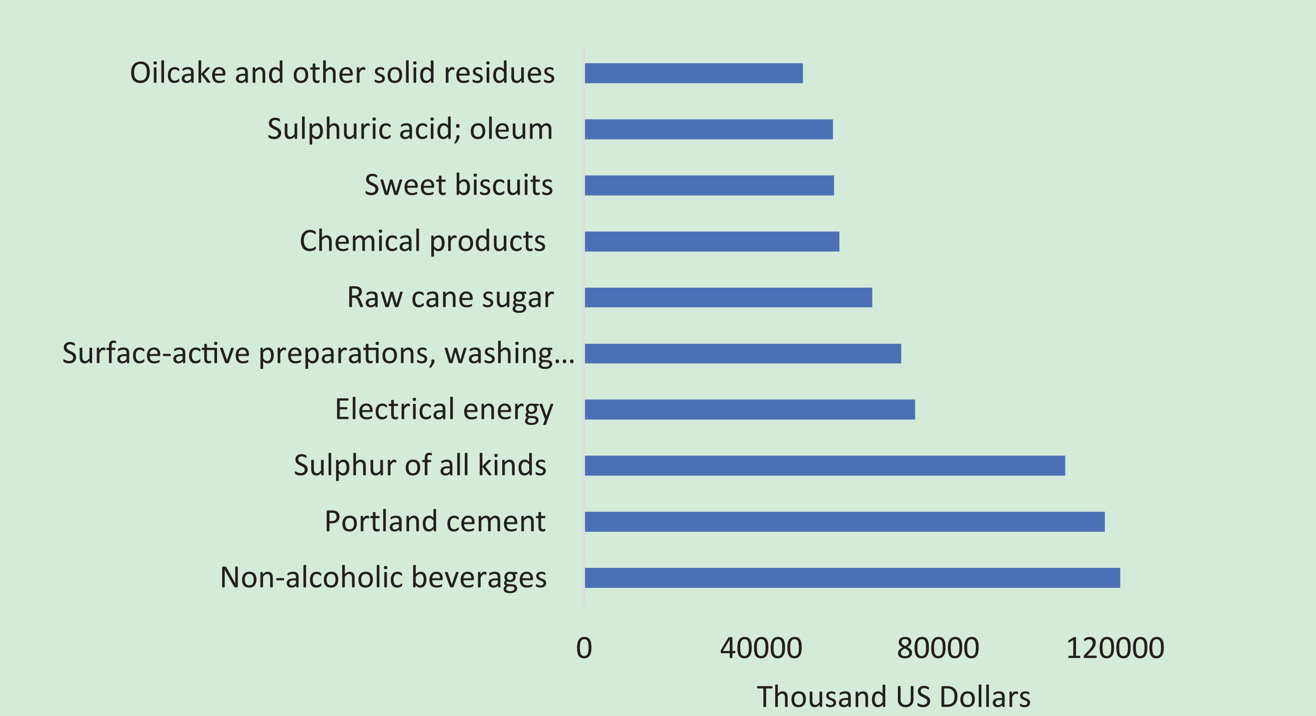
Figure 11: Zambia's Trade in the COMESA Region (2002 - 2021) - US Thousand Dollars



Source: Author's construction using ITC Trade Map data

In terms of export products to the region, the picture is not so different from that in the SADC region alluded to earlier. The COMESA region remains a key market for NTEs such as non-alcoholic beverages, cement, sulphur, and electrical energy.

Figure 12: Zambia's top export products to the COMESA region- US Thousand Dollars



Source: Authors' construction using ITC Trade Map data

The foregoing statistical analysis shows that Zambia's trade flows in the COMESA and SADC regions have grown over the last twenty years. However, Zambia has been mostly in a negative trade balance, losing out on the export revenues.

This is rather worrying when we consider Zambia's aspirations to attain economic growth through export growth and diversification. The limited exports to the regions are an indictment on the performance of Zambia's trade policies, institutional and legal frameworks in growing Zambia's export foothold in the regional markets. Some of the shortcomings of Zambia's export policies, legal and institutional frameworks have been in terms of export and import tariff setting, non-tariff barriers (NTBs), across border trading, quality technical and safety standards, and export finance.

These shortcomings have hampered efforts to ramp up exports as an additional source of domestic resources. The policy inadequacies are also reflected in Zambia's failure to diversify away from copper. The dependency on copper whose prices fluctuate presents additional macroeconomic and fiscal costs instabilities and revenue loss.

5.3 Adequacy of Policy Frameworks and Key Policy Elements

Against the backdrop of a dismal trade performance, Zambia has in place a plethora of policies and institutional and regulatory frameworks aimed at promoting the growth of exports. The Acts also regulate procedures relating to cross-border trade in goods, services, and movement of persons along the border between Zambia and regional countries.

Like other countries, Zambia must navigate a delicate balance between stimulating economic growth through trade and protecting its local businesses. While some taxes are directed at minimizing importation, Zambia's fiscal policy is generally aligned with the country's commitment to free trade. For instance, import duties range between 0 and 40 percent, while most export goods are zero-rated . The commitment to trade liberalization is evidenced by low reliance on trade taxes (Table 6).

As alluded to earlier, besides tariffs on imports, Zambia also levies tariffs on its exports. This is done to promote value-addition. It is backed by legislation such as the Customs and Excise Act. This strategy has been used to prevent exportation of raw materials

https://www.zra.org.zm/importation-of-goods/

such as timber logs, skin hides, and unrefined copper among others. However, the objective has not been successful because there is an absence of a corresponding reduction in the cost of doing business in the country to accompany these export measures. This reflects the deficiencies in the country's export policies and demonstrates a missing link between these policies, aimed at growing Zambia's exports, and those pertaining to the overall business climate in the economy.

With respect to NTBs, both imports and exports face several encumbrances in the pursuit for market access. The key considerations for export and import bans have been self-sufficiency, protection of local industry and public health concerns. Some of the most prominent import bans in Zambia have been on wheat, sugar (indirectly) and cement among others. In recent years Zambia has enacted frequent bans on the export of selected agricultural products such as timber and maize.
Most of the time, these bans have been undertaken in an arbitrary and erratic manner, introducing a high level of inefficiency. This has further undermined long term viability for the development of structured export markets. From a policy perspective, this reflects gaps in terms of consistency and coordination with respect to the country's export policies and institutional and legal frameworks.

Table 6: Share of Trade Taxes in Total Tax Revenue

Year	Taxes on Exports	Taxes on Imports
2011	0.0%	10.1%
2012	0.0%	10.3%
2013	0.0%	8.2%
2014	0.0%	7.1%
2015	0.0%	7.3%
2016	0.0%	6.5%
2017	0.1%	7.0%
2018	0.0%	6.9%
2019	0.2%	7.1%
2020	0.0%	6.4%
Average	0.0%	7.7%

Source: World Bank Data Bank

Zambia's export policies and legal and institutional frameworks have also aimed to address challenges relating to trading across borders with neighbouring countries.

This has been without much success as observed in Zambia's ranking in the World Bank Ease of Doing Business measure on trading across borders. In 2020, Zambia was ranked 155 out of 190 countries on the measure (Table 7). The time it takes to comply with export documentation and border procedures is much more in Zambia compared to the average for Sub-Saharan Africa. Similarly, the documentary compliance costs associated with exports are higher in Zambia (US$ 200) relative to the Sub-Saharan region (US$ 172).

Zambia's poor performance with respect to the ease of doing business indicators on trading across borders has had a detrimental impact on the country's export trade. This poor performance could be attributed to Zambia's weak policies relating to border processes.
With respect to alignment of import tariffs to Zambia's industrialization agenda, the general principle is that producers must be able to import capital goods and raw materials cheaply. Currently, Zambia's tariff lines on capital goods range between 0 and 5 percent. This can be brought down to zero to encourage investment in export products.

Another policy area that has remained thorny is that of quality and technical and safety standards. There appears to be a conflict between the government's desire to raise revenue on the one hand and to set requisite standards on the other. Overall, cost reduction in adopted standards has been a missing element in Zambia's quality and technical standards setting process thereby affecting the growth of exports.

Table 7:World Bank Ease of Doing Business - Trading Across Borders 2020

	Zambia	Sub - Saharan Africa	OECD High Income
Time to export: Border Compliance (hours)	120	97.1	12.7
Cost to export: Border compliance (USD)	370	603.1	136.8
Time to export: Documentary compliance (hours)	96	71.9	2.3
Cost to export: Documentary Compliance (USD)	200	172.5	33.4
Time to import: Border Compliance (hours)	120	126.2	8.5
Cost to import: Border Compliance (USD)	380	690.6	98.1
Time to export: Documentary Compliance (hours)	72	96.1	3.4
Cost to import: Documentary Compliance (USD)	175	287.2	23.5

Source: Reproduced from the World Bank Doing Business 2020 Zambia Country Report

Export finance remains a critical element for the growth of exports especially among MSMEs. In Zambia, export finance remains low and facilities such as export credit, export insurance and export guarantee schemes remain limited. This tends to affect the ability of firms to be competitive in the export market due to lack of access to affordable financing.

The Zambian economy is currently not able to spur further real growth away from copper because it cannot harness its potential for increased trade. The economy is regionally and globally uncompetitive, with high production costs in the goods and services sectors, high trading costs and at risk of external shocks due to its dependence on copper (UNCTAD, 2016).

Therefore, while some success has been scored with respect to overall growth in Zambia's exports over the years, the picture is rather worrying when we look at the overall proportion of NTEs in Zambia. This points to the inadequacies in Zambia's trade policy and institutional and legal frameworks.

6 COMPARATIVE ADVANTAGE AND SPECIFIC VALUE CHAINS TO ENHANCE DOMESTIC REVENUE MOBILIZATION

6.1 Sectoral Analysis: An Overview

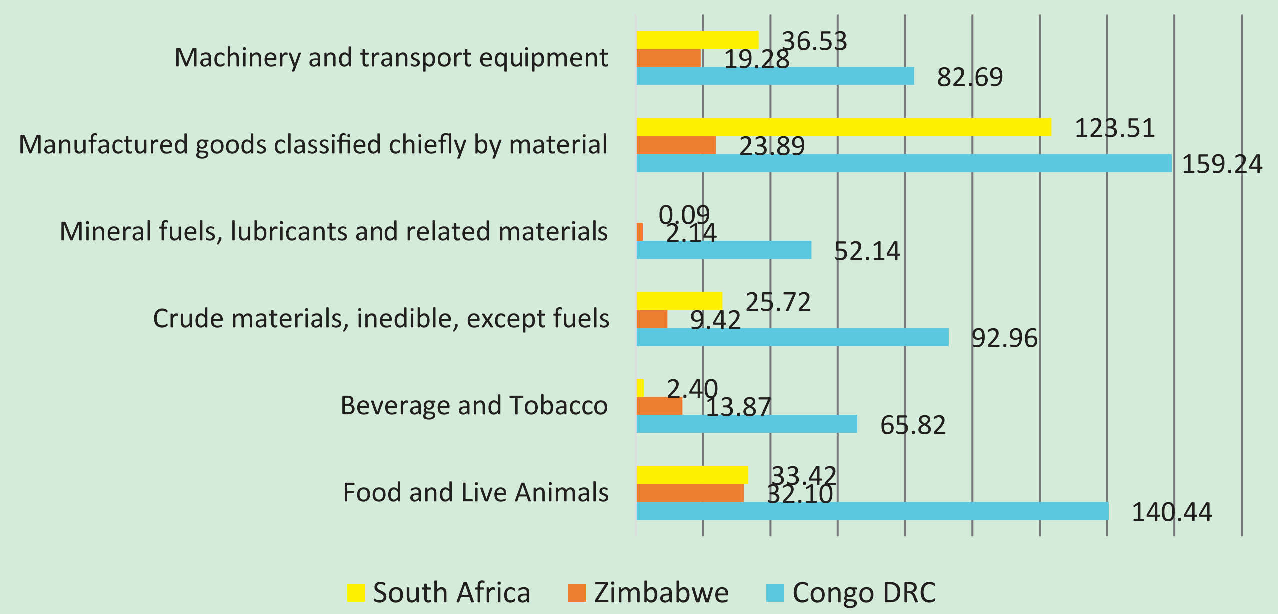
Zambia has identified several sectors for export promotion. The sectors include agriculture forestry and fisheries, energy, mining, and tourism. The 8NDP specifically identifies the manufacturing, agriculture, mining and tourism as priority sectors and key drivers of Zambia's development (Table 7). This subsection discusses the opportunities and export initiatives in select sectors.

Overall, Zambia's export potential lies in agriculture (food and live materials) and minerals (manufactured goods classified chiefly by material), as reflected in the dominance of these items in its exports (Figure 13). However, to realize this export and revenue potential, Zambia will have to make significant investments in agriculture and actualize the measures outlined in the 8NDP and the Medium-Term Budget Plan 2023-2025. United Nations Conference on Trade and Development (UNCTAD) has computed revealed comparative advantage (RCA) indices to country's measure a country's competitive export strength by product category . The export priority sectors in the 8NDP are not that different from those identified by UNCTAD's RCA calculations.

The RCAs indicate that Zambia has strong competitiveness in these product categories: crude materials, inedible, except fuels, beverages and tobacco, food and live animals, and manufactured goods. Notable and unsurprising is the fact that copper has the highest RCA of 90.1, followed by sulfur and unroasted pyrites, tobacco, unmanufactured and tobacco refuse with RCAs of 29.4 and 25.5 respectively.

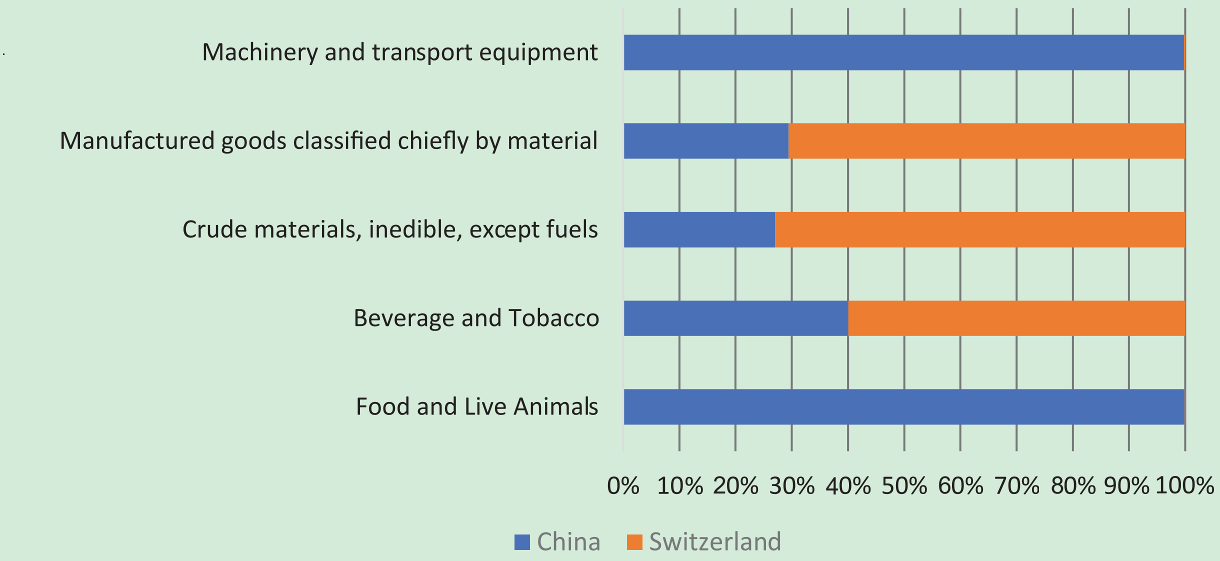
Figure 13: Zambia's Export Performance: 2018-2020 (US$ Million)

Panel A: Exports to Select SADC Countries (2018-2021; US $ million)



https://unctadstat.unctad.org/EN/RcaRadar.html

Panel B: Exports to Main Markets (Outside Africa): US$ million



Source: Author's Construction from COMTRADE

6.2 Agriculture, Fisheries and Forestry

Zambia is betting on the agriculture sector to promote its exports and diversification agenda. This is reflected in its 8NDP where government commits to grow agriculture exports by 164.5 percent, from US$ 756.2 million in 2021 to US$ 2 billion by 2026. Through various interventions such as value-addition and reforming the input subsidy program, the government aims to attain 10 percent per annum growth in the agriculture sector over the plan period (2022-2026).

The agriculture sector accounts for about 22.4 percent of Zambia's labor force and is second only behind the wholesale and retail trade sector – see Table 8 (Zamstats, 2020). Nonetheless, the sector's contribution to GDP has tapered in recent years and was estimated at about three percent in 2020. The sector remains important in Zambia's development prospects due to its interface with the agroprocessing subsector (World Bank, 2007).

This linkage is evidenced by the agriculture sector being a major supplier of inputs used in the agroprocessing sector. Thus, the agriculture sector is also crucial for the growth of the manufacturing sector, particularly agroprocessing. For instance, the Food and Beverages subsector accounted for the largest contribution to manufacturing output between 2010 and 2020 (Zamtats, 2022).
The contribution of Zambia's agroprocessing sector (food, beverages, and tobacco) to output is relatively significant with the subsector alone accounting for about three percent of the country's GDP in 2020 (Zamtats, 2022).

Zambia's ambition is to climb the ladder of development through the key strategic objectives is outlined in the Vision 2030, 8NDP and the National Industrial Policy (2018), the National Trade Policy and the National Export Strategy. These documents all point to the need for diversification and value-addition. Specifically, the 8NDP identifies manufacturing, agriculture, mining and tourism as priority sectors to foster the country's development.

Thus, Zambia would benefit from further development of value chains in these sectors to effectively transform raw materials into finished products. In addition, given the significant role that regional bodies such as COMESA and SADC play in driving member state programs, regional industrialisation programs developed by the Regional Economic Communities (RECs) provide benchmarks for national governments in their development of national development policies.

In that case, the COMESA Industrial Strategy and Action Plan (2019-2026), and the SADC Industrialisation Strategy and Roadmap, (2015-2063) are key landmark blueprints that should guide Zambia in its industrial policies and selection of value chains for export revenue. For instance, the COMESA industrialisation strategy is anchored on ten priority sectors for regional cooperation and the agroprocessing subsector features prominently.

Table 8: Real GDP Growth by Sector (%), 2017-2021

Industry	2017	2018	2019	2020®	2021*
Primary Sector	-0.7	-5.4	-0.5	11.5	-4.0
Agriculture, forestry and fishing	9.8	-21.2	7.7	17.2	-0.7
Mining and quarrying	3.0	6.3	-5.1	8.0	-6.3
Secondary Sector	-6.9	3.8	-2.3	-2.1	8.1
Manufacturing	4.4	4.1	2.4	1.0	4.2
Electricity generation and supply	23.6	11.7	-8.1	3.1	12.7
Water supply; waste management	-3.7	5.1	-1.2	2.1	2.6
Construction	6.4	2.4	-5.0	-5.4	10.9
Tertiary Sector	-8.3	7.3	3.5	-6.1	4.6
Wholesale and retail trade	0.7	3.3	0.4	-12.6	2.3
Transportation and storage	7.8	7.7	-2.8	13.8	7.1
Accommodation and food service activities	6.0	1.7	2.2	-22.4	7.2
Information and communication	-13.2	40.1	18.6	14.3	19.7
Financial and insurance activities	-6.2	23.5	8.1	13.0	6.6
Real estate activities	2.9	3.3	3.5	3.5	3.6
Professional, scientific and technical activities	6.1	2.5	-0.9	6.8	0.5
Administrative and support service activities	6.0	6.1	0.3	3.3	3.7
Public administration and defence	2.8	1.6	8.3	-15.9	-0.7
Education	6.7	4.8	1.8	-19.3	-0.6
Human health and social work activities	17.4	11.0	8.3	7.4	2.5
Arts, entertainment and recreation	-4.0	12.2	3.8	-71.6	25.2
Other service activities	2.8	3.3	3.5	3.5	3.6
Total Gross Value Added for the economy	3.5	4.0	1.5	-2.2	3.6
Taxes less subsidies	3.5	3.8	0.4	-12.6	2.3
Total for the economy, at market prices	3.5	4.0	1.4	-2.8	3.6

®Revised;* Preliminary
Source: MoFNP Annual Economic Report

In addition, the SADC strategy recognizes the importance of using industrial policy tools to strengthen regional value chains as strategic levers for building enterprise capacities to integrate into global value chains. Five priority value chains for SADC industrialisation have been identified and just as in the COMESA strategy, agroprocessing is one of the most prominent sectors. In fact, for most of the sectors identified in the SADC industrialiation and road map, Zambia is quite prominent (Table 9). For Zambia, the abundant water bodies, coupled with targeted aquaculture policies, political stability, and recent restoration of macroeconomic stability, gives it a comparative edge in fish exports over its peers in the region. For instance, the 8NDP outlines several measures aimed at developing the aquaculture subsector, including enhanced fingerling production and expediting the establishment of fish breeding and freezing facilities.

Table 9: Major sectors and Countries (SADC Industrialisation strategy and roadmap)

Sectors	Countries
Sugar	Malawi, Mozambique, South Africa, Eswatini, DRC, Tanzania, Zambia, Zimbabwe, Mauritius, Botswana
Meat poultry and beef	Botswana, South Africa, Zambia, Zimbabwe, Namibia, Eswatini, Madagascar, Tanzania, DRC
Cassava	Angola, DRC, Mozambique, Tanzania, South Africa, Malawi, Madagascar, Zambia, Zimbabwe
Dairy	Madagascar, South África, Namibia, Tanzania, DRC, Malawi, Botswana, Zambia, Zimbabwe, Eswatini
Fish and fish products	Angola, Mauritius, Mozambique, Namibia, Seychelles, South África, Zambia, Madagascar, Malawi, Tanzania, DRC, Zimbabwe
Wildlife (game, meat, and hides processing)	Botswana, Namibia, South Africa, Zambia, Zimbabwe, DRC
Horticulture (Fruits, Vegetables and Flowers)	Eswatini, Lesotho, Zambia, South Africa, Malawi, Madagascar, Zimbabwe, DRC, Namibia, Tanzania
Forestry – Timber and non-timber forestry products (medicinal, cosmetics, essential oils and other herbal products)	DRC, South Africa, Angola, Madagascar, Swaziland, Mozambique, Zimbabwe, Zambia, Namibia, Tanzania, Malawi, Mauritius
Other Food and Drinks	Angola, DRC, Lesotho (maize), Zambia (oil seeds and livestock products), Malawi (oil seeds), South Africa, Zimbabwe, Eswatini, Madagascar (Rice, maize, black eyed beans, pea), Namibia, Tanzania (maize, rice, oil seeds)

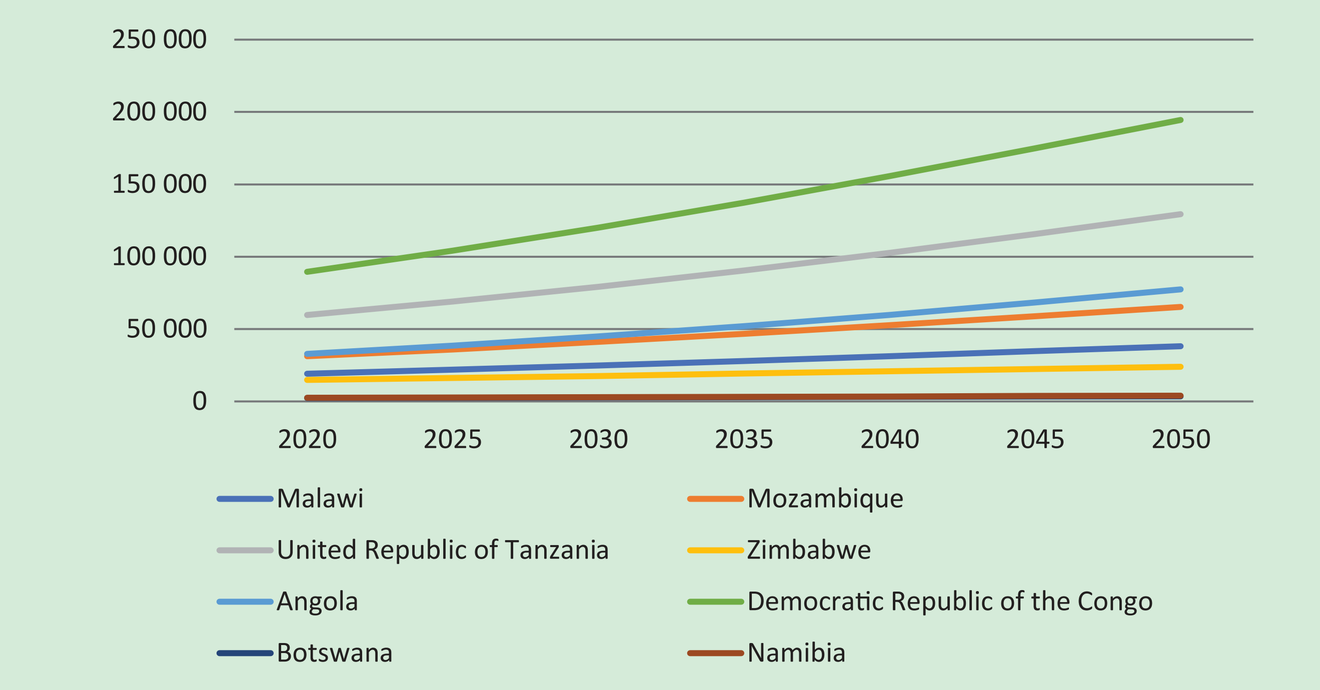
Source: Action Plan for SADC Industrialization Strategy and Roadmap (2017)

Zambia has the potential to embark on an agriculture-led and inclusive industrialization trajectory given its natural endowments due to increased national and regional demand for such products because of a growing middle-class (UNIDO, 2020). By virtue of its eight neighbouring countries and being a member of COMESA and the SADC, Zambia has a potential market for agricultural produce. Rapidly increasing urban populations, changing consumption patterns, and growth in per capita income have resulted in increased regional demand for food and are thus providing opportunities for Zambian farmers.

Zambia is poised to benefit from the growth in population among its neighbouring countries. The population in Zambia's eight neighbouring countries is projected to double from the current 252 million people to about 536 million people by 2050 ((UN, 2022). Growth in population among neighbouring countries is beneficial for the agriculture sector as it implies increased demand for food items. Figure 14 shows the projected population trends in the region.

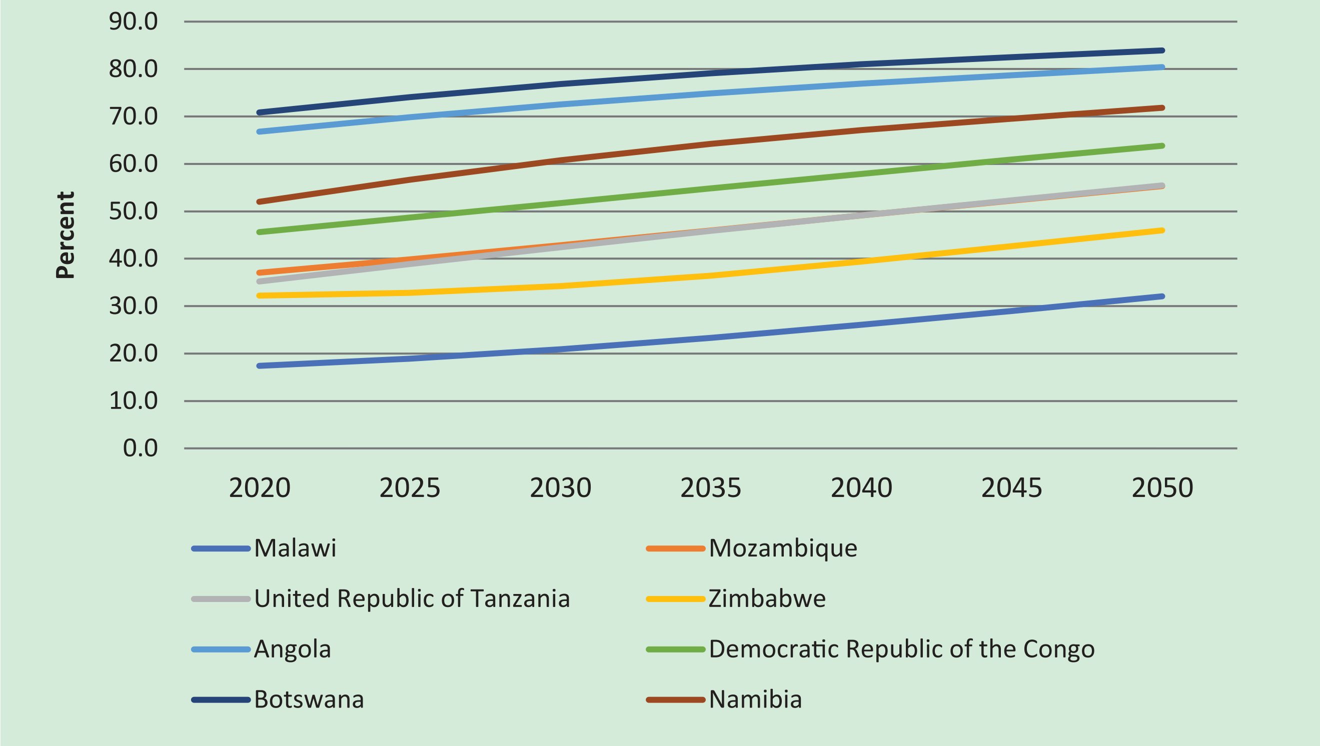
Aligned to the growth in population within the region is the projected increase in rates of urbanization. According to the UN (2022), urbanization among Zambia's eight neighbours is projected to increase from the current average of about 44.7 percent to 61.0 percent by 2050 (Figure 15). Because average levels of total food intake are generally higher in urban areas, various studies generally suggest that urbanization increases the total demand for food. This will provide an opportunity for Zambia to capitalise on its comparative advantage in the agriculture sector to move towards value addition and gain a foothold in the regional export markets.

Figure 14: Population trends among Zambia's neighbouring partners - Millions



Source: Author's construction using UN data

Figure 15: Projected Urbanisation rates among Zambia's neighbouring countries



Source: Author's construction using UN data

Table 10: Zambia's Crop Forecast Survey (2021/2022)-Tonnes

	2017	2018	2019	2020	2021
Maize	3,313,750.59	2,333,034.06	2,432,138.30	3,493,602.08	3,383,587.01
Sorghum	16,175.17	11,350.14	10,364.18	19,558.55	17,397.80
Rice	39,704.21	39,341.20	30,977.59	43,257.94	64,882.89
Millet	32,486.89	30,225.19	30,410.07	42,159.27	31,808.56
Sunflower	49,495.19	43,897.49	38,692.72	58,558.95	79,912.23
Groundnuts	174,059.10	160,883.55	129,327.08	146,916.52	181,405.63
Soyabeans	331,450.37	293,974.36	287,734.62	343,708.09	437,452.52
Seed Cotton	88,996.25	83,880.51	63,929.68	38,795.16	29,344.43
Virginia Tobacco	12,404.98	13,246.37	12,617.68	12,905.15	15,923.63
Burley Tobacco	9,190.37	10,928.07	7,847.27	5,304.94	8,906.75
Mixed Beans	47,484.01	53,883.11	56,404.30	50,493.15	56,025.29
Wheat	177,863.07	121,940.28	159,804.37	194,472.39	211,690.49

Source: Author's construction using Zamstats Crop Forecast Survey data

Table 11: Zambia's Top Agricultural Product exports (2017 - 2021) – Thousand US Dollars

Product label	2017	2018	2019	2020	2021
Beverages, spirits and vinegar	50,636	74,520	70,995	92,487	143,661
Tobacco and manufactured tobacco substitutes	88,268	105,722	71,198	116,427	130,007
Sugars and sugar confectionery	136,191	125,401	142,391	118,849	124,692
Residues and waste from the food industries; prepared animal fodder	58,708	84,545	52,114	50,797	115,493
Preparations of cereals, flour, starch or milk; pastrycooks' products	15,025	34,882	45,737	47,141	73,470

Source: Author's construction using ITC Trademap data

This reflects Zambia's comparative advantage in the agriculture sector and existing potential for light manufacturing through processing of agricultural raw materials into finished products such as sugar confectionery, animal feed and refined oils as well as beverages.

To illustrate this potential, Table 12 indicates that the major export destinations for Zambia's processed food products are within the region. This is in keeping with our earlier analysis which showed that the regional markets remain Zambia's top destinations for non-traditional exports with the DRC ranking highest. This highlights the importance of a regional focus in growing Zambia's exports and mobilization of resources from trade.

From the foregoing analysis, the potential for agroprocessing development in Zambia is largely associated with the relative abundance of agricultural raw materials and the low-cost of labor. The most suitable industries therefore are those that make intensive use of these abundant raw materials and unskilled labor. The growth of the agroprocessing sector anywhere in the world cannot be discussed in isolation but rather it should be seen as a direct consequence of the flourishing primary agriculture sector.

Table 12: Major Export Destinations for Zambia's Agro Produce (US Thousand Dollars)

Importers	Exported value in 2017	Exported value in 2018	Exported value in 2019	Exported value in 2020	Exported value in 2021
Congo,Democratic Republic	154,308	186,757	214,206	279,613	400,672
Zimbabwe	89,940	76,022	30,813	54,904	82,169
Malawi	48,455	37,959	50,670	43,955	56,389
South Africa	50,753	44,864	38,448	35,788	55,017
Tanzania, United Republic of	39,711	25,858	27,180	23,583	40,833

Source: Author's construction using ITC Trade Map data

The government has identified a number of agroprocessing opportunities in the country that include: peanut butter production, sugar confectionery, cashew nut processing, animal or stock feed production, cassava processing (food and other industrial products), grain milling (rice, maize, wheat etc.), edible oil production, fruit canning and juice extraction, meat, dairy, leather and leather products, fish canning and fish meal production, cotton spinning and textiles, bio-diesel production and ethanol production, and honey processing.

Arising from the list of agro products highlighted above, two value chains (sugar confectionery and soya beans) are selected for illustration purposes on the existing export potential in the agroprocessing sector. While there could be variances in the subsectors, the common theme across the sectors is that of limited value addition to raw produce.

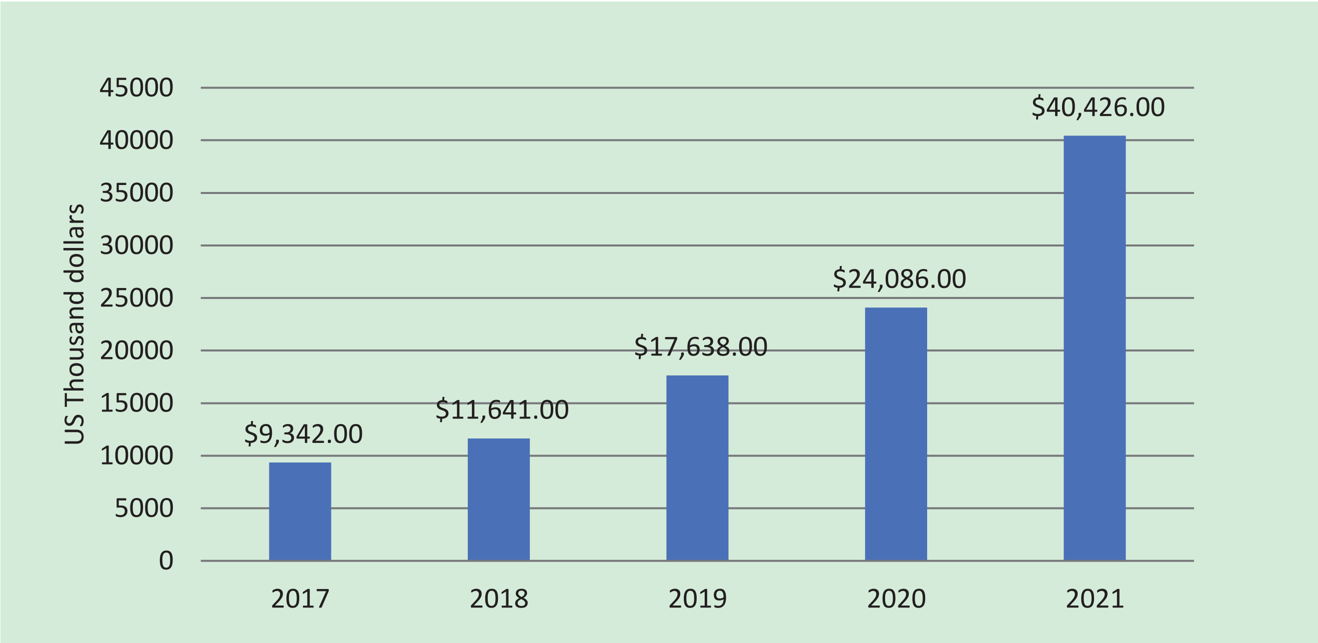
6.2.1 The Sugar-to-Sugar confectionery value chain

The sugar subsector is one of Zambia's most important economic subsectors and is one of the most successful non-traditional export crops. In 2021, Zambia produced about 495, 000 tonnes of sugar (Zamstats, 2022). The sugar industry provides employment for around 11,000 workers, with a total of dependents probably exceeding 75,000 (Palerm et al., 2010). In 2021, the sugar sector generated about US$ 124 million in export revenue from about US$35 million in 2002. Zambia is the lowest cost producer in the region and is well placed to exploit the opportunities associated with access to low-cost sugar to develop low to medium technology value-added products in the sugar and baked confectionery value chain (Paremoer, 2018).

The sugar-to-sugar confectionery value chain in Zambia is organised in such a manner that the upstream level is the agricultural component, where sugarcane is grown. The next level involves the milling of sugarcane into sugar. This is followed by the downstream manufacture of confectionery producers who use sugar as a key input (Nair, Nkhonjera, & Ziba, 2017). It is the confectionery products that are of interest to this study given the links prospects for growth of the manufacturing sector and the prospects for export growth.

Zambia enjoys a positive trade balance with respect to sugar confectionery products. This suggests existence of comparative advantage in the sector (Figure 16).

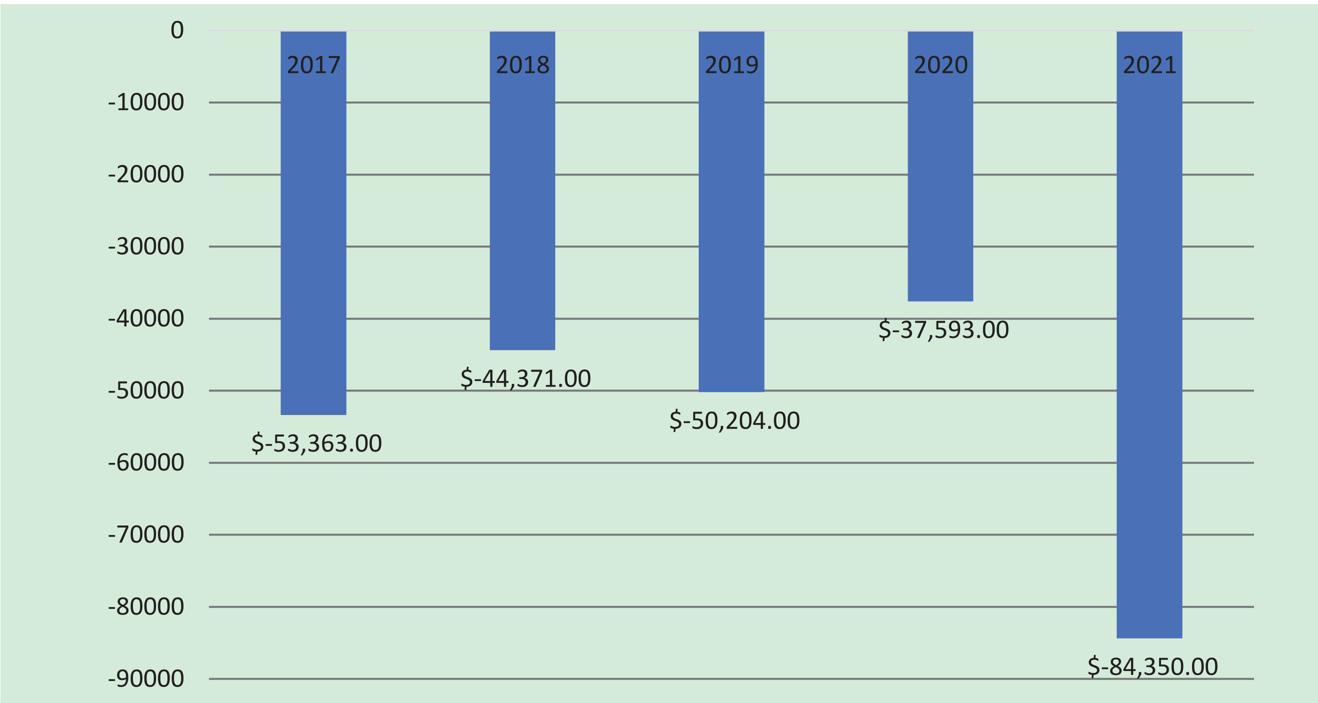
Figure 16: Trade (Balance) in Sugar Confectionery (HS 1704) - 2017 to 2021 - (US Thousand Dollars)



Source: Author's construction using ITC Trade Map

The opportunity for exports of sugar confectionery products exists within the SADC region. The SADC region has a negative trade balance in sugar confectionery products (Figure 17). In 2021 Zambia imported US$90 million worth of sugar confectionery from the SADC region while it imported US$165 million worth of sugar confectionery from the rest of the world, representing an existing market of about US$125 million dollars. The main exporters of sugar confectionery to the SADC region were South Africa, Zambia, and Kenya while the rest were India, China, Brazil, Turkey. This indicates an already existing market for Zambia's sugar confectionery products in the region.

Figure 17: SADC Sugar Confectionery (HS 1704) Trade Balance - 2017 to 2021 - (US Thousand Dollars)



Source: Author's construction using ITC Trade Map data

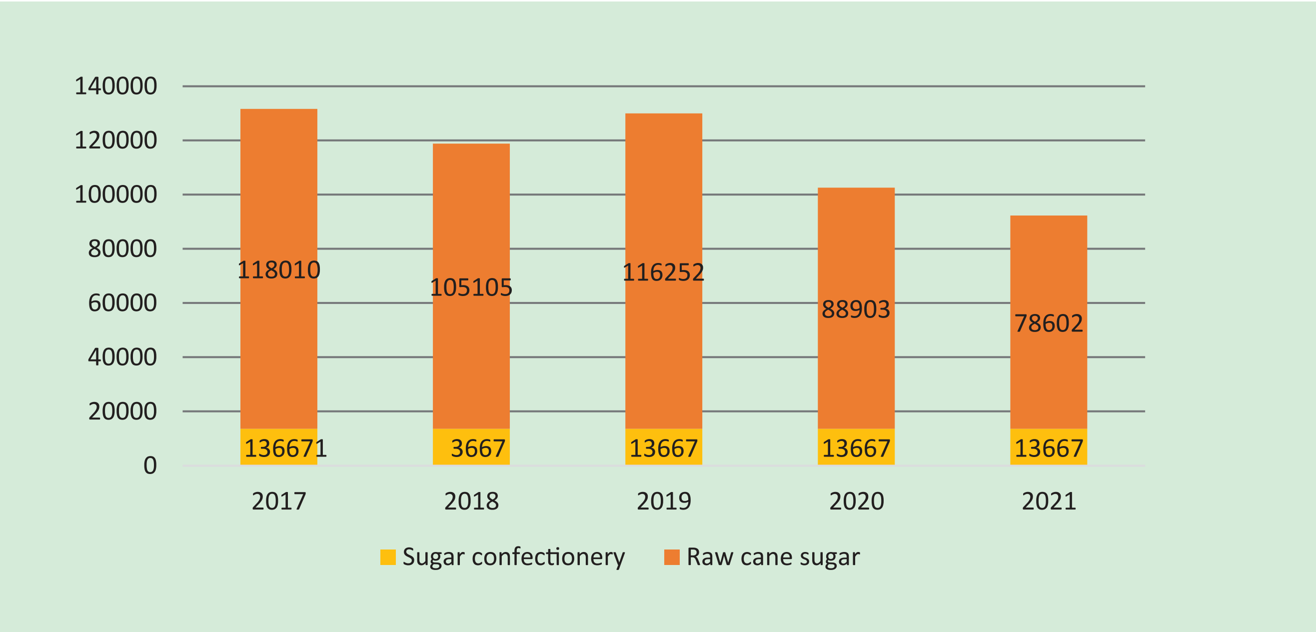
Notably, Zambia has not exploited its full potential in the sugar-to-sugar confectionery value chain. As shown in Figure 18, Zambia exports more raw cane sugar than sugar confectionery. Despite some growth in recent years, Zambia is yet to maximize the revenue and economic benefits of the sugar confectionery subsector. Zambia, the lowest-cost regional producer, has an existing manufacturing base but with little to show for it in terms of export growth.

This raises the question of opportunities for local processing in Zambia in particular, to capture the regional market for sugar confectionery (Paremoer, 2018).

Despite positive signs of growth and significant levels of investments being made in Zambia's sugar confectionery sector, several challenges persist. These include the price of input sugar and the lack of alternative suppliers of sugar. This is an important issue to tackle. The advantage that Zambia has in sugar should afford the opportunity for the downstream industry to be competitive.

Other general concerns include lack of access to finance through commercial banks (mostly due to prohibitively high lending rates) and government programmes. In Zambia lending rates can range to 30 to 40 percent, leaving businesses with limited alternative sources of finance. Additionally, high transport costs in Zambia, erratic and high electricity costs and difficulties dealing with supermarkets present additional challenges to the sector (Nair, Nkhonjera, & Ziba, 2017).

Figure 18: Raw cane sugar vs Sugar confectionery exports (2017 to 2021)- (US Thousand Dollars)



Source: Author's construction using ITC Trade Map data

6.2.2 Soybean to animal feed value chain

As suggested earlier, in recent year's soya bean has become a very prominent crop in Zambia's agriculture sector. Zambia has gradually increased its production of soya beans to 475,000 tonnes produced in the 2021/22 farming season. In Zambia, the soybean has been identified as a priority value chain, owing to its numerous benefits ranging from nutrition, income generation, job creation (particularly for women and youth), and trade potential.

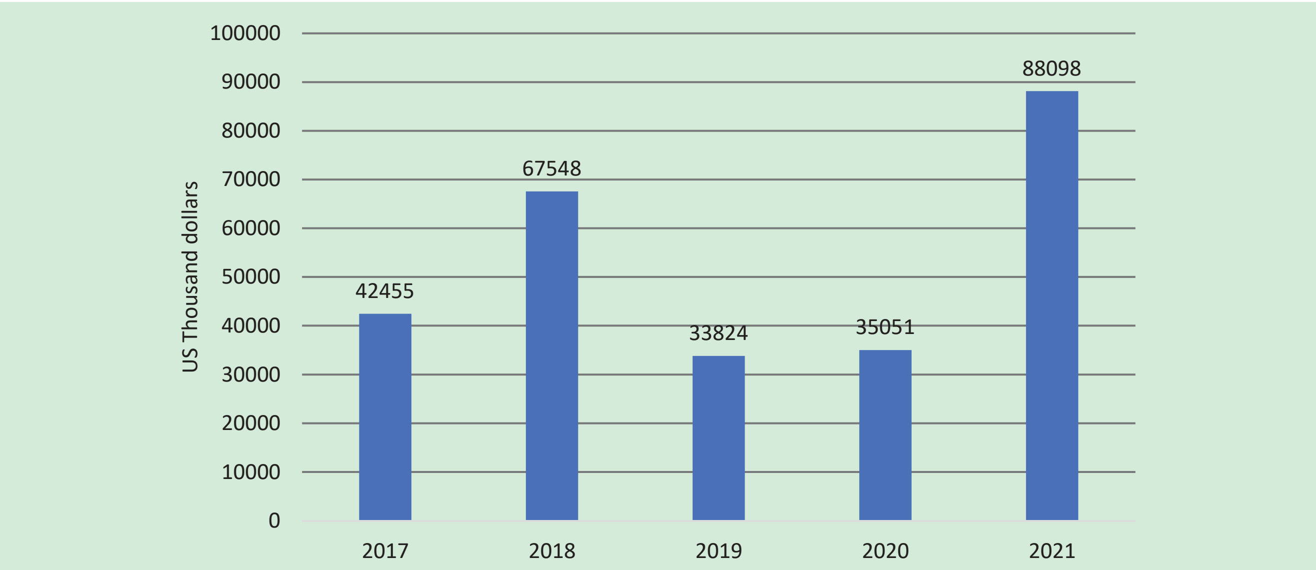
With regards to utilization, soya beans in Zambia, are mostly used as an industrial crop, including oil production, soybean chunks and soybean meal. The by-product (such as soybean cake) is used as an animal feed and is either fed directly to animals or processed with other ingredients into animal feed stock. As an animal feed, soyabean by-products provide relatively low-cost, high-quality protein in feed ration formulation. With a rapidly growing livestock sector in the SADC region, regional and country-level demand for soya beans is on the rise and is expected to remain high in the foreseeable future. This presents a significant opportunity for regional soybean value chain growth and trade, thus facilitating income growth for value chain actors.

Zambia has also increased its oilseeds crushing capacity in recent years and now has the capacity to process about 550,000 tonnes of beans per annum, with production of soya beans growing rapidly towards this capacity (Mulenga, Banda, Kasoma-Pele, & Chapoto, 2020).

For Zambia, Soya oilcake is a high-value product with forward linkages in the region, specifically South Africa, where ability to grow its current production is limited by water scarcity. The potential for further development of this value chain in Zambia with focus on the export market is clear, given unmet demand for processed products such as soya oilcake in South Africa (currently met by deep sea imports from South America) and high potential for increased production of soya in Zambia to replace deep-sea imports within the region. The increased demand is premised on the growing demand for meat and poultry products in the region and the nutrition value associated with soya oil cake as animal feed.

Regarding trade, Zambia enjoys a positive trade balance as shown in Figure 19. This is reflective of the existing comparative advantage in the soya beans value chain.

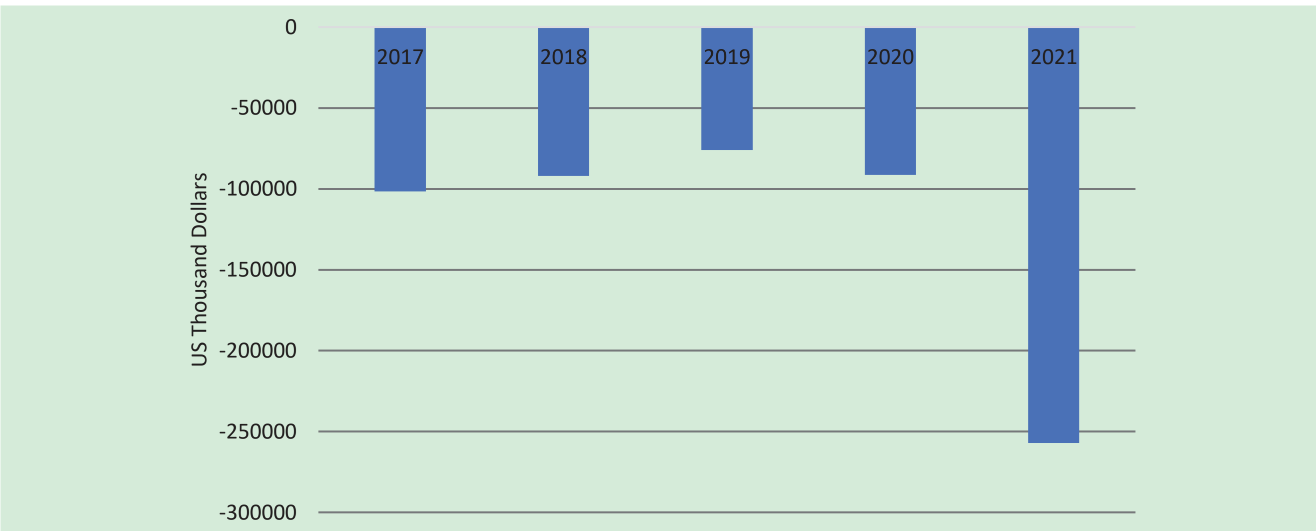
Figure 19: Zambia Soya Cake Trade Balance (US Thousand Dollars)



Source: Authors' construction using ITC Trade Map data

The existing market in the SADC region for the same product is evident in the negative trade balance that Zambia experiences with respect to soya cake (Figure 20).

Figure 20: SADC Soya cake (HS Code 2304) Trade Balance (US Thousand Dollars)



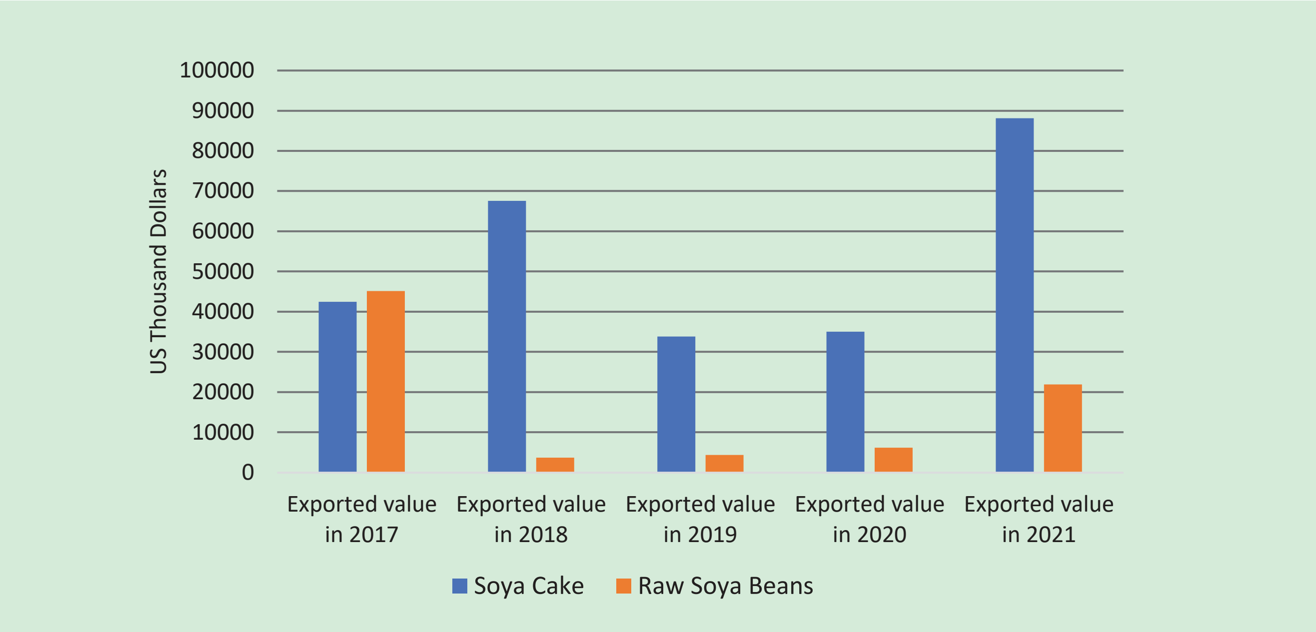
Source: Author's construction using ITC Trade Map

In 2021 SADC imported soybean oil cake worth US$396 million. Notably, only US$153 million was imported from within the SADC region representing a potential market for Zambia worth about US$243 million.

The leading exporting countries to the region include Argentina, South Africa, Zambia, Malawi, Paraguay and India while the leading import destination for the product in the region are South Africa, Tanzania, Zimbabwe, Mauritius and Botswana (ITC, 2022).

Notably for Zambia, its exports of soybean cake have outstripped raw soya bean exports during the period 2017 to 2021 (Figure 21). This is indicative of the earlier mentioned capacity growth in terms of refinery.

Figure 21: Zambia's Raw Soya Beans and Soya Cake exports (2017 - 2021) (US Thousand Dollars)



Source: Author's construction using ITC Trade Map

From the foregoing analysis, a soya bean to soya cake value chain can support the growing demand for soya cake in the region (specifically South Africa) derived from a growing demand for poultry products. Soya production, which is already growing at a significant pace in Zambia in particular, can replace deep-sea imports.

The sugar-to-sugar confectionery value chain also provides potential for export given that Zambia is a low-cost sugar production centre even though this has not been fully utilized. This goes to the heart of the challenge of seeing food processing as an industrialization imperative, which we have set out above.

Other export opportunities lie in the forestry industry where Zambia stands to gain from export of timber and associated value chains. However, illegal trading of certain trees and products such as the infamous rosewood (Mukula) tree has cost the country revenue. According to the FIC, illegal exports of Mukula amounted to at least ZMK 4.4 million in 2017.

While agriculture has potential to contribute to GDP and export growth, the sector is marred with various productivity challenges. For a long time, Zambia has focused more on maize production, neglecting other cash crops such as soya beans that are more profitable for farmers.

Box 1: The Inefficiencies in the Agriculture Marketing

The agriculture sector presents a great opportunity for Zambia's export growth. However, the government has been allocating significant resources to the Famer Input Support Program (FISP), a subsidy program for maize farmers. This program has proved costly for the country, with dire fiscal implications manifesting in widening fiscal deficits. Compounding this problem is the inefficient marketing of maize. The Food Reserve Agency (FRA) is tasked with managing national strategic reserves, including the marketing of agriculture commodities.

However, the FRA has remained largely inefficient, especially in contributing to domestic revenues. This underperformance is attributed to suboptimal agriculture policies, inconsistent maize trading policies, and the politicization of maize, among others. The agriculture marketing system is also hampered by price controls and export bans for select agricultural commodities, with maize most affected. These policy missteps have contributed to the loss of export revenue and the failure to harness the agriculture sector's potential to contribute to export growth.

Surrounded by eight other countries with weak economies, Zambia could capitalize on this huge export market by boosting its agriculture exports. The focus on maize costs the country not only in terms of the resource wastage emanating from the FISP, lost revenues, and produce wastage, but also in terms of forgone revenues from subsectors such as animal and animal products, textile and garments, horticulture, and other cash crops. A look at projected changes in Africa's trade indicates that Zambia would be better positioned to benefit from the ACFTA if it improved its agriculture sector by diversifying it and investing in value addition.

6.3 The Mining Sector and Mining Value Chain

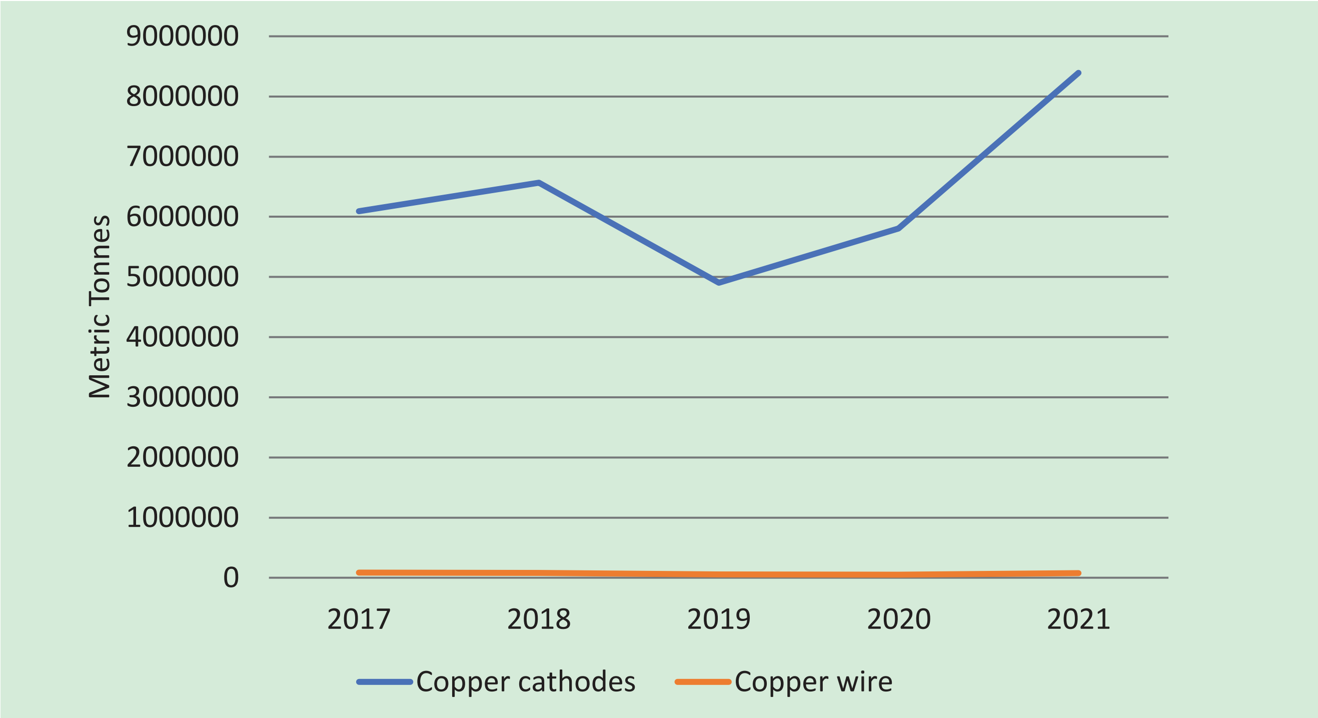
The mining sector is the bedrock of Zambia's economy. The mining and quarrying sector contribution to real GDP growth averaged a meagre 1.18 percent over 2017 to 2021. However, the sector is highly susceptible to global shocks, and this explains the country's attempts to diversify away from the sector. This sensitivity to external shocks could explain the sector's contraction in 2019 (-5.1 percent) and 2021 (-6.3 percent).

Zambia also relies heavily on the mining sector for foreign exchange earnings and job creation. In 2021, it produced 800,096 metric tonnes of copper and holds 6 percent of the world's known copper reserves. Copper and cobalt, which are the country's main tradition exports, account for well over 70 percent of Zambia's export earnings. Zambia's copper mines have traditionally been concentrated in the Copperbelt province. However, over the last 20 years, mining activities have extended to the North-Western province which now accounts for the largest share of copper production in the country.

Other mineral endowments in the country include gold, nickel, lead, iron ore, manganese, limestone, uranium, coal and gemstones (e.g., diamonds, emeralds, aquamarine, topaz, opal, agate and amethysts). Notably, Zambia is known to produce about 20 percent of the world's emeralds. This endowment of mineral resources across the country provides opportunities for further extraction and more importantly processing.

In recent years, government policy has been tailored towards the promotion of value-addition to minerals such as copper through the introduction of incentives such as a preferential corporate tax rate of 15 percent for companies that add value to copper cathodes compared to the standard 35 percent for other non-incentivized firms. The illustration in Figure 22 indicates that in terms of exports, copper cathode far exceeds export of copper wire, suggesting limited value addition from the sector.

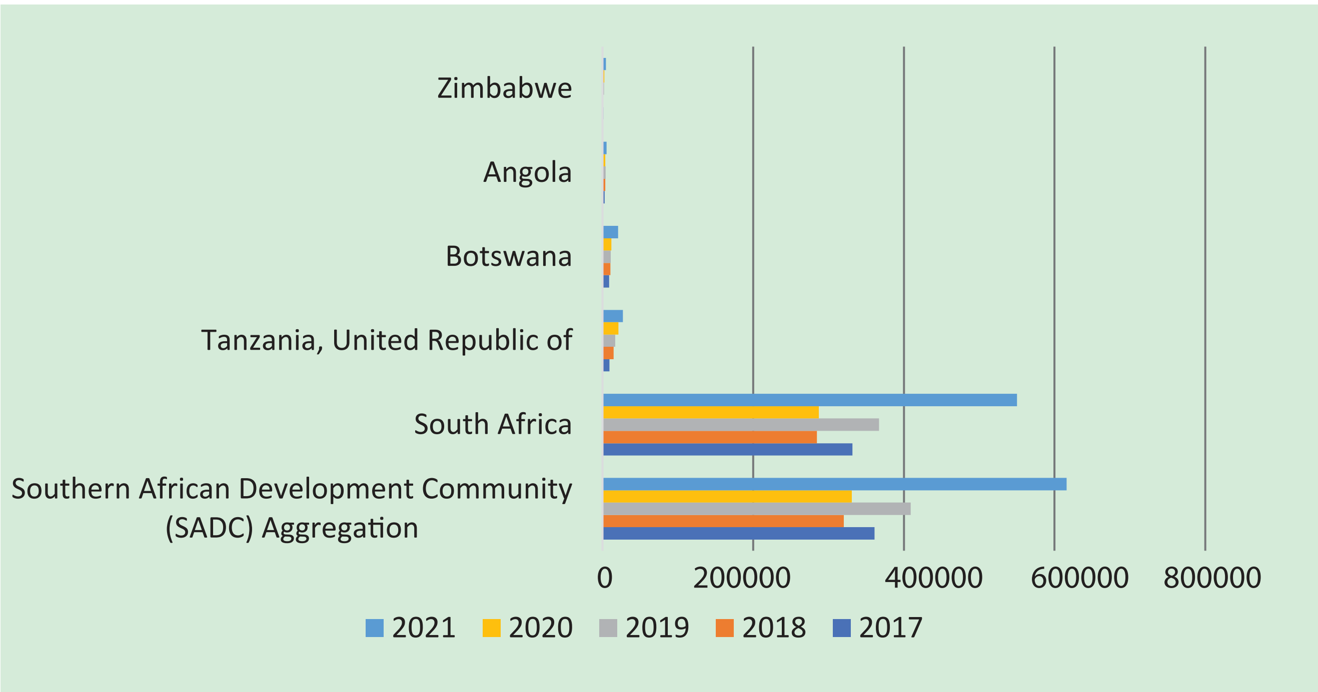
Figure 22: Zambia's copper cathode and copper wire exports (US Thousand Dollars)



Source: Author's construction using ITC Trade Map data

Beyond the global market, export opportunities for copper wire and other value-added copper products exist within the SADC region. For instance, between 2017 and 2021, the SADC region imported an average of US$ 407 million worth of copper wire. South Africa is the region's leading importer of copper wire products as shown in Figure 23. Zambia can thus ramp up its production of copper wire and other value-added copper products to target the

Figure 23: SADC Imports of Copper Wire (US Thousand Dollars)



Source: Author's construction using ITC Trade Map data

The status quo for most of Zambia's minerals is quite like that of the copper industry where production and exports are mainly in raw form. Opportunities for development of various mineral value chains exist across the country where further processing can be undertaken to target exports to the regional markets. The foregoing analysis also suggests that Zambia has not fully exploited the other minerals such as gold, nickel and manganese which have potential to enhance the export earnings. The mining fiscal policy inconsistencies and resultant operational challenges have also contributed to the underperformance of the mining sector, resulting in lower earnings.

6.4 Impediments to Mobilization of Revenue from Trade

The mobilization of revenue from trade remains a challenge in Zambia despite the country placing export development at the centre of its economic diversification agenda. Zambia has not maximized the revenue benefits of international trade. The miniscule contribution of customs and export duty to total tax revenue is indicative of Zambia's poor performance. Between 2016 and 2020, the share of customs and export duty contributed the least to Zambia's total tax revenue, with an average of 6.78 percent over the review period. This is relative to other taxes such as income, value-added, and excise taxes, which averaged 53.98 percent, 30.88 percent, and 8.3 percent, respectively. The impediments can be classified in two groups, namely obstacles towards market access (external) and obstacles towards production (internal). These classifications are informed by findings from the desk review and the stakeholder consultations.

Obstacles Towards Production

The obstacles towards production are mostly internal constraints that inhibit the growth in exports that can penetrate the regional and international markets. The key impediments to this growth are as follows:

(i) Uncertainty in regulatory environment

Policy inconsistency in Zambia remains a key challenge in Zambia. For the export markets, instability is detrimental as exporters can process goods for export only to encounter export restrictions at the time of export. Policy inconsistency in trade has been more apparent in the export of agricultural products such as maize and forestry products such as timber. The policy inconsistencies have had a detrimental effect on export revenue mobilization as exporters require long term assurance for a predictable export environment. Further, investment in the affected sectors also becomes unstable as investors do not venture into sectors with high levels of uncertainty.

(ii) Limited supply and demand information

The lack of access to export markets remains a critical militating factor to export revenue mobilisation in Zambia. The business community is prevented from engaging in business activities despite having goods and services that can be exported. The lack of market access is mainly a result of inadequate market linkages by the government and poor marketing and networking skills among firms. The limited export marketing activities such as participation in international trade fairs and exhibitions and trade missions among others limits the opportunities for the growth of Zambia's exports and ability to access new markets.

(iii) Limited access to finance

Limited access to affordable finance continues to limit the growth of exports and subsequent revenue mobilization in Zambia. This is due to the often bureaucratic and stringent commercial market procedures that inhibit access to finance. Export finance remains low and facilities such as export credit, export insurance and export guarantee schemes remain limited. In addition, interest rates are high and therefore deter firms (especially) MSMEs from borrowing to expand their productive capabilities. This tends to affect the ability of firms to be competitive in the export market due to lack of access to affordable financing. As a result, the country's export basket remains limited thereby inhibiting the mobilization of additional resources.

(iv) Inadequate infrastructure

In recent years, Zambia has made progress in terms of infrastructure development. However, this has mainly been in its main trunk road network (Viviene & Dominguez, 2011). Between 2017 and 2020, Zambia spent about 1.5 percent of GDP on roads, a relatively high outlay (MoFNP, 2022). Despite significant investments in urban roads, rural road networks appear to be neglected. Zambia's rural road accessibility is poor compared to its peers. While 70 percent of Zambians depend on agriculture for their livelihood, only 17 percent of this population lives within 2 km of an all-season road—about half the African average (Viviene & Dominguez, 2011). With the undeveloped rural roads, connectivity to production centres remains a challenge and this increases the overall cost of exporting products.

In addition, the railway sector remains underdeveloped and dominated by the use of outdated infrastructure characterized by poor maintenance. In the energy sector, Zambia's electricity sector has been characterized by the lack of diversification in its sources. In 2020, National installed capacity was dominated by hydro power accounting for 79.6 percent. Coal, hydro fuel oils (HFO), diesel and solar accounted for 10.9 percent, 3.6 percent, 2.78 percent and 2.9 percent, respectively. Therefore, the poor state of road, rail and energy infrastructures adds to the challenges that prevent export growth in Zambia.

(v) Macroeconomic instability

The instability with respect to Zambia's macroeconomic environment remains an impediment to mobilization of revenue from trade. Zambia has been grappling with macroeconomic instabilities and fiscal constraints in the recent past. The poor macroeconomic environment highlighted in Section 2 of this report, has increased the general cost of doing business in the economy affecting the operations of businesses that should be engaged in productive activities for the export markets. This has hampered revenue mobilization from trade.

(vi) Illicit Financial Flows

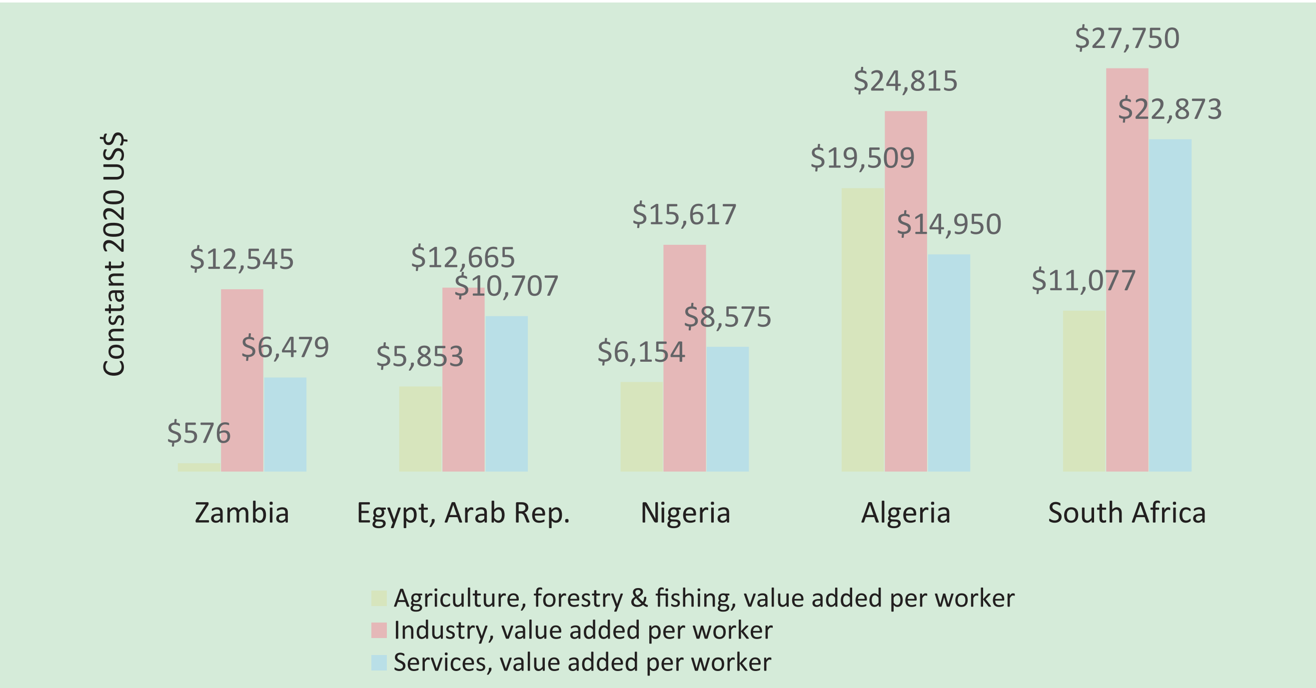
As highlighted in an earlier section, IFFs pose a significant and growing threat to Zambia's resource mobilization efforts, hence continuing to be a serious concern in Zambia.

Weak productive capacities and low productivity

Zambia's weak productive (and export) capacity limits the country's ability to generate sufficient revenue from the export markets. Zambia is further constrained by low labor productivity particularly in agriculture and service activities. The agricultural sector, which should be a source of raw material into the secondary sectors then becomes less competitive due to the low levels of productivity. The country's labor engaged in agricultural activities is the least productive, producing US$ 576/worker compared to US$ 5,853 produced by each worker in Egypt, US$ 6,154 in Nigeria, US$ 11,077 in South Africa, and US$ 19,509 in Algeria (Figure 24).

This low labor productivity highlights the long-standing challenges in the agriculture sector namely low mechanization and modernization, inadequate irrigation systems, limited diversification, inadequate extension services and skills amongst others. This limits the growth of the country's exports.

Figure 24: Industry value added per worker, 2019



Source: Author's construction based on World Bank WDI data

Obstacles to Market access

The obstacles towards market access are impediments that are largely outside Zambia's control and are often measures imposed by trading partners to restrict imports of selected goods into their countries.

(i) General or product specific quotas

Over the years, some of Zambia's trading partners have imposed product specific quotas that have impeded access to these markets. Arbitrary measures such as these have a negative impact on the business community who are unable to export their products. This has the undesired effect of reducing Zambia's prospects of mobilizing revenue from exports.

(ii) Complex rules of origin

Rules of origin are essential in the utilization of preferences within a trade agreement. However, for a country like Zambia, they have sometimes proven to be an impediment to exports and subsequently mobilization of resources. This is due to the cost of sourcing inputs within Africa to meet the set criteria especially among MSME's that form the bulk of businesses. This is in addition to the administrative costs of compliance with administrative requirements to ascertain the origin of products. These costs relate to the documentary requirements for certification among others.

(iii) Unjustified quality conditions: packaging and labelling standards

While standards, labelling and packaging regulations are essential for the protection of human health, they are sometimes used arbitrarily to impede trade. Market access for Zambian products in regional markets has been inhibited through restrictions such as requirements to label products in specific languages and multiple certification requirements, among others. Such issues have been prevalent in countries such as Zimbabwe and South Africa where Zambian exporters have struggled to penetrate.

(iv) Lack of harmonized sanitary and phytosanitary (SPS) procedures

The essence of regional economic communities, among others is to ensure a harmonized standards regime. However, most SPS procedures across the region remain unharmonized and this tends to restrict Zambia's exports as exporters are required to comply with varying regulations and procedures across the region thereby increasing the costs of trading.

(v) Lack of technical capacity and facilities

Zambia lacks capacity to analyse various trade related information on international market opportunities, business practices, and negotiating skills that together have hampered its ability to access markets. The country also lacks facilities to ensure adherence to international standards, particularly in the agriculture sector.

7 CONCLUSION AND POLICY RECOMMENDATIONS

7.1 Conclusion

While Zambia has placed export development at the centre of its development objectives, the sector has performed poorly over the years. To remedy this, Zambia launched a standalone National Trade Policy in 2018 accompanied by a National Export Strategy. The aim of these two documents is to diversify and grow Zambia's export base using a plethora of trade policy tools. At the centre of this process is the MCTI whose mandate is to formulate and administer policies as well as regulating activities in the trade and industrial sectors to enhance the sectors contribution to sustainable social economic growth and development for the benefit of the people of Zambia. The ministry currently has seven statutory bodies all responsible, in some way, for the promotion of trade and industrial development in the country. From a legal perspective, the Customs and Excise Act and the Control of goods Act are the two main pieces of legislation that govern trade in Zambia. There are other acts across different ministries and agencies that are regulate specific aspects of trade such as standards and plant and animal health among others.

Over the years, Zambia's trade flows in the COMESA and SADC region have grown over the last twenty years, imports have been more prominent than exports. This is rather worrying when we consider Zambia's export diversification and growth agenda. The limited exports to the regions are an indictment on the performance of Zambia's trade policies, institutional and legal frameworks in growing Zambia's export foothold in the regional markets. Some of the shortcomings of Zambia's export policies, legal, institutional, and framework have been in terms of export and import tariff setting, NTBs, trading across borders, quality technical and safety standards, and export finance. These shortcomings have hampered efforts to ramp up exports as an alternative to domestic resource mobilization efforts. Zambia remains dependent on the export of copper at the expense of the diversification of its exports which could limit the shocks associated with copper and provide the much-needed resources to augment domestic resource mobilization.

To remedy the poor performance of the export sector in Zambia selected value chains have been identified for development. These value chains have been identified on the basis of Zambia's comparative advantage in the agriculture and mining sectors. The three value chains proposed in this study are the sugar-to-sugar confectionery, soya beans to animal feed and mining value chains. The specific areas of focus proposed are value addition activities to raw produce from these value chains. It has been shown that Zambia has a positive trade balance in all the value chains and that potential exists within the SADC region as most countries have negative trade balances. In addition, most countries in the region currently meet their imports of the said products with deep sea imports from overseas. Zambia, therefore, has a market opportunity to substitute these imports among its regional partners.

Several impediments to resource mobilization from trade have also been highlighted. These were classified into two categories, those relating domestic obstacles to production and those relating to external obstacles to market access. Among the domestic obstacles identified are: uncertainty in regulatory environment, limited supply and demand information, low access to finance, limited infrastructure, macroeconomic instability, illicit financial flows, weak productive capacities, and low productivity. The key market access obstacles identified are: general or product specific quotas, complex rules of origin, unjustified quality conditions, packaging and labelling standards, and the lack of harmonized SPS procedures.

7.2 Recommendations

To enhance revenue mobilization from trade in Zambia, the paper makes the following recommendations:

- Infrastructure development to enhance productive activities: There is need for a sustainable infrastructure development program in the roads, rail, energy, trade, and information communication and telecommunications sector to create a conducive environment for production and trade of exportable products. In sectors such as agriculture, emphasis should be placed on enhanced storage capacities for products such as soya beans as a way of improving the quality of products sold. Cold chain facilities should also be developed to minimize produce wastage.

- Affordable financing: The government must use monetary policy instruments and leverage the recently clinched IMF deal to create an enabling financial environment for businesses. The combination of business-friendly monetary policies and ongoing debt restructuring efforts, including a reduction in domestic borrowing, will result in lower and affordable interest rates that can enable private sector borrowing for business expansion activities. Further, targeted and innovative financing products can be created to help businesses access credit.

- Expanded market access: Firms face challenges accessing internal markets, including regional ones. Therefore, the government must devise interventions to facilitate more accessible international markets. One way is to use export consortia to help SMEs access international markets.

- Availability of higher quality trade data: Quality data is crucial for evidence-based policy formulation. The government must make significant investments and efforts to improve trade data quality, accuracy, and consistency. This entails enhancing collaboration between key stakeholders such as MCTI, the private sector, and ZamStats.

- Export promotion activities: Zambia faces numerous tariff and non-tariff barriers and these tend not only to inhibit trade but also increase trade costs, ultimately making Zambia uncompetitive. One option or policy direction Zambia can take is to focus on rule making and harmonization of trade rules. The government must also place emphasis on Zambia's participation in export promotion activities targeting regional markets. Trade missions can be undertaken in specific markets to create business and export opportunities for the private sector. Institutions such as the ZDA should facilitate the participation of Zambian companies in trade fairs and exhibitions across the region.

- Curb illicit financial flows (IFFs): Zambia has been losing significant revenue to IFFs, and the revenue leakages are more pronounced in the mining sector and agriculture sector. Despite some progress to curb these, including strengthening institutional and legislative frameworks through the creation of the FIC, Zambia still lacks capacity to effectively stem IFFs. Therefore, there is need to further capacitate institutions such as the ZRA, DEC, ACC and FIC to effectively respond to illicit activities and revenue (tax and non-tax) avoidance schemes, especially among multinational corporations.

- Stabilize the mining fiscal regime: The mining sector is crucial for foreign earnings and is a major contributor to the domestic resource envelope. However, due to policy inconsistencies and poorly structured tax incentives, Zambia has not maximized the sector's revenue potential. Therefore, there is a need to stabilize the mining fiscal regime and review the numerous tax incentives that contribute to lower tax revenues.

- Transparency and predictability of trade policies and measures: The government must entrench transparency and predictability in trade policies to help various stakeholders devise investment and export strategies. While the National Trade Policy is relatively new, more engagements can be undertaken with stakeholders in the implementation phase of the policy.

- Provide tax incentives to export sector: The government must continue to provide consistent incentives to the export sector in addition to existing incentives on export products in Special Economic Zones. Specifically, taxes such as VAT on value-addition activities can be scrutinized to find ways of providing relief to firms engaged in processing activities.

- Enhance productive capacities of firms: Targeted support must be provided to exporting firms to enhance their productivity as a way of enhancing their competitiveness in the region. Measures such as capacity building, skills and technology transfer through partnerships with multinational firms can also be prioritized.

- Stabilize the macroeconomic environment: Stabilising the macroeconomic fundamentals such as the exchange rate, inflation, interest rate and fiscal deficits among others, should be prioritized to create a conducive environment for firms to operate and venture into the export markets. This will enhance their competitiveness and ability to penetrate export markets. The recently clinched IMF deal provides a great window of opportunity to stabilize the economy and penetrate the export markets.

- Rectify implementation challenges of the e-voucher system: The e-voucher system had good prospects for diversification in the agriculture sector. Therefore, addressing the bottlenecks that impeded its operationalization such as poor disbursement of funds to dealers and poor internet connectivity must be addressed so as to diversify the sector for export purposes.

- Policy consistency: The government must enhance policy consistency specifically in the mining sector and ensure that there are no arbitrary import and export bans that discourage the private sector from participating in the export markets. This also entails addressing the operational challenges in the mining sector. Mining remains Zambia's major foreign exchange earner and the most significant contributor to its exports. However, the operational challenges at Konkola Copper Mine and Mopani have robbed the country of these revenues. For over a decade Konkola Copper Mine Plc and Mopani have been experiencing challenges resulting from ownership wrangles between the government and mine owners and the harsh business environment. The operational challenges include: high indebtedness, the threat of insolvency, and low or limited capital investments, among others. These challenges are reflected in depressed mining output, closure of operations, high indebtedness and insolvency, and high unemployment levels.

- Reform the agriculture sector to make it more competitive. The government must reconsider the role of Food Reserve Agency in agriculture trade. This also entails making adjustments to the FISP to increase its efficiency. Fiscal and policy support should be extended to other competitive products such as soya beans and sugar.

- Grow the manufacturing sector: The government must boost its various value addition initiatives in agriculture and mining sector.

- Promote Trade in Services: Tourism offers great revenue potential for Zambia, hence the need to devise more targeted policies to promote it.

- Strengthen the policy, regulatory and institutional frameworks. The government must revise and develop frameworks for the priority sectors such as agriculture, mining, energy and tourism to address the bottlenecks in these sectors, making them more export competitive. The fragmentation between the sectors and the ministry responsible for trade must be addressed.

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