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The ZIPAR Quarterly

The Big Deal about an IMF Deal

ZIPAR
Zambia Institute for Policy Analysis & Research

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Message from the

EXECUTIVE DIRECTOR

Welcome to the first Issue of ZIPAR Quarterly in 2017. This edition carries some articles on the trending topic in Zambia - the **IMF Deal!** It is no secret that the Zambian Government has resolved to have its home grown Economic Growth and Stabilization Programme, Zambia Plus, supported by an IMF loan. ZIPAR contributed the needed advice to the Government on key elements of what a good IMF supported programme might be. Government through the Ministry of Finance did carry out intensive consultations on the impending IMF Bailout with Civil Society and other non-state actors. We are positive the Government's negotiating team will obtain the support that meets the best interest of the people of Zambia. However, more sensitization on the 'Zambia Plus' and the IMF support still need to be done for ordinary Zambians. This is because these are the ultimate targets of the intended benefits of Zambia Plus and corollary the bearers of the heaviest brunt of the lack of or the failure of this programme. The success of the programme will be influenced by the extent to which the citizens of Zambia buy into the programme. Lately, ZIPAR has embarked on programmes using various media which include radio, newspapers and TV to promote awareness and inclusiveness in the discussions on Zambia Plus and the possibility of an IMF bailout. Lead articles in this edition of our News Letter speak to the same issue. The cover story, for instance, highlights three quick reasons on why an IMF supported economic recovery programme is absolutely essential for Zambia. I hope you will enjoy reading the piece and many other articles in this edition.

The Big Deal about an IMF Deal

By: Pamela Nakamba-Kabaso and Caesar Cheelo

For many Zambians today, an IMF-aid deal must feel like being forced to live and share quarters unwillingly with a foe. Those who are old enough to recall the Structural Adjustment Programmes (SAPs) of the 1980s and 1990s often recount how the stringent conditionalities of the IMF and the World Bank brought untold hardships and misery to Zambia.

Much to their dismay, late in 2016, the Minister of Finance announced that the Government had designed a Home-grown economic recovery programme, Zambia Plus, which will be complemented by external support from Cooperating partners, including the IMF. Then, recent indications were that an IMF Mission would be back in town in March 2017. This raised rumors that the Mission aims to seal an IMF deal with the Government. These prospects of an IMF deal, seen in some quarters as sleeping with the enemy yet again have caused night-sweats and anxiety for many.

Well, whether we love or hate the idea of economic recovery or the prospects of sleeping with the IMF, here are three quick reasons why an IMF-supported economic recovery programme is absolutely essential for Zambia:

Firstly, the Zambian economy is still in a precarious position more than most people realize. For a small, open economy that is Zambia, a decline in real Gross Domestic Product growth from a long-term average of about 7 percent to 2.9 percent (in 2015) is dangerously close to a recession if not a full-blown recession. After all a recession is simply a significant reduction in economic activity across the economy lasting for more than a few months, evidenced by real Gross Domestic Product or other measures of economic activity. The preliminary GDP outturn for 2016, though an improvement, is also still very low. Moreover, Zambia's persistent and deep budget deficits have eventually led to overall Government debt levels that are now feared to be well above the sustainable threshold. Because of this, in 2017 the Government has allocated about K15 billion, almost a quarter (1/4) of the national budget to debt servicing and arrears payments. These monies could have gone to tackling poverty or supporting economic growth. Without a credible Zambia Plus, these issues will continue to haunt our present generation and the next.

Secondly, IMF funds would go a long way in alleviating Zambia's external payments position and therefore allow for room for Government to focus on structural and domestic issues that can unlock growth, create jobs and reduce poverty. Under an IMF-supported programme, the country will be eligible to an interest-free loan of up to US$1.3 billion. This would be enough to cover all of Zambia's external debt service obligations for 2017 and 2018, offering fiscal space to the Government to dedicate the freed domestic resources to social protection, key infrastructure and growth interventions. Without an externally supported programme, Zambia will fail to finance the full breadth of its medium-term development agenda.

Thirdly, the consequences of inaction on Zambia Plus and the IMF deal would be far worse than the reality of acknowledging and addressing economic recovery with support from an IMF-aid package. Analysis of the implementation of the 2015 Budget reveals that when the economic downturn set in, the most significant underspends or budget cuts were on social cash transfers, the economic empowerment fund and the public service pension fund. We essentially failed to protect the poor and vulnerable during the 2015 downturn. So, the absence of Zambia Plus will do bigger and longer lasting damage to the lives of poor Zambians than will the few challenges of the programme.

Of course Zambia Plus is likely to have some downside challenges and risks. The Government will need to do many things to address these downside risks. Here are the two that we think are crucial:

Firstly, the Government must publicize and popularize Zambia Plus, urgently finalizing the programme document and sharing it with the public to build awareness and citizen ownership. It must ensure that the programme incorporates in-built mechanisms for eliciting social and political will. The public and politicians should be dissuaded from exerting undue pressure or unfounded fears over the establishment of Zambia Plus and IMF support, and over the realization of economic recovery.

Then the Government must ensure that Zambia Plus is underpinned by a new and more stringent set of fiscal rules that reduce the risks of financial mismanagement. The fiscal slippages that Zambia experienced in 2011-2016 should not be allowed to happen again. As we hold fast to Zambia Plus and strive to implement a credible programme, the Government will do well to establish binding fiscal rules that legally holds the Minister of Finance or his Ministry to some form of numerical limits under the scrutiny of Parliament.

Failure to implement an economic recovery plan supported by the IMF will see ordinary Zambian households suffer the most

By Euphrasia Mapulanga-Ilunga

Without a home grown economic recovery plan supported by an IMF loan there will be significant adverse consequences for Zambian households and the Zambian economy.

In a paper published recently, ZIPAR fully endorses the Zambian government's desire to put in place a Zambian led economic recovery plan. Without the 'Zambia Plus', the overall debt level will keep growing to exceed sustainable thresholds from an average of merely 23% of GDP during the period 2007-2014. More borrowing will see more resources spent on paying down the debt. In 2017 alone, for example, the Budget allocated almost a quarter of the budget to debt servicing and arrears payments. This is the equivalent of over ZMW15 billion that could otherwise be spent on tackling poverty or supporting economic growth.

The poor have already been hit the hardest. ZIPAR analysis of the implementation of the 2015 Budget reveals that the cost of debt repayment squeezed spending on the services for ordinary Zambians, with the most significant underspends hitting social cash transfers, the economic empowerment fund and the public service pension fund. The absence of an IMF supported economic recovery programme will deal a heavier and longer lasting blow to the lives of the poor and ordinary Zambians in general.

A credible home grown economic recovery programme is essential to instill fiscal discipline, create conditions for growth, and support poverty reduction. To support this ZIPAR stresses that Zambia should seek support from the IMF. Zambia is eligible to access up to US$1.3 billion interest-free financing from the IMF. Coincidently, this is similar to the total external debt repayments of US$1.36 billion which Zambia faces over the next two years. IMF funding will go a long way in alleviating Zambia's external position challenges and therefore free up some fiscal space for Zambia to maintain spending on priority social protection and infrastructure programmes, thus smoothing the recovery.

ZIPAR reiterates that realistically there is no better alternative to an IMF loan to support the Zambia-led economic recovery programme. The option to look to the international markets bears high risks of unsustainable debt. Fitch Ratings – an agency which assesses a country's economic fitness - recently indicated that despite some economic improvements the outlook for investment in Zambia remains negative so that borrowing is likely to remain quite expensive.

Not doing anything to support a home grown recovery programme is not an option. The economic recovery remains fragile with Zambia's growth rate forecast to remain modest, at around 4.3% on average over 2017 and 2018. Even rising copper prices will not be enough to ensure recovery. And as history shows it would be unwise to pin recovery on such a volatile commodity.

The case for an IMF supported Zambia Plus is overwhelming. However, success will require more than a clear well-funded programme. To ensure that recovery stays on track and policies to reduce excessive spending, support growth and reduce poverty are implemented accordingly, the programme must also be underpinned by strong, rational and accountable institutions and policy-makers, backed by social and political restraint.

Zambia must combine Short-Term Economic Recovery With A Long-Term Agri-Business Focused Jobs Plan

By Euphrasia Mapulanga-Ilunga

As debate continues about the need for an IMF-supported Economic Recovery Programme, ZIPAR states that as well as ensuring short-term economic stability, Zambia must plan to create more and better jobs in the long-term. Central to any jobs plan should be agriculture and promoting access to new export markets for agri-businesses – this has the potential to provide a new engine for future jobs and economic growth in Zambia.

In a new report published recently, ZIPAR Senior Research Fellow, Mr. Caesar Cheelo points out that the economic slowdown experienced since 2015, characterized by load shedding, currency depreciation and high government deficits, has adversely affected the Zambian labour market. A nationally representative 2016 survey, carried out by ZIPAR, estimated that net job losses during the crisis period were around 6.5% of the workforce. There are some indications of recovery recently, but the challenge remains.

Mr. Cheelo stresses that in the short-term there is a need to contain public sector expenditure in order to reduce the overall fiscal deficit. To help achieve this, while also protecting the poorest Zambians, an IMF-supported Economic Recovery Programme is necessary. Without IMF support, there will be less government funding to protect the poorest and to support growth.

However, a long-term plan for job-rich growth is also required. With a likely tightening of government investment, public sector spending and therefore employment in service-sector jobs is unlikely to grow as it did in the peak of the mineral boom, from 2008-2012.. The Zambian economy will therefore need to open up new 'growth channels'.

ZIPAR argues that agri-business is key. Given most Zambians still live in rural areas earning a livelihood in agriculture, finding new markets through linking farmers to agro-value-chains and increasing agro-industrial exports – especially targeting regional markets – is essential to raising rural incomes. Raising rural incomes will require improved agricultural productivity and increased employment in agro-industries, particularly agro-processing.

In the 2017 budget the government clearly recognized the importance of agriculture. This is to be welcomed. The forthcoming 7th National Development Plan is another opportunity to focus on agriculture. Some specific policy priorities that ZIPAR is drawing attention towards include:

- Formulating and implementing business and structural reforms which reduce the costs of production and trade, particularly in relation to agricultural production and agro-processing.
- Creating an environment attractive to foreign investment, particularly in the cash-crop, livestock, aquaculture and forestry subsectors.
- Continued investment in the provision of reliable services (transport and storage, energy, finance and insurance, and information and communication technologies) for agriculture.

ZIPAR engages Government Officials on Labour Regulations, Macroeconomics and Jobs

By Euphrasia Mapulanga-Ilunga

Labour Commissioner, Mr. Chanda Kaziya making a contribution during the ZIPAR policy engagement on Labour Regulations and Jobs on 13 April 2017

The Zambia Institute for Policy Analysis and Research (ZIPAR) met with 10 key Government Officials to discuss findings of two studies on Labour Regulations and Labour Market Outcomes, Macroeconomic Imbalances and Jobs.

During the meeting on 13 April 2017 at Intercontinental Hotel, ZIPAR Executive Director Dr. Pamela Nakamba-Kabaso stressed the need for more engagements between policy makers/ implementers and ZIPAR in order to strengthen policy formulation and implementation in Zambia.

Dr. Nakamba-Kabaso stated that since the economic growth recorded in the recent past did not translate into the much needed job creation, ZIPAR in 2015 launched the Flagship Project on "More and Better Jobs" to help Government tackle the jobs challenge. In this regard ZIPAR convened the meeting with the key Government Institutions to discuss two studies which formed part of the Flagship Project outputs.

She added that ZIPAR will continue to table research findings and policy recommendations with key Government Officials regularly in order to support the policy process in Zambia.

And the Public Policy Specialist in the Policy Analysis and Coordination Division at Cabinet Office, Mr. Emmanuel Mali commended ZIPAR for convening the meeting because discussing research findings helped to put more clarity on policy recommendations.

In the Macro and Jobs paper titled; "What Zambia needs for More and Better Jobs", ZIPAR stressed the need to formulate and implement business and structural reforms which reduce the costs of production and trade, particularly in relation to agricultural production and agro-processing. The Institute urged Government to create an environment attractive to foreign investment, particularly in the cash-crop, livestock, aquiculture and forestry subsectors. There is need for continued investment in the provision of reliable services (transport and storage, energy, finance and insurance, and information and communication technologies) for agriculture.

The Labour Regulations and Labour Outcomes study aimed to assess the effect of labour regulations on employment creation in Zambia. The pieces of legislation on employment creation analysed were general and minimum wages; mandatory employee benefits; hiring and firing; redundancy costs and employment relationships (casualisation, piece work, short term contracts etc.) ZIPAR will publicly discuss the findings of the study at a later date.

The meeting was attended by Mr. Chanda Kaziya, Labour Commissioner, Mr. Bernard Mumba Acting Chief Planner and Mr. Ebby Sichembe Chief Productivity Measurement Officer all from the Ministry of Labour and Social Security. Other participants were Mr. Michael Mulwanda Assistant Director M&E, Mr. Hedges Tembo Principal Planner and Ms. Prudence Kaoma, Assistant Director all from the Ministry of National Development and Planning. The rest were Ms. Mwila K. Zulu, Principal Economist, Ministry of Finance, Mr. Emmanuel Mali and Mr. Chinyanta Chikula both Public Policy Specialists from the Policy Analysis and Coordination Division at Cabinet Office.

Why Import Bans Are So Risky

By Caesar Cheelo, Mwanda Phiri and Francis Ziba

Recently, Government announced and reversed an administrative ban on the importation of selected agricultural produce namely: tomatoes, onions, carrots, mangoes, potatoes, lemons, pineapples and watermelons on the grounds of promoting local production and growing the domestic market for local farmers. Selected international trade data on Zambia (illustrated below) shows that a ban was arguably warranted for some of these commodities while for others, it may have been inappropriate. On average, Zambia imported USD2.9 million worth of onions and USD1.2 million worth of potatoes over the period 2012 to 2015. The value of imports for the remainder of the banned products did not exceed USD150, 000. In fact, imports of watermelons are relatively small averaging USD10, 943 over the 4 year period. This brings into question the relevance of the ban on imports of watermelons.

From a developmental perspective, protectionist measures such as bans may at times be justifiable. For instance, the Government might ban a particular import if it is established that the product threatens the public's safety or health, or has adverse social, cultural, religious or environmental impacts. An import restriction is also necessary to protect a strategic, young or infant local industry that might otherwise collapse due to the unfair competition associated with the import in question amongst other reasons. While globalisation has made it easy for countries to exchange goods and resources, lower prices of goods and services for consumers, greater choice of goods, greater competition, bigger markets for manufacturers etc., it is a game of losers and winners where the less developed countries often struggle to compete with developed countries that have better technology and capital.

Arguably, free trade generally tends to benefit developed countries more. Without appropriate distribution policies where the winners compensate the losers, the losers always get the short end of the stick. How to level the playing field then becomes the quintessential question. And that is the basis of many protectionist measures and why many countries seek to protect their infant industries from trade in order for them to develop. Notwithstanding this argument, it is imperative to understand the appropriate form of protectionism that needs to be taken while at the same time understanding the local production capabilities before any ban is instituted to avoid policy inconsistency.

Zambia's imports from the World (USD)

	2012	2013	2014	2015
Tomatoes, fresh or chilled.	65,589	32,105	26,618	18,468
Onions and shallots	2,722,665	2,212,051	2,729,511	4,157,910
Carrots and turnips	75,613	119,124	117,963	245,250
Potatoes	1,042,563	1,247,427	1,236,021	1,307,286
Lemons (Citrus limon, Citrus limonum) and limes (Citrus aurantifolia, Citrus latifolia	79,284	121,358	163,534	178,173
Pineapples	53,913	86,108	85,821	94,608
Guavas, mangoes and mangosteens	78,684	123,095	170,088	135,037
Watermelons	13,135	13,027	4,190	13,418

Source: UN COMTRADE database

So, while one can certainly appreciate the rationale behind the ban, this type of quick fix solution is quite problematic for Zambia. Decisions regarding trade with other countries should always take cognizance of Zambia's trade commitments. The import ban went against the principles of the World Trade Organization (WTO) – which Zambia is a signatory to. The WTO prohibits restrictions on the importation or sale of products from other WTO members albeit with a few justifiable exceptions. These proponents for international trade frown on restrictions such as quotas and do not support bans. This is mainly because quantitative restrictions such as bans usually have a trade-distorting effect, their allocation can be problematic and their administration may not be transparent.

Further, the ban would imply that Government inevitably forfeits all the customs duty and other border tax revenues levied on imports associated with the prohibited fruits and vegetables. For instance, Zambia currently imposes 25% customs duty (the highest rate imposed under the Most Favoured Nation principles) on imports of these products as a protectionist measure. This ban could also easily trigger a trade war resulting in a situation where two or more countries retaliate to the ban by imposing trade barriers on products from Zambia. Not to mention, bans generally tend to favour local producers of the banned commodities and do not encourage innovation by local firms. Bans may also incentivise local producers to set higher prices of products in a protected market.

Government therefore needs to consider other safeguard measures with less trade-distorting effects outlined in the WTO General Agreement on Trade and Tariffs that can be used to protect and develop local industries. Imposing surtaxes on imports of these goods for instance, would render imports more

expensive and less competitive and simultaneously, provide increased revenue for Government from import duties. Secondly, Government can provide subsidies to farmers aimed at growing their capabilities in addition to preferential sourcing arrangements.

A recent study conducted by ZIPAR on the expansion of regional supermarkets and the implications for local suppliers in Zambia, found that while supermarkets' procurement strategies tend to present barriers to entry for local suppliers, most local suppliers do not have the capacity to supply the volumes, quality of various goods demanded by supermarkets in a consistent and timely manner. To address these challenges, local suppliers need support to grow their capabilities. At the same time, access into supermarket value chains should be facilitated through the introduction of a local content policy that requires supermarkets to allocate shelf space to locally produced goods.

Government concerned about poor performance of manufacturing sector

Government is concerned about the poor performance of the manufacturing sector despite the expansion of supermarket chains in Zambia.

Speaking during the launch of the ZIPAR report titled; "The Expansion of Regional Supermarket Chains, Implications for Local Suppliers in Zambia", the Minister of Commerce, Trade and Industry, Hon. Margaret Mwanakatwe said statistics from the Central Statistical Office indicate that the wholesale and retail trade sector now contributes the largest share to the overall Gross Domestic Product (GDP) averaging 18.3 per cent per annum over the period 1994-2014.

Hon. Mwanakatwe observed that the manufacturing sector's growth over the past two decades averaged 4.8 per cent per annum and the contribution to GDP remained flat averaging 9.2 percent per annum.

Hon. Mwanakatwe said: ***"It is time to transform the manufacturing sector and increase contribution to GDP if we are to ensure sustained inclusive economic growth".***

Speaking earlier, ZIPAR Executive Director, Dr. Pamela Nakamba-Kabaso noted that it had become increasingly evident that to ensure sustainable inclusive economic growth and employment creation in Zambia and Africa as a whole, there was an urgent need to industrialise.

Dr. Kabaso added that the growing domestic and regional demand for fast moving consumer goods provided Zambia a great opportunity to stimulate increased agro processing and light manufacturing which could contribute towards

Minister of Commerce, Trade and Industry, Hon. Margaret Mwanakatwe with ZIPAR Executive Director (left) Dr. Pamela Nakamba-Kabaso displaying the Supermarkets Value Chains study report during the launch on 19 April 2017

industrialisation.

The Executive Director mentioned that the Expansion of Regional Supermarket Chains study was conducted in collaboration with the Centre for Competition Regulation and Economic Development (CCRED). CCRED is based at the University of Johannesburg. The study was conducted as part of r the United Nations University-World Institute for Economic Development Research (UNU-WIDER) project on Regional Growth and Development in Southern Africa. The ZIPAR report provides the case for Zambia but also feeds into a much larger project that looks at the opportunities for industrial growth that can be harnessed in Southern Africa.

Supermarket Chains: More than a One-Stop Shop

By Mwanda Phiri and Francis Ziba

Zambia's economic liberalization in the early 90s provided a gateway for the entry of foreign supermarket chain stores. In 1995, Shoprite pioneered the way into the unsaturated retail space and gained first-mover advantage which led to its dominance.

From thereon, Zambia has seen an increase in the number of chain stores over the last 20 years, largely driven by South African supermarkets. Game stores, Spar and Pick n Pay all followed on the back of Shoprite entering Zambia's retail market between 2001 and 2010. More recently, a new non-South African player, Choppies from Botswana has also entered the market. By December, 2016, the aforementioned stores collectively had 66 stores in Zambia and over 4,000 direct employees.

This wave of retail modernisation is attributable to a number of factors namely: increased urbanisation; economic growth; emergence of a middle class; changes in food consumption patterns as a result of globalisation, food marketing and advertisements; and more efficient procurement and transportation systems.

For many, supermarkets are perceived as merely a one-stop shop for bread and butter and other consumables. But, the presence of supermarket chain stores should be viewed through a different lens. In addition to providing improved product and service availability, more consumer choice, competitive prices and direct employment; supermarkets provide formal market value chains that can trigger industrial development and the associated knock-on effects on employment creation, economic growth and poverty alleviation.

Imagine the implication for a local processing firm supplying one of the supermarkets in Zambia. The supermarket offers a formal market channel through which the local firm's products can reach the end consumer. These stores' advantage is access to a larger and broader customer-base owing to their strategic locations in prime shopping malls and their spread in various towns.

For a processing firm, access to this wider market entails demand for higher volumes of goods. This in turn leads to economies of scale as local firms expand their output to meet increasing demand for their products. By accessing and fully integrating into supermarket value chains, local processing firms can be compelled to improve their production capabilities by acquiring and enhancing their technology and production techniques in a bid to meet the quality standards of supermarkets. In so doing, increased industrial production, efficiency, increased output and employment creation, and export and economic growth would ensue. For instance, a study by Emonger and Kirsten (2008) showed that small-scale Zambian farmers who supplied supermarkets experienced positive turnover impacts. However, the spread of supermarket chains in Zambia raises important questions about local supplier capabilities and their ability to access supermarket value chains. Anecdotal evidence indicates that the majority of the processed foods sold in supermarkets are imported. The limited participation of local suppliers in the supermarket value chain potentially deprives Zambia the opportunity to fully capitalise and harness the potential for industrial development and the multiplier effects of employment creation and economic growth that can be derived from linkages to supermarket value chains.

ZIPAR's recent study on Regional Supermarket Value Chains finds that the participation of local processing firms in these value chains is constrained by a number of factors which limit the development of supplier capabilities or pose barriers to entry. One major hindrance is access to finance. Others include access to reliable and adequate infrastructure such as electricity and roads. Most firms not supplying supermarkets indicated that the long credit period (45-90 days) imposed by supermarkets for payment of goods supplied is the main prohibition to their participation. These firms also indicated that their output is not sufficient to meet the volumes demanded by supermarkets.

Further, local firms face growing competition from imported products and the private brands of supermarkets. Supermarkets also exert buyer power, impose private standards and apply red tape, which further limits local supply. The study also finds mismatches in information between supermarkets and local processing firms regarding supermarkets' procurement criteria and firms' capabilities to produce goods that conform to the quality and packaging standards of supermarkets

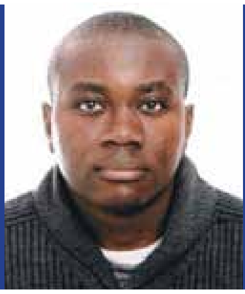
Given that manufacturing's contribution to GDP has remained flat at 9.2% per annum on average over 1994-2014, the integration of local processing firms in supermarket value chains in part, could stimulate industrial development and provide greater market opportunities for manufactured high value goods. What remains however, is for local firms to develop their supplier capabilities and to address the challenges they face.

This in part could be achieved through the provision of affordable finance to local firms to enable them acquire machinery and invest in technological know-how for the manufacture of sufficient volumes of quality, consistent, innovative, competitive and timely well-packaged products. Incentivising supermarkets to have a voluntary code of conduct with local suppliers that provides for sharing of information regarding quality and packaging standards as well as access to supermarkets' shelves and payment terms should also be encouraged. Introducing a local content policy that allocates a quota of supermarkets' shelf space to locally manufactured goods with domestic production capacity is imperative.

To increase the competitiveness of Zambian products and ease entry into supermarket value chains, it is critical to ensure that domestic quality standards are at par with those in regional markets. Moreover, measures aimed at promoting import substitution for products with local production potential should be enhanced in order to stimulate industrial production. Collectively, these measures could go a long way in promoting industrialisation and job creation.

Will the 2017 National Budget Leave No One Behind?

By Malindi Msoni and John Mututwa



The Minister of Finance, in his 2017 National budget address to the National Assembly, made reference to the Government's commitment to scale-up social protection programmes, to shield the most vulnerable in society from the negative effects of the Zambia Plus economic recovery programme. The Minister spoke of leaving no one behind as the economy transitions to recovery in 2017. He thus announced an increase in the budget allocation to the Social Cash Transfer (SCT) programme of 83 percent, from K302 million in 2016 to K552 million in 2017.

But why focus on the SCT programme? With poverty levels still adamantly high at 54.4 percent, the Government's key priority is to identify means to reduce its effect through, for example, the provision of SCTs to extremely poor households. The primary aim of SCTs is to reduce extreme poverty and reduce the transfer of poverty from one generation to the next.

Who is eligible to receive a SCT? Three main criteria must be fulfilled to qualify for the programme, a household should: have lived in the same catchment area for at least six months, have members who are unable to work due to chronic illnesses, disability or old age, and have a welfare level falling below a predetermined threshold. These criteria apply to both rural and urban households, although for the latter, hosting at least one disabled member of any age is a mandatory requirement to qualify.

Then, how are beneficiaries selected? Beneficiaries are identified by groups of volunteers known as Community Welfare Assistance Committees (CWACs). CWACs, with the help of local leaders, identify households that meet the residency and inability-to-work criteria. Additional information is collected to assess eligibility as per welfare criteria. Once households that meet all three criteria are identified, community members are allowed to make suggestions to remove better-off households from the list. Communities do not participate in the payment of the transfers.

The participation of community members in the recruitment of eligible households has led some experts to argue that the SCT programme has the best targeting methods among all social protection programmes in Zambia.

Selected beneficiaries are entitled to receive a monthly payment of K70 or K140 for households with persons living with disabilities, made every second month.

The SCT programme has improved considerably. The programme, which started out with only 159 poor households in Kalomo district in 2003, covered 239,000 poor households in 2016 and is expected to reach as many as half a million poor households in 2017. Moreover, the value of the grant has grown from K30 in 2003 to K70 in 2016 and is expected to increase to K90 in 2017. While this indicates an increase in nominal terms, the transfer value has in fact fallen in real terms. Using 2015 prices, the transfer value has fallen from K101 in 2003 to K77 in 2014, in real terms. This raises the question of how adequate the SCT is given the rise in the cost of living.

That notwithstanding, the argument to scale-up the SCT programme rests on the positive impacts of the programme. Impact evaluation studies have shown improved living conditions among beneficiaries. For instance, a recent UNICEF study reveals that as a result of the SCT, 1,490 beneficiaries in Serenje and Luwingu districts increased their number of meals per day, improved their housing conditions, bought livestock and child necessities, invested in productive and other social activities, and even reduced their debt.

While some beneficiaries have reportedly seen improvements in their livelihood, the often long distances beneficiaries have to cover and the lengthy time they spend to access payments still remain a concern. For example, recipients in Serenje and Luwingu spend on average one hour to walk to and from the nearest pay-point and an additional 41 minutes waiting to receive payments. Ways to reduce the distance covered by beneficiaries to reach pay-point centres should be explored. The use of mobile money services and similar innovations for example, can help reduce travel and waiting time.

That said an important question that remains is whether the 83% nominal increase in the budgetary allocation to SCTs is sufficient to leave no one behind. The answer is probably not. While the SCT scheme has performed reasonably well, it is not a 'catchall' solution to reducing poverty and vulnerabilities. In order to leave no one behind in 2017, the right synergies will have to be created between the SCT scheme and other social protection programmes such as the Food Security Pack. One way to ensure maximum returns from these programmes is by creating a common database for all social protection programmes to avoid the double-dipping syndrome where some beneficiaries find themselves on several programmes at the same time.

Ultimately, although the 2017 National Budget will probably leave some people behind, a sizeable proportion of the poor are likely to benefit from the scale-up of the SCT programme.

Selected beneficiaries are entitled to receive a monthly payment of K70 or K140 for households with persons living with disabilities, made every second month.

On Fuel Subsidies

By Gibson Masumbu

Government has indicated that it will remove subsidies in line with its quest to attain fiscal consolidation. Government has been providing subsidies that cover farmer input support, electricity and fuel consumption. Government has however also indicated that the removal of subsidies will be done gradually to mitigate adverse impact on the poor. With regards to fuel procurement, Government has stated that it will disengage from the procurement of finished petroleum products with effect from March 2017 and going forward, the adjustment of fuel prices will be based on market conditions.

The subject of removal of fuel subsidies is nothing new. Government has been subsidizing petroleum products for years. In 2013 Government removed fuel subsidies arguing that the move would enable the state to have more finances for spending and also to guarantee proper implementation of government programmes and projects. This pronouncement notwithstanding, subsidizing of fuel in the country has continued. Government expenditure on fuel subsidies has ballooned rising to ZMW2.7 billion in 2015 from ZMW1.6 billion in 2013.

Government has been responsible for fuel procurement since 2007. The country procures petroleum feedstock in the form of comingled crude oil, which is refined at Indeni Petroleum Refinery in Ndola. Government has also been procuring finished petroleum products (mainly diesel and petrol) to supplement Indeni's production. In 2015, 643,000 metric tonnes of feedstock and 815,000 metric tonnes of finished products were imported. The country imports more finished products than the feedstock.

The procurement of fuel is supposed to be a self-financing venture. Through the Energy Regulation Board (ERB), a price regime is structured such that all costs are recouped from the fuel pump prices. However, Government finds itself in a situation whereby it subsidizes the procurement of petroleum. The subsidies usually arise due to the change in costs mainly as a result of exchange rate fluctuations. If the Kwacha depreciates, the pump price of fuel is also impacted as the cost of importation is increased in kwacha terms. This is not a problem if this happens once in a while. However, the Zambian kwacha has been depreciating since 2012 reaching ZMW10 per US$1 in 2016. Therefore to avoid increasing the price of fuel so frequently, Government has been forced to subsidize the shortfall.

On face value, there need not be any issues with Government's position that it will not participate in the importation of finished products and also that prices would be adjusted based on market conditions. As stated earlier, fuel procurement is supposed to be self-financing. However, the biggest challenge regarding pricing of fuel is the exchange rate fluctuations. Should we get to a situation whereby the exchange rate is unstable, the country will experience frequent changes in the pump prices. If the kwacha depreciates at a rapid rate, the price of fuel should also increase in a similar fashion. Maintaining stable macro-economic stability will therefore be critical in this case. It should also be noted that should the kwacha appreciate considerably or the price of crude drop on the world market, fuel pump prices may reduce on the local market. In this way the economy is impacted positively.

Needless to say, the cost of petroleum in Zambia goes beyond the exchange rate stability. There are other factors that have contributed to the high cost of petroleum products in the country that need to be addressed soon. One major contributing factor is that the current procurement model through Indeni has not responded to the market dynamics. Indeni was originally built with a technical configuration to produce comingled crude. In the early days, the market demanded more heavy fuels than light fuels such as petrol and diesel. This meant that the petroleum feedstock had to contain more pure crude oil than the lighter products. The model worked for the market then because crude oil is obviously cheaper than the finished or processed products.

Over the years, the demand for light fuels (diesel) has increased and therefore importation of the co-mingled crude contains more refined products than pure crude. It is the high component of refined products that makes the current model expensive. According to experts 'this structural absurdity' is primarily responsible for the high cost of fuel in Zambia. If Zambia imported and refined pure crude oil, the costs of the feedstock would have been cheaper, and the resulting pump prices would have been lower. However, for Indeni to only refine pure crude, it requires upgrading its technical configuration to enable it do so.

It is not very clear what model the Government will employ to fully involve the private sector in the procurement of finished products. What is clear, however, is that it is cost efficient for the country to import refined products than comingled crude. It has also been argued that the country can benefit if the sub-sector is fully liberalized as the private sector would source finished products using shorter routes. However, it is important to ensure that the regulator is well positioned to keep private sector profit motives in check and also that the country has sufficient reserves to cushion any market failure.

Actualise Diversification In 2017

Joseph Simumba and Caesar Cheelo

Zambia Is Struggling to accelerate economic diversification. This challenge calls for serious policy action as there are now only 13 years to go before the due date for the Zambia Vision 2030. Economic output, employment and foreign trade are all concentrated among a few sectors and over a narrow range of products and firms. It is imperative that the country should accelerate the process of expanding the sources, range, and markets of its goods and services and shift output and employment composition into economic sectors that are resilient to external shocks.

The 2017 National Budget has several measures to influence economic diversification that fall into three broad categories:

The first relates to measures that directly protect domestic industry using a five percent surtax levied on imported items that are also locally produced and subjecting semi-processed edible oils imports to customs duty.

The second category has measures that safeguard domestic value addition by discouraging exporting of raw materials. It imposes duty on exports of unprocessed and semi-processed timber products and maize.

The last set of measures aims to boost availability of affordable long-term capital to industries. It includes the US$55.4 million Cashew Nut Infrastructure Programme in Western Province, US$50 million allocation for credit expansion among Small and Medium Enterprises (SMEs) and the introduction of the K20 million agriculture and industrial credit guarantee scheme. Government also announced its commitment to support the development of the newly created Kafue Iron and Steel Economic Zone although there is no specific financial allocation. Producers in aquaculture can now enjoy duty-free imports on equipment until 2019. Fittings used for irrigation and machinery used in lifting, handling and loading in the shoe industry can also be imported duty-free.

This menu paints the picture of economic diversification in the 2017 budget. The count of measures and the corresponding value has increased more substantially than in 2016. However, the flavour of economic diversification has not changed; the 2017 budget still champions diversification that heavily emphasises agriculture, mining and forestry with slight industrial manufacturing. It is extremely weak on laying a foundation for heavy industrial production, which has failed to recover since privatisation in the early 1990s.

The failure to develop a class of heavy industries and restructure manufacturing towards catching up in production of machinery, electronics and transport equipment is responsible for excessive dependence on imported manufactures that are draining foreign currency reserves and negatively affecting the trade balance. Coupled with imports of petroleum and heavy oils, chemicals, pharmaceuticals and to a lesser extent iron and steel products, they drain tenfold the value of foreign currency earned on exports of agriculture and agro-processed food and beverages.

Therefore, the first step to accelerate economic diversification requires restructuring manufacturing towards the creation of large scale, capital and technology intensive industries. It's this type of strong manufacturing that can buttress the discovery, creation and building of products that are sold in the region and all over the world. In manufacturing, size-economics of scale matters and it is the crucial factor for value and industrial resilience.

For example, the study by Nolan, P. (1996) "Large firms and industrial reform in former planned economies: the case of China." in the Cambridge Journal of Economics shows that China formed a 'national team' of large enterprises that plugged it into international competition in the 1990s. The team had eight firms in electricity generation, three in coal mining, six in automobiles, ten in electronics, eight in iron and steel, fourteen in machinery, seven in chemicals, five each in construction materials, transport, and pharmaceuticals and another six in aerospace . AVIC International, which is constructing several roads in Zambia, is a clear demonstration of this initiative.

The World Bank equally recounts how the weight of "export superstars", that is the big one percent companies that export, individually shape the volume and patterns of trade which are significant determinants of trade balance performance and hence foreign currency reserves.

the flavour of economic diversification has not changed; the 2017 budget still champions diversification that heavily emphasises agriculture, mining and forestry with slight industrial manufacturing.

Therefore, Government needs to scale up budgetary appropriations towards creation of heavy manufacturing for machinery and components used in agro-processing and agro-extraction, and engineering and foundry for metal casting and wire processing so as to add value to agriculture and mining. This is a sure way to plug local manufacturing into high value and resilient regional and global value chains which can overcome adverse swings in prices of metals and maize.

It is undeniable that a great challenge for the budget is the limitation on funds. Industrial reform is also likely to face deeper challenges than those witnessed by recent catch-ups like South Korea, Malaysia, Singapore, Thailand and China. However, the opportunities' offered by emerging arrangements under the Public and Private Partnerships are equally massive and need effective exploitation.

Government basically needs to establish better balance between creating heavy industries and the demand for investment in infrastructure including transport and ICT, support to SMEs and initiatives to stimulate further private sector investment. Of course, big industries require healthy, productive workers and good jobs begin with a good education that also stimulates innovation.

World Bank applaud ZIPAR's commitment to policy analysis and research

From L-R: World Bank's Mr. Michael Jelenic, Mr. Deryck R. Brown and Mr. Baison Banda listening to a presentation during the Joint WB and ACBF Joint Mission to ZIPAR on 14 March 2017

A Joint World Bank and African Capacity Building Foundation (ACBF) Mission to Zambia expressed satisfaction with the work ZIPAR is doing. The Joint Mission to ZIPAR was fielded as part of the implementation support to ACBF supported projects in Zambia on 14 March 2017,

Mr. Brown said: "We are very impressed with your dedication and seriousness and wish ZIPAR all the very best in future".

The World Bank's Senior Governance and Public Sector Specialist, Governance Global Practice-Africa, Mr. Deryck R. Brown, said the delegation were glad to visit ZIPAR to get a sense of the work the Institute was doing.

Mr. Brown said: "We are very impressed with your dedication and seriousness and wish ZIPAR all the very best in future".

In a presentation to the Joint Mission, ZIPAR Executive Director, Dr. Pamela Nakamba-Kabaso stated that ZIPAR's involvement in the policy processes in Zambia had y increased as witnessed by numerous requests received from Government to provide input in the preparation of documents of national importance such as the Seventh National Development Plan (7NDP) 2017-2021 and the Home-grown recovery programme, Zambia Plus. Other key documents ZIPAR contributed to were the Debt Sustainability Analysis, Employment and Labour Market Policy, The Export Strategy, Tourism sector master plan and the Transport policy master plan. ZIPAR was also invited to sit on various committees and Technical Working Groups in Government.

Dr. Kabaso also mentioned that Government had used some of the ZIPAR studies in policy and debates such as; A Cautionary Tale of Zambia's Issuance of Eurobonds, Importation of Used Motor Vehicles and the Impact on Transportation in Zambia and the Resource Model for the Allocation for Constituency Development Fund (CDF).

The Executive Director highlighted opportunities the Institute faced and these included; forging stronger policy engagements with the Government, maintaining objectivity in episodes of politically charged external environment, striking an appropriate balance between Core and Commissioned works and meeting increased demand from stakeholders. Others were packaging outputs for various audiences, attracting core funding and retaining qualified and experienced staff.

The Joint World Bank Group and ACBF Mission delegation included World Bank's Mr. Deryck R. Brown- Senior Governance and Public Sector Specialist, Governance Global Practice-Africa, Mr. Michael Jelenic, Mr. Baison Banda-Financial Management Consultant and Mr. Wedex Ilunga Senior Procurement Officer. From ACBF:Dr. Roger Atindehou-Director Operations and Mrs. Folasade L. Ayonrinde- Senior Program Officer.

CSOs commend ZIPAR for facilitating evidence based policy advocacy

Ms. Mary Chinama of Save the Children making a contribution during the ZIPAR-CSOs Network dissemination meeting of the IMF policy brief. Looking on her right is Water Aid Zambia Executive Director Ms. Pamela Chisanga.

The Civil Society Organisations (CSOs) have commended ZIPAR for engaging their Network in policy advocacy because evidence based information will enable them to engage the Government meaningfully.

During a meeting to share findings of the ZIPAR policy brief titled; "Economic Distress and the Inevitability of the Economic Recovery Programme", the acting Executive Director Mr. Shebo Nalishebo said ZIPAR recognized the need to have regular conversations with the CSOs Network because they are stronger on advocacy.

ZIPAR conducted an empirical study of Zambia's return to an IMF-supported programme and has published a Policy Brief.

The Policy Brief highlights the scale of the challenge of Zambia's 2015-16 economic downturn, which necessitated the Zambia Plus recovery programme. It recounts the main sources of the downturn, and explains some of its main implications. The brief explores the would-be consequences of inaction or inability to establish and execute a credible economic recovery programme and posits some essential policy, social and institutional adjustment that would be required for a successful recovery programme.

Speaking on behalf of the CSO Network, Water Aid Zambia Country Director, Ms. Pamela Chisanga expressed gratitude to ZIPAR for looking to the CSOs as advocacy partners because the Network had faced challenges over the years to engage Government meaningfully due to lack of evidence based information.

Ms. Chisanga added that CSOs do not have adequate resources to gather evidence based information and look forward to more policy engagements with ZIPAR. She urged ZIPAR to facilitate more meaningful dialogue between CSOs and the Government.

Ms. Chisanga said: *"We are asking ZIPAR to help push doors open with the Government for more meaningful interactions. We need to get firm commitments from the Government on pertinent policy issues and not just dialogue. We need formal commitments from the Government and not just informal responses".*

She added that if Zambia decided to sign on the IMF programme to support the economic recovery programme, the Network would like to know what impact the programme would have on the ordinary Zambians to help them challenge risky decisions and to offer solutions on how to mitigate risk impacts.

The policy engagement meeting held at Cresta Golf View Hotel in Lusaka was attended by 30 Civil Society Organisations.

ZIPAR Participates In EU-Africa Strategic Dialogue

ZIPAR participated in the EU-Africa Strategic Dialogue international conference co-organized by the European Union Institute for Security Studies and the OCP Policy Center, in cooperation with Compagnia di San Paolo, in the context of the "African Futures" project. ZIPAR was represented by the Knowledge Manager, Ms. Euphrasia Mapulanga-Ilunga.

ZIPAR Knowledge Manager (in yellow) Ms. Euphrasia Mapulanga-Ilunga following proceedings during the EU-Africa Strategic Dialogue in Rabat, Morocco on 4 April 2017

The objective of the conference held on Tuesday April 4th, 2017 was to explore possible African trends and scenarios with a horizon of 10 to 15 years, i.e. the end of the next decade, focusing on what is likely to happen in terms of demography, economy and society, governance, international relations and security – and how all this is expected to affect Europe. About 30 countries, 40 international institutions and 40 Moroccan organisations were at the conference. About 80 Experts from both continents shared their respective views on a large array of issues of common interest.

Since Africa is a macro-region encompassing numerous countries and people, with a high degree of internal diversity, a special emphasis was placed on 'horizontal' issues such as mobility and resources and their impact on regional development, stability and security. Additionally, given the sheer size of the continent and the number of countries, a particular attention was paid to sub-regional aspects, trying to analyse key players (states as well as organizations), external influences and vectors (e.g. South Atlantic, Indo-Pacific), as well as drivers of conflict and cooperation.

The aim was to enrich the policy-oriented dialogue, on which the "African Futures" initiative is based, with the voice from a country that sees itself very much as a 'bridge' between the two continents and the southern perspective provided by different African stakeholders. This, in turn, is quintessential to uncover a number of megatrends and a spectrum of possible game-changers and to gain a broader understanding of the crucial issues that will influence both continents' future.

ZIPAR Hosts Malawi Think Tank on Study Visit

ZIPAR and MPPRAP project staff pose for a group photo during the study tour on 16 February 2017.

The Zambia Institute for Policy Analysis and Research (ZIPAR) hosted a delegation from a new think tank project, the Malawi Public Policy Research and Analysis (MPPRAP) on 16 February 2017. MPPRAP undertook a study visit to ZIPAR to learn how ZIPAR works with Government and other stakeholders to provide objective, credible and timely policy advice to support the policy process in Zambia.

Other specific areas in which MPPRAP sought to learn during the visit on 16 February 2017 included resource mobilisation, financial sustainability, capacity building, balancing between demand-driven and core research activities, peer review processes for research outputs, policy advocacy and communication.

ZIPAR Executive Director, Dr. Pamela Nakamba-Kabaso said the Institute was honoured to share lessons that would enhance MPPRAP's performance. She recalled that a few years ago, ZIPAR undertook a similar visit to the Institute for Policy Analysis and Research (IPAR) in Rwanda, adding that the Institute was humbled to have been selected to share lessons with the new think tank of Malawi.

MPPRAP Director of Research, Dr. Grace Kumchulesi expressed gratitude to ZIPAR for sharing lessons that enhanced internal capacity and gave direction to the new think.

And in a letter of gratitude to ZIPAR on 13 April 2017, delegation leader Mr. Idrissa Mwale, Deputy Director-Economic Planning in the Ministry of Finance said the study tour was very informative and worthwhile.

Mr. Mwale said: "Our main aim of the study visit was to develop MPPRAP's internal capacity, coordination and performance by applying lessons learnt from the visit. This aim was duly fulfilled during our visit from the comprehensive presentations and discussions that ZIPAR staff prepared for the MPPRAP team. We are pleased with the progress made by ZIPAR and the entire staff for their efforts".

The Malawi Government through the Ministry of Finance, Economic Planning and Development is implementing the MPPRAP Project since April, 2016.

The Project aims at enhancing the effectiveness and relevance of public policies in Malawi by improving capacity for evidence based public policy analysis and formulation, strengthening the capacity of public officials and non-state actors in economic policy analysis and formulation. The Project is co-funded by the African Capacity Building Foundation (ACBF) and the Malawian Government.

The delegation led by Mr. Idrissa Mwale, Deputy Director of Economic Planning included Dr. Grace Kumchulesi- Director of Research, Mrs. Elsie Salima, Interim Project Coordinator, Mrs. Thandizo Mungwira-Networking and Coordination Officer, Research Fellows namely; Mr. Rominie Kaseghe, Mr. Frank Musa and Mr. Mathias Mbendela.

ZIPAR Submissions to Parliament

In the period January-March 2017, ZIPAR made submissions to Parliamentary Committees on varied topics as follows:

Committee of Supply on the Estimates of Revenue and Expenditure: ***Fiscal Decentralisation and the Budget Process in Zambia***

Some of the key recommendations by ZIPAR include a thorough assessment of what level of decentralisation the country had reached. The assessment of decentralisation clearly depends in part upon whether what has occurred is de-concentration, delegation or devolution. All three components need to be present. When administrative decentralisation is predominant, the prevailing situation may have a bias towards de-concentration. With regard to the bottom up or top down approaches of decentralisation, an honest assessment ought to be carried out to determine the 'appropriate blend' of the bottom up and the top down that needs to be implemented. This is to avoid Central Government and Local Government authorities pulling the implementation of the fiscal decentralisation process in separate directions, which may be doomed to failure.

For a developing country such as Zambia, one of the main challenges for local government is the huge unmet demand for infrastructure and services that, more often than not, cannot be addressed because of the weakness of local authorities that are overwhelmed by the enormity of the infrastructure and services challenge. In this regard, a phased holistic approach to capacity building for both old and newly created councils is imperative.

Committee on Economic Affairs, Energy and Labour: ***Implementation of the Public Private Partnerships (PPPs) in Zambia***

Part of the key recommendations were that Government needs to strengthen the institutional framework and have clear defined responsibilities which are transparent. This should include reversing the decision of placing the PPP unit under state house so as to stimulate and motivate investor confidence. The unit should also undertake rigorous information dissemination and guidance functions and provide the advisory role to all Government and private sector PPP programs. Government needs to build technical capacity across all levels of Government institutions to develop a required skills set and expertise in finance management, procurement and legal. This is to facilitate for PPP contracts which are often broader and cuts across a wider range of ministries that require more human capital resources.

Members of Parliament posing questions to ZIPAR during one of the submissions to Parliamentary Committees in February 2017.

Committee on Lands, Environment and Tourism: ***Contribution of the Tourism Sector to Socio-Economic Development in Zambia***

ZIPAR stated that Zambia must recognise that the regional tourism market is becoming increasingly competitive. The country must adopt effective national policies, plans and strategies to confront the serious challenges which have been facing the country. These challenges include inadequate physical infrastructure particularly roads, railways, airports, telecommunications and accommodation facilities; limited products as most of Zambia's tourism products continue to be wildlife based and under-developed; limited community participation and inadequate marketing of Zambia as a tourist destination.

Committee on Communications, Transport, Works and Supply: ***The State and Management of Railway Transport System in Zambia***

Some of the recommendations by ZIPAR were that all future plans to improve rail transportation systems should sufficiently audit and disclose the investment gap that must be filled as well as adequately address the complementarities between road and rail transport to make the systems operate efficiently and maximize its social benefit. There is need to establish a transparent, independent and an impartial regulator to monitor performance of the railway systems and protect private interests. There is need to upgrade railway infrastructure and the state of the rolling stock in order to improve train speeds and consequently reduce transit time.

For a full account of the Parliamentary visit www.zipar.org.zm

ZIPAR Conducts Training for UNZABECA Students in Applied Research and Policy Analysis

UNZABECA students during a lecture by Senior Research Fellow, Mr. Caesar Cheelo at ZIPAR in March 2017

As part of its corporate social responsibility, ZIPAR conducted a short training course on Applied Research and Policy Analysis for 16 University of Zambia Business and Economics Association (UNZABECA) students.

The course was offered in the form of a weekly lecture by ZIPAR Senior Research Fellow Mr. Caesar Cheelo and was held from 1st March to 26th April 2017. The objectives of the course were to assist students to appreciate the full process of conducting social sciences research studies; understand the similarities and differences between research and policy analysis, the full process of proposal writing and to establish a firm foundation for conducting social sciences research and studies.

It is expected that the students will undertake a fully-fledged research on the UNZA Student Living and Academic Conditions, the first effort of its kind in Zambia. ZIPAR will continue providing technical support during the research and will support UNZABECA to disseminate the report.

Government Endorses ZIPAR's Research and Analysis Workplan 2017

Government through the Ministry of Finance (MoF) has endorsed ZIPAR's research and analysis work plan for the year 2017.

During the presentation of the work-plan by ZIPAR on 15 February 2017, Assistant Director, Modeling and Forecasting -Economic Management Department, Dr. Remmy Kampamba, commended the Institute for putting up a timely research agenda whose findings will positively impact on policy formulation processes in Government.

Dr. Kampamba mentioned that MoF is looking at ways in which it can collaborate more with ZIPAR to ensure that policy processes are supported by evidence.

Dr. Kampamba said: ***"The presentation of the research and analysis work plan for 2017 is a very useful exercise and the Ministry wants to be more collaborative with ZIPAR. We will explore a structured way in which we can work together".***

And the ZIPAR Executive Director, Dr. Pamela Nakamba-Kabaso appealed to the Ministry to accord ZIPAR a regular platform to share research findings

Asst. Director Modeling and Forecasting-EMD Ministry of Finance, Dr. Remmy Kampamba (black suit) and other staff following ZIPAR's presentation of the Research and Analysis work plan on 15 February 2017.

ZIPAR conducts Training for Trade Officers at Ministry of Commerce

The Zambia Institute for Policy Analysis and Research (ZIPAR) held a training workshop for Trade officers at the Ministry of Commerce, Trade and Industry (MCTI) from 1st-3rd March 2017 at Mika Hotel in Lusaka.

(From left-right) ZIPAR Researchers Mr. Caesar Cheelo, Mr. Joseph Simumba, and UNZA's Dr. Dale Mudenda supervising MCTI staff during training on 2 March 2017 at Mika Hotel in Lusaka

The objective of the workshop was to introduce and familiarise participants with different sources of trade and trade policy data, and the available analytical techniques. The course focused on the economic analysis of international trade and trade policy and covered key analytical issues faced by trade practitioners at MCTI. By the end of the course, participants were expected to refresh and update knowledge on the methods and data sources for trade policy analytical tools; be familiar with different sources of trade and trade policy data and the available analytical techniques. The participants would also be able to manipulate data using these techniques and generate reports for use in negotiations or trade policy review and implementation; produce a piece of trade analysis which has direct relevance to an area of their daily work and can be adapted for use in negotiations or trade policy review and implementation.

A team of international trade economists with considerable experience in delivering trade policy training courses to officials and practitioners delivered the course. The team members from ZIPAR were Mr. Joseph Simumba andMr. Caesar Cheelo. Dr. Dale Mudenda was co-opted from the University of Zambia. About 10 Trade Officers from MCTI attended the training.

The ZIPAR Research and Analysis Work Plan for 2017

1.1 Macroeconomics and Monetary Policy (MMP) Unit

Macroeconomic Performance Monitoring Framework:

The framework will be used for tracking the performance of key macroeconomic fundamentals on a quarterly basis. The exercise is expected to build on the study on Zambia's Return to an IMF-Supported Programme and on the quarterly National Budget analysis to be carried out by the Public Finance Unit. The monitoring framework will result in quarterly analytical publications of the Macroeconomic health or status of Zambia. The publication will help to inform the fiscal, monetary and planning authorities as well as the general public about the macroeconomic health of the country on a routine basis.

Quarterly review of Macroeconomic Fundamentals and Implementation of the (2017) National Budget:

In this area, ZIPAR will establish and apply an empirical Macroeconomic Performance Monitoring Framework (MPMF). The Framework will monitor key macroeconomic stability, growth and structural change variables as well as key fiscal variables on budget implementation. It will draw on routine data and information from management information systems under the custody of the Ministry of Finance (MOF), Bank of Zambia (BOZ), Central Statistical Office (CSO), and Zambia Revenue Authority (ZRA), among others, and organize these into systematic information and knowledge about the economy. The macroeconomic performance and budget implementation of Zambia will be evaluated and systematically documented in a 'state of the economy' quarterly report. The MPMF will include a sub-component dubbed 'Zambia Plus' Monitoring Framework. This will specifically track the short- and medium-term socio-economic implications of the 'Zambia Plus' economic recovery programme, particularly in relation to the impacts of the IMF-support components, targets and possibly, conditions and conditionalities on social and economic life.

Zambia plus economic literacy paper (and articles):

Because Zambia experienced rather painful economic recovery processes in the past, notably the World Bank/IMF Structural Adjustment Programmes (SAPs) of the 1980s and 1990s, the public's is highly skeptical about the 'Zambia Plus' Economic Recovery Programme, which is currently still under formulation. The skepticism is even stronger when prospects of co-opting IMF support are put on the table. It is therefore critical for ZIPAR – as an impartial observer – to tell the stories about the previous and current versions of economic recovery and IMF support, towards building broad-based national ownership of IMF-supported programme. ZIPAR will therefore undertake a desk review of the past experiences of Zambia and a key comparator country (Ghana) with IMF-supported economic recovery programmes. It will also document the recent experiences of Ghana with the IMF. The purpose of the resulting outputs (a paper and some newspaper articles) will be to objectively and truthfully sensitize the Zambian public about what an IMF-supported recovery programme really entails in terms of macroeconomic and micro-level socio-economic impacts. Such sensitization and awareness building will be critical for fostering national consensus and ownership, and for allaying public pressures on political structures when the pain of reforms and recovery sets in.

Causes and Consequences of Wide Interest Rate Spreads in Zambia:

The causes of wide interest rate spreads will help the monetary authority (BOZ) to see, based on a second opinion, the consequences of a key policy action, inflation control.

Ad Hoc Studies and Policy Works under MMP:

a) "Jobs Tracker Framework": at the request of the Cabinet Office (IJCPSD) in 2016, ZIPAR drafted a Concept Note for the Jobs Tracker Framework, under the More and Better Jobs Flagship Project. The framework was envisaged to be a mechanism for monitoring and evaluating the creation of jobs (particularly formal and decent jobs) in Zambia. ZIPAR will seek to link the Jobs Tracker to CSO's planned quarterly Labour Force Surveys (LFS).

b) "Zambia's Economic Growth Story": this study will be undertaken as exploratory research or a scoping study throughout 2017, building towards a comprehensive study in 2018 on Key Aspects to Zambia's Economic Growth. The exploratory researcher will prepare analytical problem statements on: the dual economy ("One Zambia, Two Economies"); Copper-GDP Growth Story Retold; and Prospects to Substitute Copper for "Green Copper". MMP Unit will explore possible collaborations with the World Bank Country Office in Zambia and the planning authority (Ministry of National Development Planning). Zambia's economic growth story will also be of interest to policy-makers in MOF and the Cabinet Office.

c) "Light" reheating studies and other efforts on other *China-Africa and China-Zambia Developments* mainly responding to the Chinese Embassy's invitation to the 2017 China-Africa Joint Research Project.

2.2 Human Development Unit

Labour Market Regulation Study:

This study began in 2016. It was prompted by public debates that dominated the Zambian labour market scene when the Government revised the regulations on minimum wage and casualization late in 2016. The debate revealed that there is a paucity of credible information about the effects of the new labour market regulations that came into effect in 2016. The study aims to assess the effects of labour regulations the labor market outcomes vis-a-vis employment creation. That is, the study seeks to understand how the private sector operates and fairs within the framework of Zambia's labour laws and if labour regulations affect hiring of labour.

Youth Development Fund (YDF) Review:

The Unit has also been undertaking the review of the Youth Development Fund that commenced in the second quarter of 2016. The review includes tracing beneficiaries of the programme to assess impact. In 2017 first quarter, the Unit will undertake additional work to finalize and produce a report that will be validated under the reference group that is chaired by the MNDP and the MYSCD. The study is expected to be completed in 2017 first quarter.

Employment Projection Model:

The Unit has been involved with the development of the employment Projection Model which is financed by the International Labour Organization (ILO) as part of the National Implementation Committee that comprises the MNDP, MoF, CSO and ZIPAR. The exercise has been slow to take off due to the lag in the development of the Input Output tables by the CSO. The CSO has however given a new deadline for March 2017. If this activity is complete, ZIPAR will then be in a position to produce a Social Accounting Matrix (SAM) and the actual projection model.

Promoting Alternative cooking fuel sources:

The aim of this study is to promote the use of alternative clean cooking fuels among the energy poor in urban Zambia. The study will seek to assess the appropriate policy and strategy mix that Zambia will need to employ in order to promote the use of alternative clean cooking energy among the energy poor. The study will focus on cooking energy as it accounts for the largest energy consumption among households in Zambia. The purpose for promoting alternative clean energy is because unclean cooking energy has a negative impact on the environment and the health of users compared to energy for lighting. Through this research the aim is to promote the private sector to produce and supply alternative energy that is both accessible and affordable for the poor. It is hoped that the lessons learnt from this project will be used by the Government to scale up energy efficiency promotional programmes in order to allow more households to use cleaner energy even in the absence of hydro-electricity.

Financial Cooperatives (FCs):

This study seeks to promote the use of Financial Cooperatives in Zambia as a viable mechanism for promoting access to financial services in rural areas. The study will seek to develop a clear understanding of landscape for the FC in Zambia in terms of the regulatory framework, support institutions and the nature and level at which the FCs operate. Additionally, the study will seek to understand the constraining factors for the growth of the financial cooperative movement in Zambia and the opportunities and threats that exists related to their development.

2.3 Public Finance Unit

Analysis of emerging and existing vulnerabilities around Zambia's Eurobond repayments and how to mitigate them:

Since 2012, the Zambian Government has issued three ten-year international sovereign bonds commonly referred to as Eurobonds collectively worth US$3.0 billion mainly to finance infrastructure projects. Following the issuance of the three Eurobonds, the economic situation in the country has deteriorated due, primarily, to a decline in international copper prices, the mainstay of the Zambian economy, and an unprecedented electricity crisis. This has led to low economic growth, balance of payment imbalances, persistently high fiscal deficits and soaring public debt. In its 2014 report titled "A Cautionary Tale of Zambia's International Sovereign Bonds Issuances", ZIPAR warned of these vulnerabilities and recommended that Government should address fiscal challenges through fiscal consolidation; institute measures to address the existing institutional and legal bottlenecks in debt management; and consider various available financing options such as the sinking fund, debt refinancing and widening creditor sources.

Nearly five years since the first Eurobond was issued, Government has done little to mitigate repayment vulnerabilities, save for announcing that they had set up a sinking fund, which is yet to be resourced. This study will therefore be used to re-heat the issues raised in the previous study and will primarily be a policy advocacy tool to mitigate the repayment vulnerabilities as they begin to fall due in the next 5 years. Practical considerations of, for example, how to set up a sinking fund as a bond buy-back scheme as opposed to a reserve fund; debt refinancing options; and widening creditor sources, will be explored in this study. This will be followed by accompanying policy briefs and stakeholders engagements with the Ministry of Finance.

Microsimulation Analysis of Tax and Benefit System in Zambia:

As a follow up to the work done in 2016, the MicroZAMOD strand of the SOUTHMOD work programme will be consolidated in 2017. First, by preparing and incorporating a new underpinning dataset – the most recent Living Conditions Monitoring Survey; second, by adding some additional policies into the model such as FISP, Home Grown School Feeding Programme, Food security packs and public works; and third by updating the model to include a 2016 tax-benefit system, including the necessary internal and external validation work and updating of the country report to reflect the 2016 policies.

ZIPAR will lead on the preparation of the new LCMS and the addition of a 2016 system to the model, with technical support from Southern African Social Policy Research Institute (SASPRI). ZIPAR plans to work closely with the Ministry of Finance, Ministry of Community Development and Social Welfare, the Zambia Revenue Authority and other key stakeholders to regularly brief them about MicroZAMOD and its updates.

Analysis of the 2018 National Budget:

During the fourth quarter of 2017, the Public Finance Unit will team up with other units to conduct a budget analysis of the

2018 Budget Speech. The full economic effects of the Minister's proposals and their implications for the budget will be analysed. These will be presented to stakeholders within a week after the Budget Speech.

2.4 Trade and Investment Unit

The Role of Supermarkets in Industrialization and Job Creation

This study highlights the opportunities that exist to fully harness Zambia's potential for industrial development and export growth from the expansion of regional supermarkets in Zambia. This is aimed at contributing towards Government's objective of achieving diversification and job creation by highlighting the potential of achieving the foregoing through the integration of local processing firms in supermarket value chains.

Specifically, the unit will develop a short policy paper that will underscore the constraints faced by local suppliers that inhibit their increased participation in supermarket value chains. It will also discuss the potential for increased employment creation that can be derived from the full integration of local processing firms in supermarket value chains. But most importantly, the policy paper will give emphasis to the plausible policy options that can help develop supplier capabilities, increase participation of local suppliers in supermarket value chains as well as regional export markets, promote agro-processing and light manufacturing and employment creation.

The changing landscape of trade in Zambia: The role of an export strategy and standalone trade policy

This study is borne out of increased collaboration between MCTI and ZIPAR witnessed in 2016. The study is proposed to offer a critical synthesis of the newly formulated National Export Strategy and the standalone National Trade Policy and appreciate their linkage to the draft National Industrial Policy which is undergoing cabinet approval. It will highlight how the strategy and the policy have embraced national evidence on dynamical aspects of Zambia's trade structure both in goods and services. The paper will further expose challenges faced in formulating a forwarding trade and industrial policy regime in view of distortions caused by uneven distribution of voice in the lobby structure. The paper will end with a set of recommendations on how the ministry can possibly increase the chances of having policy that are firmly anchored on expectations of the private sector.

Determining the Appropriate Market Structure for Zambia's Electricity Supply Industry

This study has been motivated by the energy deficit the country is facing which necessitated unprecedented levels of electricity supply rationing to all consumers. This power deficit has largely been as a result of inadequate and delayed investments in generation and transmission infrastructure and the failure to diversify energy generation sources over the last 30 years.

This study therefore aims to map Zambia's current electricity supply industry with a focus on regulation and competition in the generation, transmission, distribution and supply value chain. The study seeks to investigate any legal, institutional, organizational or market factors that could be impeding competition and increased private sector participation in the industry. Further, the study aims to draw on successful experiences and market reforms in the region and other comparable global countries required to increase private sector participation and develop a modern regulatory framework which can make the electricity supply industry more efficient, reliable, competitive and responsive to the market demands.

Growth and Development in the Sugar to Confectionery Value Chain

This research is analysing the sugar to confectionery value chains across Zambia and South Africa. The research is jointly being undertaken by the Centre for Competition, Regulation and Economic Development (CCRED), the Zambia Institute for Policy Analysis and Research (ZIPAR) and the Indaba Agricultural Policy Research Institute (IAPRI). While CCRED and ZIPAR are working jointly on the entire project, IAPRI's role is limited to assessing the upstream level of the value chain, that is, on the production and pricing of sugar and the role of agricultural policy. This study is seeking to understand industrialisation in the context of the sugar to confectionery value chains in South Africa and Zambia. It also aims to highlight the potential for mutually beneficial growth and development opportunities for both countries.

Growth and Development in the Cosmetics, Soaps and Detergents Regional Value Chains

This research is analysing the soaps and detergents and cosmetics value chains in South Africa and Zambia. The research is being undertaken by the Centre for Competition, Regulation and Economic Development (CCRED) based at the University of Johannesburg, and ZIPAR. The research is seeking to understand the industrial development of the soaps and detergents/hair preparations value chains in South Africa and Zambia. Similarly, it also aims to highlight the potential for mutually beneficial industrial growth and employment opportunities for both countries.

2.5 Transport and Infrastructure Development

Development of a National Fire Services and Rescue Policy:

Currently Zambia lacks a National Policy to provide overall guidance in the provision of fire services. It is for this reason that ZIPAR has been contracted by the Ministry of Local Government to develop the first ever National Fire Services and Rescue Policy. This Policy is aimed at facilitating the provision of adequate emergency fire services to all and providing guidance on the management and practices such as prevention, safety control, fire-fighting and rescue. The development of this policy will be guided by the following methodology: an extensive desk review of regional and other international fire policy documentation, site visits to provincial fire management institutions, provincial Focus Group Discussions (FDGs) with representatives of all relevant stakeholders and interactive KIIs.

Used Motor Vehicle Imports and the Impact on Transportation in Zambia:

Resulting from consultations between ZIPAR, the Ministry of Communications and Transport and the Road Traffic Safety Agency (RTSA), the unit will be updating the 2014 Used Motor Vehicle study using current data. Like the 2014 study, the update will among others aim at determining whether the age and fitness status of Zambia's motor vehicle fleet is changing overtime. Further the study will attempt establish the relationship between the source market and aging and fitness status of the fleet. Finally, the study will evaluate the financing environment for motor vehicle leasing in Zambia.

Used Motor Vehicles Taxation Policy:

The Customs and Excise Act was amended under Act No. 18 of 2015 to, among other things, provide for the valuation of used motor vehicles. Section 85 of the Act states "… the customs value for used motor vehicles shall be determined by the method of valuation prescribed by the Minister by Statutory Instrument". The outcome of the study should inform what statutory instruments should be prescribed as regard to the valuation method to be applied for duty purposes.

This study aims to provide research basis for review of the taxation policy for used motor vehicles in Zambia. This is important considering current transportation needs of the public and the quality and safety conditions of the Zambian motor vehicle fleet. This study will employ the following methods among others; principal component analysis and data reduction using non-parametric regression techniques.

Photo Focus

Minister of Commerce, Trade and Industry, Hon. Margaret Mwanakatwe flanked by ZIPAR Executive Director, Dr. Pamela Nakamba-Kabaso (right) inspecting a locally made table mat during the exhibition at the launch of the ZIPAR Supermarkets Value Chains study report at Radisson Blu Hotel on 19 April 2017

Minister of Commerce, Trade and Industry, Hon. Margaret Mwanakatwe flanked by ZIPAR Executive Director, Dr. Pamela Nakamba-Kabaso listen to Superior Milling Director, Mr. Peter Cottan during the exhibition of local products at the launch of the ZIPAR Supermarkets Value Chains study report at Radisson Blu Hotel on 19 April 2017

Radio Phoenix News Editor Mr. Hyde Haguta, Zambia Daily Mail Business Editor, Mrs. Cynthia Mwale chatting with ZIPAR Executive Director, Dr. Pamela Nakamba-Kabaso during the Media Editors Lunch to launch the policy brief on IMF at Radisson Hotel on 16 March 2017

Public Policy Specialist, Policy Analysis and Coordination -Cabinet Office, Mr. Chinyanta Chikula making a contribution during a meeting with ZIPAR on Labour Regulations and Jobs at Intercontinental Hotel on 13 April 2017. On his right is Mr. Emmanuel Mali-Cabinet Office and Ms. Prudence Kaoma Asst. Director, Ministry of National Development Planning

ZIPAR Ladies posing for a group Photo during the International Women's Day Exhibitions at Levy Park Mall on 7 March 2017

Ms. Florence Banda-Muleya Research Fellow (left) and Ms. Chama Mundia Personal Assistant to ZIPAR ED attending to visitors to the ZIPAR stand during the commemoration of International Women's Day at Levy Park Mall.

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