Deepening Integration in SADC

Zambia’s Economic Policies in Line with SADC Targets

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Regional Integration in Southern Africa
Vol. 7

Deepening Integration in SADC

Zambia’s Economic Policies in Line with SADC Targets

A study conducted for the Friedrich Ebert Foundation

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February 2007
Impressum

Published by

Friedrich Ebert Foundation -
Botswana Office
February 2007

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for which the author works.
Regional integration can be a key force for sustainable development. It can promote economic growth, reduce poverty, foster social development or protect the environment. But, it can also have negative economic and social impacts, notably when the domestic regulatory framework is inadequate or not implemented effectively.

The Southern African Development Community (SADC) is committed to deepening the integration processes amongst its members and has adopted the Regional Indicative Strategic Development Plan (RISDP) in order to provide strategic direction in the design and formulation of SADC programmes, projects and activities in order to achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the people of Southern Africa and support the socially disadvantaged, through regional integration.

Amongst the various measures governments can implement to further such integration, ensuring sound macroeconomic management is vital. Given the commitment to deepening SADC integration through macroeconomic policies, it is important that policy makers in SADC and its Member States assess the impacts that such measures will have on the social well-being of its people, both in the short term and the long term.

In view of the above, the Friedrich Ebert Foundation through its office in Botswana and in close consultation with the Planning Unit of the SADC Secretariat initiated a regional research programme on “Deepening Integration in SADC – Macroeconomic Policies and their Impact”.

From the very beginning the programme was designed as a collective effort of the leading economic research institutions of the region. A total of 14 institutes from 11 SADC member countries followed the call to join the programme. In two workshops held in December 2004 in Gaborone, Botswana, and in April 2005 in Stellenbosch, South Africa, the team developed detailed terms of reference for the research programme. Phase 1 was to begin at the country level with a comprehensive study on the present status of the economies, their congruence with SADC convergence targets, the respective policy...
frameworks as well as a social impact analysis. This more theoretical desk study was complemented by an empirical survey of the perceptions of Businesses and Non-State Actors vis a vis SADC. A study on South Africa’s international trade diplomacy and its implications for regional integration was to give a contextual perspective.

All members of the research team have spent a lot of time and energy and produced excellent reports. The ideas and recommendations contained therein have induced some lively as well as controversial discussion among the participating institutions as well as with other experts. The content of each study reflects of course solely the views of the authors. I commend all of them for their great commitment as well as their great team spirit in this endeavour. I also wish to acknowledge the substantial input we received from the SADC Secretariat, especially the Head of the Strategic Planning Unit, Dr. Angelo E. Mondlane, the then Technical Advisor on Finance, Dr. Moeketsi Senaoana as well as other SADC experts. Other external experts have also contributed to the final documents as part of the various reference group meetings in all the participating countries. I wish to extend my greatest thanks to all them.

In order to make the results of this research programme known to a broader public, especially among the relevant policy and decision makers of the SADC region, the Friedrich Ebert Foundation then decided to publish a series of volumes entitled “Regional Integration in Southern Africa”.

The 7th volume, presented here, contains the findings of the Country Study and Survey from Zambia by the Institute of Economic and Social Research, INESOR in Zambia. My special thanks go to the author, to Inyambo Mwanawina for writing and revising the document, to Partrick Ebewo for editing, Sara Wagner for proof reading as well as to Peter Maina Kamiti and MacDonald Gotora for the design and layout.

Gaborone, February 2007

Dr. Marc Meinardus
Resident Representative
Friedrich Ebert Foundation
Botswana Office
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Executive Summary

The Southern African Development Community (SADC) Member States adopted a Regional Indicative Strategic Development Plan (RISDP), which sets the parameters for deepening regional integration. The overriding objective of the RISDP is to deepen SADC integration as a means to accelerating poverty eradication and the attainment of other economic and non-economic development goals. A Memorandum of Understanding (MOU) on Macroeconomic Convergence which was adopted in 2001, spells out four key convergence indicators, namely: rate of inflation, the ratio of the budget deficit to Gross Domestic Product (GDP), the ratio of public and publicly guaranteed debt to GDP, and the balance and structure of the current account. However, other macroeconomic target variables were equally important, such as increasing domestic investment, gradual interconnection of payments and clearing system, achievement of currency convertibility, finalisation of the legal and regulatory framework for dual and cross listing on the regional stock exchanges by 2008 and liberalisation of exchange controls. It, therefore, becomes important for each Member State to assess the impact of such measures on the social well-being of the citizens, both in the short and long term.

The regional office of the Friedrich Ebert Foundation (FES) provided financial support to undertake the country study on regional integration perceptions. The purpose of the study is to provide situation analysis which forms the basis of identifying the major constraints affecting regional integration. This will in turn form the basis for future studies aimed at identifying how best to remove the constraints thereby helping to enhance regional integration. The objective of the study is to provide the SADC Secretariat and the Zambia policy makers with macroeconomic policy advice on how the processes of SADC integration can be enhanced.

The methodology used in analysing the macroeconomic policy framework and their social impact draw upon a set of indicators to measure the impact that deepening SADC integration might have on human welfare and sustainable development.
Macroeconomic Policies

Zambia returned to a free market economy in 1991 under the direction and support of the International Financial Institutions (IFIs) and bilateral donors. The current medium-term macroeconomic goals as provided in the Poverty Reduction Strategy Paper/Transitional National Development Plan focuses on raising and sustaining economic growth, creating employment and reducing poverty. The main policy thrust is fiscal restraint through the policy instrument of limiting government borrowing and anchoring monetary policy to achieve price stability under the framework of the International Monetary Fund Three-Year Poverty Reduction and Growth Facility and the Enhanced Structural Adjustment Facility. Zambia’s social economic policies do not diverge but rather are in tandem with the objectives of deepening regional integration.

However, the policy regime had its pitfalls. To start with, a number of other key macroeconomic policy issues were missing such as income policy, micro finance and the regulatory framework, debt management (both domestic and foreign). Secondly, the policy measures themselves had gaps in certain areas, such as their inadequacy to deal with both sustained growth and poverty reduction as well as dealing with the serious distortions that impede the working of the free-market economy; enhancing the regulatory framework, reducing the causes of poverty, dealing with corruption, misallocation of resources and imposition of sanctions for breaking the rules, and generally, the achievement of macroeconomic convergence. In order to deal effectively with such weakness, there is need to support and strengthen regulatory institutions which promote competition.

The macroeconomic convergence target of meeting the core inflation is on course, while the increasing domestic debt burden exerts an upward pressure on lending interest rates, with seriously implications for the attainment of the target. This is further exacerbated by the low interest rates on savings, which continue to threaten the country’s ability to raise domestic savings. The government objective of employment creation has not been matched by appropriate budgetary allocations, but rather narrowly articulated in the context of mitigating the short term impact of adjustment on the poor. The attainment of
the HIPC completion point, together with the external debt write-off initiative, has moved the country to the achievement of the external debt to GDP ratio convergence target but exerts Dutch disease pressure. The failure to identify and provide appropriate response to the Dutch disease problem threatens the attainment of the real GDP growth rate and the budget deficit target. Lower revenue collections, in combination with increased selectivity in the reduction of tax rates, ad hoc exemptions, and tax concessions as well as tax evasion further exacerbate the budget deficit problem. The programmed budget deficit is well below the convergence target, but again is threatened by increased BoZ credit to the Government which has taken a divergent course.

Therefore, the attainment of the current deficit target may elude the country. However, the favourable rebound in the external economic climate may lead to the realisation of the target. The official projections on international reserves are well below the convergence target. However, the favourable external climate provides an opportunity for the rapid achievement of the target. The marginal recovery in the real per capita GDP, coupled with high levels of formal sector unemployment, and the lack of income re-distribution measures, is insufficient to reverse the high poverty levels in Zambia.

**Trade Policy**

By 1993, Zambia had made substantial achievements in trade liberalisation setting a minimum tariff of 20% and maximum of 40%, and the abolition of the 10% import licence fee. Moreover, discretionary waivers and exemptions on import taxes and non-tariff barriers have been removed. Impediments to exports were removed in 1990 and export licensing procedures were streamlined. Tariff reductions were implemented in response to the 1995 Cross Border Initiative Agenda and the country entering into the COMESA FTA in October 1999.

While a liberalised foreign trade policy regime promotes both growth, competition, employment creation and income generation, empirical studies show that variability in BoP flows had led to instability in the exchange rate. With the intensification of the implementation
of SAP by the Government after 1991, Zambia quickly implemented the trade liberalisation reforms in 1996 well ahead of the targeted date of end of 1998. With the exception of the implementation of the coupon system for paying road transit charges, all arrangements relating to the facilitation of transport arrangements, insurance and communications were put in place. Progress was slow in the harmonisation of statistical data.

However, the country has made tremendous improvements in other areas. Trade promotion in the country is spear-headed by the Export Board of Zambia (EBZ). The objective of EBZ is to promote, develop and encourage exports. Despite such efforts, the discrepancy between the nominal and real exchange rates persisted and exhibited a widening trend. In the recent past, there has been sudden appreciation of the local currency arising from external factors such as higher than expected donor inflows, surge in portfolio investment and higher copper prices, with the hallmarks of the Dutch disease problem.

**Labour Markets**

The Zambia’s labour policy aims at creating a conducive environment for generating employment and ensuring an effective and efficient labour market. It provides policy direction to propel the labour market in the country, coordinating and monitoring the implementation of the labour policy in order to enhance productivity in the economy. The government also seeks to improve the flow of information on the labour market. The broader objective of the labour policy is to create adequate and quality jobs under conditions that ensure adequate incomes, protection of workers' and basic human rights. The policy sets the strategy with regards to population and labour force, labour migration, and employment creation.

The growth in the population, with the corresponding expansion of the labour force and demand for jobs, has not been matched with an increase in the formal sector employment. The Zambian population at large can not find productive and remunerative employment. The lack of job opportunities, coupled with poor conditions of services has resulted in the loss of skilled and qualified human resources to western industrial countries and the sub-region. There is little or no evidence
of forced labour in Zambia though the Government acknowledges the existence of child labour in the informal sector. The labour laws forbids discrimination in employment on the grounds of sex, marital status, religion, political opinion or affiliation and tribal status, but do not provide provisions to cover discrimination against people with HIV/AIDS.

Social Impact

The overall impact of meeting the inflation target has been a substantial domestic debt burden. The immediate impact of the fiscal and monetary policy measures has been a marginal increase in real per capita GDP, which averaged 0.5% annually over the period 1994-2004. Only 4% of the country's labour force was in formal sector employment, leaving the bulk of the labour either in the informal sector and subsistence agriculture or not employed at all. The marginal recovery in real per capita GDP coupled with high levels of formal sector unemployment is inadequate to have a significant dent on reversing the high poverty levels in the country. While the attainment of the HIPC completion point has rapidly improved the country's movement in meeting the convergence criteria of improving the ratio of external debt to GDP, the Dutch disease problem now threatens the sustained recovery of the Zambian economy and movement towards the achievement of the macroeconomic convergence criteria of real GDP growth.

This then calls for building appropriate institutional framework and capacity utilisation by the authorities. Given Government's policy of no subsidies and cost sharing in socio-economic infrastructure provision and service deliveries, high tax rates and wide spread preferential tax treatment are no longer justifiable. The timing of the release of capital funds requires improvement. Given the backlog of accumulated payment of arrears, capital funds quickly get diverted to recurrent expenditures. To this end, there is need to improve budgetary allocation and reporting, monitoring system for both recurrent and capital expenditure, to ensure that resources are spent on the intended purposes.
Therefore, there is need to put an upper limit on the extent to which the monetary instrument can be used to siphon liquidity from the market. Also non-bank financial institutions should be encouraged to channel some of their financial resources to institutions that provide medium-term finance for investment. The implementation of the COMESA free trade will marginally lower the effective rates of protection for selected commodities without taking into account differentials in external tariffs which would disadvantage local manufacturers. Therefore, there is need to maintain low, non-discriminating and transparent protection levels. The poor state of infrastructure, the cost and quality of utilities like electricity and fuel, contributes to high operational costs, which also combine to render domestic production uncompetitive.

**Conclusion**

In conclusion, it can be said that the Government has been successful in implementing the economic reform programme of re-establishing a free market system from a mixed economy system. Most of the key macro economic variables have been moving in the right direction. Monetary policy instruments of liquidity requirements, open market operations and central bank lending can be effective tools of controlling inflation within well defined limits. Fiscal policy is an important tool of influencing the level of economic growth and resource allocation. The first step in addressing the supply response has been made. Exchange rate stability is best attained through increasing export earnings and a prudential management of donor inflows to avoid problems associated with the Dutch Disease. Trade liberalisation and introduction of COMESA FTA promotes both growth and competition. Donor support is important in alleviating the debt service burden and is pro-growth by freeing resources that can be invested elsewhere, including poverty reduction.
Recommendations

The following recommendations are being made:

- Improve capacity in the design and implementation of the reform programme.
- Prudential use of monetary policy has potential to adversely affect private sector investment, growth and poverty reduction.
- Avoid ad hoc exemptions and selectivity in reducing tax rates.
- Provide capital investment, improve productivity, management and financial system, in order to enhance and sustain economic growth.
- Make foreign aid predictable and in harmony with country’s plan documents.
- Review the domestic tax structure, cost of utilities, including energy and electricity.
  " Improve the socio-economic infrastructure in order to enhance competitiveness of domestic industries.
  " Inadequate structural and competition promoting policies.
  " Improve regulatory institutions for promoting competition.
  " Fight corruption and other structural constraints as well as the inadequacy of policy in some areas.

Future Research Needs
- Study on comparative advantage in individual countries.
- Study of the tax structure and how it inhibits regional integration.
- Study the impact of moving towards achieving the convergence targets for each country.
- Study on the social-economic impact of achieving the convergence indicators.
- Study on the reliability, consistence and harmonisation of performance indicators and data.
1 Introduction

Regional integration in the context of the Southern Africa Development Community (SADC) has a broad scope and multiple implications. On one hand, it can be seen as an important instrument to bring about sustainable development by promoting economic growth, poverty reduction, social development and the achievement of the millennium development goals. On the other hand, it may have negative economic and social consequences, particularly in an environment where the domestic regulatory framework is weak, inappropriate or even in cases where the regulatory framework may be good but not being implemented effectively. SADC countries have adopted a Regional Indicative Strategic Development Plan (RISDP) for the purpose of providing a strategic direction in the design and formulation of SADC programmes, projects and activities, thereby providing member states with a coherent and comprehensive development policy agenda, for both social and economic policies. The overriding objective of the RISDP is to deepen the integration agenda of SADC with a view to accelerating poverty eradication and the attainment of other economic and non-economic development goals within the Member States.

In order to achieve the set objectives, Member States signed a Memorandum of Understanding (MOU) on Macroeconomic Convergence which was adopted in 2001. Four indicators, namely, rate of inflation, the ratio of the budget deficit to Gross Domestic Product (GDP), the ratio of public and publicly guaranteed debt to GDP, and the balance and structure of the current account, were adopted so as to ensure smooth integration in a series of stages thereby safe guarding member states against possible detrimental effect of integration to their domestic economies, while at the same time addressing the challenges of achieving the Millennium Development Goals. These indicators constitute the major macroeconomic convergence targets for successful regional integration as tabulated in Table 1 below:
Table 1: Convergence Indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2008</th>
<th>2012</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core Inflation</td>
<td>9%</td>
<td>5%</td>
<td>3%</td>
</tr>
<tr>
<td>Budget deficit as % of GDP</td>
<td>5%</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>External debt as % of GDP</td>
<td>60%</td>
<td>60%</td>
<td>60%</td>
</tr>
<tr>
<td>Current account deficit as % GDP</td>
<td>9%</td>
<td>9%</td>
<td>3%</td>
</tr>
<tr>
<td>Growth rate</td>
<td>7%</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>External reserves (import cover in months)</td>
<td>3</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Central Bank credit to Government as % of GDP</td>
<td>10%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Domestic savings as % GDP</td>
<td>25%</td>
<td>30%</td>
<td>35%</td>
</tr>
</tbody>
</table>

Other macroeconomic target variables include increasing domestic investment to at least 30% of GDP, gradual interconnection of payments and clearing system, achievement of currency convertibility, finalisation of the legal and regulatory framework for dual and cross listing on the regional stock exchanges by 2008, and liberalisation of exchange controls (current account transactions by 2006 and capital account by 2010). It, therefore, becomes important for each member state to assess the impact of such measures on the social well-being of the citizens, both in the short and long term. This can be done through comprehensive assessment of the economic and social impacts of the macroeconomic policy initiatives.

It is against that background, that the regional office of the Friedrich Ebert Foundation (FES) based in Botswana, extended financial support to undertake country studies and surveys on regional integration in SADC member countries. The study and survey were conceptualised by, and is an outcome of deliberations of macroeconomic researchers and policy analysts from member states, who developed the terms of reference for the study after a series of workshops. The terms of reference are detailed in Annex I. The workshops were also supported by FES in close collaboration with the SADC Secretariat and FES, country offices. The purpose of the survey and study is to provide situation analysis which forms the basis of identifying the major constraints affecting regional integration. This will in turn, form the basis for future studies aimed at identifying how best to remove the constraints, thereby helping to enhance regional integration. The objective of the study is to provide the SADC Secretariat and the Zambia policy makers
with macroeconomic policy advice on how the processes of SADC integration can be enhanced, as well as provide information on the various options that could be pursued on the path to regional integration.

The methodology used in analysing the macroeconomic policy framework and their social impact draws upon a set of indicators to measure the impact that deepening SADC integration might have on human welfare and sustainable development. An attempt was made to use both target and process indicators. While target indicators serve to indicate the impact that macroeconomic policies for deepening SADC integration have on development in the specified time frame, process indicators assess the compatibility of the policy decisions taken on long term sustainable development. The target and process indicators are provided in Annex II. Each indicator, where ever possible, was detailed in second tier indicators, which shed more light on each component of the indicator.

The paper is divided into six sections. Section 2 outlines the macroeconomic framework followed by an examination of the trade policy framework in Section 3. Section 4 outlines the labour market policy, Section 5, assesses the social impact, while the last Section deals with the conclusion. Annexes and references are provided at the end of the paper.
2 Macroeconomic Policy Framework

In 1991, Zambia returned to a free market economy which process began in 1989 under the sponsorship of the International Financial Institutions (IFIs) and bilateral donors via benchmarks set in the International Monetary Fund (IMF) facilities and the World Bank (WB) conditionalities, as set in their credit facilities which constituted the policy package for the stabilisation and structural adjustment programme, or stabilisation/SAP as they are commonly known (see Box 1). The main elements of the stabilisation/SAP consist of the following:

i) Economic stabilisation whose policy measures focused on fiscal and monetary restraint;

ii) Structural adjustment by way of:
   • removal of price controls;
   • removal of subsidies;
   • liberalisation of the exchange rate, current and capital accounts;
   • liberalisation of external trade (removal of quantity restrictions and tariff reductions);
   • privatisation of parastatal companies;
   • parastatal reforms; and
   • civil service reform.

All the stabilisation/SAP policy measures have been implemented while the last three measures under the SAP are ongoing. Both the stabilisation and structural adjustment policies were implemented concurrently with little or no regard to sequencing. The investment policy focused on terminating low-priority/productive investments and budgeting for new capital projects only in instances where the projects have a strong economic justification. However, the machinery for doing so was weak or non existent.

The removal of price controls and liberalisation of the current and capital accounts was expected to bring about efficient resource allocations by removing impediments to resource mobility, thereby attracting both domestic and foreign investment. The privatisation of parastatal companies had the double objective of removing Government’s direct involvement in business and bringing efficiency
in the operations of the enterprises with the consequence of increasing productivity and growth. The parastatal reforms were aimed at keeping the parastatals financially viable before privatisation, and eliminating any special advantage over private companies, thereby promoting competition and efficiency; while the civil service reform was aimed at making the public sector productive and efficient. This was to be achieved through motivating and retaining key personnel while reducing the size of the civil service and hiving off certain departments, commissions or bodies considered defunct or those which could survive on their own.

The policies were dictated by the IFIs and bilateral donors and have little or no relevance to the country's membership of the southern Africa Development Community (SADC) or the Common Market for Eastern and Southern Africa (COMESA). In the period 1991 to 2003, the country produced fragmented plan documents for the purpose of soliciting donor support or to meet donor conditionalities. These plans include:

- The National Action Plan that translated the Interim National Development Plan;
- Public Investment Programmes of 2000-2002 and 2001-2003;
- The Five-year Institutional Strategic Plans;
- The Sectoral Investment Programmes; and
- The three year rolling Medium Term Expenditure Framework (MTEF).
Box 1: Structural Conditionality

MF Conditionality
Prior Action
Cabinet approval of a proposal to repeal sections of the Building Societies Act, the National Savings and Credit Bank Act and Development Bank of Zambia Amendment Act which are in conflict with the Banking and Financial Services Act.

Public Expenditure Management
- Development of an assessment framework for the PEMFA programme and review of the implementation.
- Budget preparation (MTEF), execution, and reporting (publication of quarterly reports).
- Piloting of an IFMIS and conducting a preliminary review of this pilot.

Debt Management
- Quarterly validation of external data and updating of the debt-service schedule.

Financial Sector
- Cabinet approval of proposals to strengthen the BoZ’s supervision of NBFIs.
- Progress on the resolution of three NBFIs.
- Issuance of new invitation for bids for purchase of 49% percent equity in ZNCB, with management control.

World Bank Conditionality
- Measures to prevent public sector arrears to public utilities.
- Initial reforms of public sector pension schemes.
- Resolution of non bank financial institutions.
- Public expenditure management: revision of the Finance Act and strengthening budget preparation and auditing.
- Control of the government payroll and consolidation of allowances into basic salaries.

European Union Conditionality
- Funding targets for the Ministry of Health and Education, Auditor General’s Office, and poverty-reducing programmes.
- Reporting of budget execution.
- Reporting on progress in primary education, HIV/AIDS prevention, children and women’s health, and female empowerment.

African Development Bank Conditionality
- Strengthening the autonomy and effectiveness of the Auditor General’s Office.

Bilateral Donor Conditionalities
- Joint initiative on PEMFA programme.
- Progress in macroeconomic stability, public financial management, core structural reforms, health, education, and HIV/AIDS.

However, the achievement of expected favourable outcome after implementation of macroeconomic and sectoral policies critically depended on two major factors:

- existence of condition under which free market economy can flourish both domestically and internationally, and
- availability of domestic/donor's institutional and management/administrative capacity to design, implement and monitor the programmes, as well as make right choices at the right time, particularly with regard to market failures.

The PRSP and Transitional National Development Plan (TNDP) provide the current medium-term overall macroeconomic goals, which are to raise and sustain economic growth, create employment and reduce poverty. The preparation of the country's Fifth National Development Plan consolidates the country's desire to break with the past and take charge of its development agenda which process begun with the preparation of the TNDP. The medium-term macroeconomic policy framework aims at preserving the recent gains in the macroeconomic performance and makes further improvements in macroeconomic stability as well as encouraging investment for growth. This was to be achieved through consolidating and enhancing the fiscal stance by limiting government borrowing and anchoring monetary policy on price stability, while allowing credit expansion to the productive sectors of the economy.

The macroeconomic objective for the period 2005-2007 aims at achieving sustained economic growth of 5% per year and further reduce annual average inflation to 15% in 2005, 10% in 2006 and 5% in 2007; reduce domestic borrowing to 1.6% of GDP in 2005, 1.3% in 2006 and 0.7% in 2007; improve the country's external sector viability by increasing the official gross international reserves to 1.5 months of imports cover in 2006, 1.7 months in 2006 and 1.9 months in 2007; remain current with foreign debt service, which amounts to K192.7 billion (0.62% of GDP) in 2005; and dismantling domestic debt, especially arrears to suppliers of goods and services and pension arrears, by paying K218 billion in 2005, K304 billion in 2006 and K316 billion in 2007.
The Government is currently operating its macroeconomic policy within the framework of the IMF Three-year Poverty Reduction and Growth Facility (PRGF) arrangement previously called the Enhanced Structural Adjustment Facility (ESAF) which is coming to an end in 2006. The PRGF loan carries an annual interest rate of 0.5% and is repayable over a 10 year period with a 5½ year grace period on principal payments. The PRGF was augmented by the Enhanced Heavily Indebted Poor Countries (HIPC) initiative, which availed the country limited debt relief on reaching the completion point in 2005. Zambia further received substantial debt relief from the debt cancellation initiative arising from the G7 summit which agreed to write off 100% debt owed by HIPC countries that have attained the completion point from which Zambia benefited. The consequence was a reduction of the country's external debt to no more than USD 500 million.

The focus of the macroeconomic policy continues to be demand restraint. The Government macroeconomic policy objectives for 2005 remain focused in the following areas:

- Attain real growth of gross domestic product of 6%.
- Reduction of inflation to 15% by end of the year.
- Build international reserves equivalent to about 1.3 months cover of gross international reserves for imports of goods and services.
- Limit domestic fiscal deficit to 1.6% of GDP.
- Raising spending towards poverty reduction programmes to 13% of GDP or 42% of the total budget.
- Restricting growth of money supply to 16%.
- Maintaining stability in the foreign exchange market.

Based on the following assumptions:

- Agriculture, mining, manufacturing and tourism are the main sources of growth.
- High external debt service obligations.
- Improved debt relief and steady disbursement of BoP.
Fiscal Policy

Fiscal policy is an import mechanism of influencing both the level of economic growth and resource allocation by the Government and other economic agents through the effect of government spending, taxation and borrowing. The Government has operated an austerity budget since the introduction of the cash budget in 1993. In 2000, the first step to address the issue of supply response by reducing tax rates, providing concessions on selected items and broadening the tax base (as opposed to increasing the tax rates) was instituted.

Fiscal policy impacts economic growth in several ways. In the first place, by the act of recurrent spending on repairs and maintenance of the existing social-economic infrastructure in health, education, transport and communications that complements private sector investment. An increase in such spending will provide impetus to growth in output, income and employment creation. In the second place, capital spending in productive labour intensive projects in both urban and rural areas will lead to direct employment and income generation. This will also have strong potential to stimulate secondary investment by the private sector which would result in second round beneficial effects on the economy.

However, both outcomes can be seriously inhibited by austerity measures as the two types of expenditures are easy targets of budget cuts, as a consequence of both expenditure reform (cuts in non-essential activities, wage restraint, etc.) and short falls in government revenue. The third effect focuses on the revenue side of the budget, via the impact of taxation on production, income and spending. While low tax rates are likely to stimulate production, income, and reduce poverty; high taxes, are likely to lead to detrimental effects. Tax policy has evolved around the need to generate revenue rather than creating efficient resource allocation. Moreover, increased selectivity in the reduction of tax rates, the erosion of the tax base via ad hoc exemptions, and the award of concessions increase the possibility of adverse incentives, tax evasion, heavy tax burden on those not benefiting from the concessions. They undermine domestic efficient production and impose serious distortions on the functioning of the free market
economy. This could make tax compliance difficult and may lead to an overall shortfall in tax revenue.

Zambia is operating an activity based cash budgeting system. The responsibility of resource allocation and financial management passing through the public financial system rests with the Office of the Accountant General (OAG). The OAG is the custodian of all GRZ expenditures. Following a review of the role of the budget office, the responsibility to disburse public funds in line with commitments/expenditure patterns was given to the OAG. However, this is still being done by Budget Office. In the interest of ensuring stronger budget discipline and making veriment of allocations difficult, it may be desirable that a different department from Budget Office be made responsible for that task. The GRZ Financial Management System (FMS), which is used in all line ministries allows for the generation of financial management information, reporting, monitoring and evaluation, which tasks are performed by the OAG and has resulted in improved financial management.

Another important area in financial management is Internal Audit which is responsible for the management of the control systems put in place to ensure effective utilisation of public resources. The internal audit also ensures that financial and stores regulations are strictly adhered to, as provided for in the Financial Regulations and Public Finance Act 2004. However, Central Stores is becoming irrelevant with the decentralisation of the procurement system. The Internal Audit provides assurance to all line ministries by ensuring that public funds and assets are safeguarded, appropriate policies and procedures are being complied with.

In recognition of the fact that there is no financial system that is perfect in the world, the basic weakness of the FMS is that it is dependent on the activity-based cash budget. The cash budget does not provide a comprehensive picture of GRZ's financial standing and is incompatible with national planning as it focuses on the short-term day-to-day management of financial resources. Despite the adoption of the ABB, budgeting is still based on the traditional incremental allocation and cut backs. The FMS is currently based on activities and requires further improvements to allow re-classification of expenditures according to sectors and institutions as well as geographical location.
Monetary Policy

Monetary policy instruments can be used to control money supply, growth, inflation rate, interest rates, and credit to finance both public and private investment. Interest rates became market determined in 1992, while open market operations were introduced in 1995 and became the authorities' preferred instrument of demand management. The open market operations have the advantage of being a flexible tool and allow financial institutions to allocate credit according to market forces. For the tool to be effective, both reserve ratios and central bank lending should be adequate. However, the tool can not be used without limit as it has the potential to “crowd out” private sector investment in terms of both the quantity of available resources and high interest rates, which could stifle growth, income generation, and eradication of poverty. Moreover, this could fuel stagflation. This can be a serious problem given the background of low-income levels and lack of savings for investment.

The Bank of Zambia (BoZ) is responsible for formulating and implementing monetary policy and supervision of the financial sector in order to ensure the maintenance of price and financial systems stability, so as to promote balanced macroeconomic development. The main functions of BoZ are to:

- Licence, supervise and regulate the activities of banks and financial institutions so as to promote safe, sound efficient operations and development of the financial system.
- Promote efficient payment mechanisms.
- Issue notes and coins to be legal tender in the Republic and regulate all matters relating to the currency of the Republic.
- Act as banker and fiscal agent to the Republic.
- Support the efficient operation of the exchange system.
- Act as adviser to the Government on matters relating to economic and monetary management.

BoZ operates under general or particular policies that may be conveyed by the Minister responsible for Finance and Planning and it's the BoZ's responsibility to implement or give effect to such policies.
Interest rates in Zambia had remained negative in real terms for a long time. The Government and its co-operating partners felt that the liberalisation of interest rates would attract both savings and investment, and allocate investment more efficiently. In 1990, a comprehensive system of foreign exchange licensing and allocation was abolished which was followed by the removal of limitations of remittances of profits and dividends. Both the current and capital accounts were fully liberalised when the exchange control Act ceased to have effect in 1994. The objective of the liberalisation was to provide further impetus to private capital inflows and investment.

Other Policies

In addition to the pure macroeconomic policies, the Government has also put in place structural and sectoral policies for the purpose of achieving the medium-term macroeconomic objective of attaining high and sustained economic growth and poverty reduction. These policies focus on the following areas:

- Alleviating the short-term adverse effects of adjustment on the poor.
- Increasing current output by improving the efficiency with which the factors of production are utilised and allocated among competing uses.
- Enhancing the long term capacity of achieving sustained growth and poverty reduction by stimulating domestic savings, investment in education, technological innovation, etc.

Restoring and sustaining economic growth was seen to depend on key structural measures, regulatory reform, privatisation, civil service reform, improved governance, trade liberalisation and banking reforms, judiciary system, environment and labour markets which enhances the functioning of the free market system. However, growth alone is not sufficient to reduce poverty. It must be accompanied by policies that improve the distribution of income and assets (land, pro-poor public expenditure and measures to improve the poor's access to financial markets) in a way that imposes least distortions to the functioning of the free market economy.
Are these policies sufficient to restore sustained growth, poverty reduction and achieving the major macroeconomic convergence targets? To start with, it is important to note that a number of other key macroeconomic policy issues were missing such as income, microfinance and the regulatory framework, debt management (both domestic and foreign). The policy measures themselves had gaps in certain areas such as their inadequacy to deal with both sustained growth and poverty reduction, as well as dealing with the serious distortions that impede the working of the free-market economy; enhancing the regulatory framework, reducing the causes of poverty (corruption), misallocation of resources and imposition of sanctions for breaking the rules, and generally the achievement of macroeconomic convergence.

In order to move towards macroeconomic convergence and wealth creation, specific action plans (liberalisation plans) for the individual sectors of the economy and for public resource allocation to the social sectors need to be developed. The advent of privatisation of state enterprises and liberalisation of the economy has created conditions which necessitated the improvement of a competition policy in order to enhance fair trade. In order to deal effectively with cases of unfair trade/production and instances of market failure, there is need to support and strengthen regulatory institutions which promote competition.
3 Trade Policy Framework

While a liberalised foreign trade policy regime promotes growth, competition, employment creation and income generation, the pursuit of such a regime should take into account both domestic and external market failures, as well as trade regimes of trading partners. By 1993, Zambia had made substantial achievements in trade liberalisation setting a minimum tariff of 20% and maximum of 40% and the abolition of the 10% import licence fee. Moreover, discretionary waivers and exemptions on import taxes were also removed way back in 1991 while non-tariff barriers were disposed of a year earlier. Impediments to exports were removed in 1990 by streamlining export licensing and shifting it from the central bank to commercial banks, and the reduction of the up-lift factor to 1.2%. Three years later, more tariff reductions were implemented in response to the 1995 Cross Border Initiative agenda and the country entering the COMESA FTA in October 1999.

The COMESA FTA, the new ACP/EU Partnership Agreement of June 23, 2000, which allows duty free on all industrial products and limited agricultural product exports of ACP into the EU market, and the Trade and Development Act of 2000 of the United States of America, raises both new opportunities and challenges for Zambian exports with respect to its capacity to produce and export goods which meet international standards on one hand, and the ability to over-come non tariff barriers and stiff competition on the other.

With the adoption of free market determined exchange rate, the exchange rate policy is no longer a policy option. However, this does not mean that authorities can not intervene in the market for the purpose of restoring stability to the financial system. Empirical studies show that variability in BoP flows had led to instability in the exchange rate as donors can withhold the flows for non-economic reasons. Therefore, the most sustainable method of stabilising the exchange rate is to ensure a continuous flow of foreign exchange earnings through increasing exports. The introduction of a market determined exchange rate was motivated by the need to strike a balance between the demand and supply of foreign exchange. The aim is to accord efficient exporters high profits, rationalise the demand for imports,
promote an efficient allocation of foreign exchange, and provide a stimulus to private capital inflows.

In 1995, the Cross Border Initiative (CBI) participating countries endorsed and agreed on an action plan for the liberalisation of trade in goods and services, and trade facilitation within their broader objectives, which also include deregulation of investment, facilitation of the movements of persons, liberalisation of the exchange system, and the strengthening of financial intermediation. These issues pertaining to trade are now examined in more detail below.

3.1 Liberalisation of Foreign Trade

With the intensification of the implementation of SAP by the Government after 1991, impediments to free trade were quickly removed, not only among CBI participating countries, but also across the board as shown in Table 2. The 1995 CBI agenda called for:

- Removal of all tariff barriers on intra regional trade by 1998;
- Immediate abolition of all non-tariff barriers;
- Minimisation of the risk of trade diversion and promotion of integration into the world economy; and
- Harmonisation of external tariffs by the end of 1998 with no more than three non-zero rates, an average trade weighted tariff rate of 15% and a maximum of 20-25%.

<table>
<thead>
<tr>
<th>Trade and Exchange Rate Policy</th>
<th>Objectives</th>
<th>Implementation Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade</td>
<td>Liberalisation of import regime</td>
<td>1993</td>
</tr>
<tr>
<td></td>
<td>Remove impediments to exports</td>
<td>1993</td>
</tr>
<tr>
<td>Tariff</td>
<td>Achieve more uniform and lower levels of tariffs</td>
<td>1993</td>
</tr>
<tr>
<td>Exchange rate</td>
<td>Market determined rate</td>
<td>1993</td>
</tr>
</tbody>
</table>

Table 3 shows the implementation of tariff reform reductions. Before the reductions in 1995, the lowest tariff was at 0% and ranged between 20% (raw materials and productive machinery) and 40% (final products) for non-zero rated goods which yielded a weighted average of 33.8 % duty rate. Zambia quickly implemented the reforms
in 1996 well ahead of the targeted date of 1998, despite the country exceeding the average tariff by more than 8.8% points.\textsuperscript{1} The external tariffs were reduced by a maximum of 100% (productive machinery in the agriculture and mining sectors) and a minimum of 37.5% (final products), which gave a simple average reduction of 65.6% with the revised actual tariff ranging between 0% (productive machinery in the agriculture and mining sectors) and 25% (final products).

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|c|}
\hline
& (%) & (%) & (\%) \\
\hline
Previous zero rated raw materials & 0 & 0 & 0 \\
Productive machinery for Agriculture & 20 & 0 & 0 \\
& & & \\
& Other raw materials and & 20 & 5 & 2 \\
Intermediate goods & 30 & 15 & 6 \\
Final products & 40 & 25 & 10 \\
Import declaration fee & 5 & 5 & 5 \\
\hline
\end{tabular}
\caption{Implementation of CBI Tariff Reform Reductions}
\end{table}

Source: Budget Address 1996  
Note: * Proposed preferential reductions for COMESA countries

The reduction in external tariffs results in a weighted average of 12.3% for the rest of the world and 4.9% for COMESA member countries, which stands well below the CBI endorsed maximum average weighted tariff rate of 25% and a minimum of 15%. The reduction in tariffs was larger for COMESA countries, which gave a simple averaged 87.6% with a range of 75% to 100%. The actual non-zero rated duty rates stood between 2% for raw materials and productive machinery and a maximum of 10% for final goods.

However, an import declaration fee of 5% continued to be imposed until 1998 as a revenue generating measure with exemptions provided for, under the procurement of capital equipment for entities holding investment licences from the Zambia Investment Centre. In view of the general reductions in tariffs, tariff exemptions which hitherto have been enjoyed in the Investment Act were done away with in 1996.

\textsuperscript{1} An average weighted tariff of 33.8 per\% was used based on the 1991-93 average distribution of imports by end-use of intermediate goods (28.7%), capital goods (42.9%) and final goods (28.4%).\cite{4}
Government and other exempted organisations were now liable to pay duty and those exempted could claim refund on allowable commodities.

### 3.2 Foreign Trade Facilitation

Foreign trade facilitation is aimed at simplifying and harmonising trade documents and procedures, with a view to streamlining the cumbersome procedures, and reduction of the associated administrative costs. This was also extended to harmonisation of commodity description and coding system, as well as to the introduction of a single goods export declaration document. The other measures which were under consideration aimed at reducing unnecessary delays at entry points included the introduction of a regional customs guarantee system for PTA transit traffic and the yellow card.

The bond guarantee scheme was aimed at getting rid of the need for entering separate bond at each entry point, and avoiding cumbersome procedures. The yellow card is a third party motor vehicle regional insurance scheme, which avoids the need to obtain a separate insurance scheme in each member country. The status of the implementation of trade facilitation programme is provided in Table 4, wherein 11 out of the 13 identified activities were carried out by 1998. Zambia, being a land-locked country and sitting in the midst of COMESA countries, finds itself in a strategic position to benefit from the harmonisation of transport arrangements as well as regional trade itself.
Table 4: Implementation of Trade Facilitation Programme

<table>
<thead>
<tr>
<th>Activity</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simplification, streamlining and harmonisation of customs procedures,</td>
<td>done, 1992</td>
</tr>
<tr>
<td>documentation, rules and legislation</td>
<td></td>
</tr>
<tr>
<td>Introduction and implementation of the regional customs declaration</td>
<td>done</td>
</tr>
<tr>
<td>document</td>
<td></td>
</tr>
<tr>
<td>Implementation of harmonised common tariff nomenclature and tariff coding system</td>
<td>done</td>
</tr>
<tr>
<td>Establishment of customs bond guarantee scheme not</td>
<td>done</td>
</tr>
<tr>
<td>Implementation of harmonised road user transit charges of USD 5/100Km for</td>
<td>done</td>
</tr>
<tr>
<td>buses, USD 10/100Km for heavy goods vehicles with trailer and USD 6/100</td>
<td></td>
</tr>
<tr>
<td>km for heavy goods vehicles without trailer</td>
<td></td>
</tr>
<tr>
<td>Implementation of third party motor vehicle insurance scheme (yellow card)</td>
<td>done</td>
</tr>
<tr>
<td>Implementation of coupon system for paying road transit charges not</td>
<td>done</td>
</tr>
<tr>
<td>Implementation of harmonised vehicle dimension of a maximum of 22 m</td>
<td>done</td>
</tr>
<tr>
<td>Implementation of axle load limit of 8 tons for single steering,</td>
<td>done</td>
</tr>
<tr>
<td>10 tonnes for single load drive, 16 tonnes for tandem group and 24</td>
<td></td>
</tr>
<tr>
<td>ton for triple group</td>
<td></td>
</tr>
<tr>
<td>Implementation of carrier licence</td>
<td>done</td>
</tr>
<tr>
<td>Implementation of transit plates</td>
<td>done</td>
</tr>
<tr>
<td>Implementation of high frequency cross border mobile radio communication system</td>
<td>done</td>
</tr>
<tr>
<td>Implementation of telecommunication agreement</td>
<td>done</td>
</tr>
</tbody>
</table>

Source: [12]

With the exception of the implementation of the coupon system for paying road transit charges, all arrangements relating to the facilitation of transport arrangements, insurance and communications were put in place. This ranged from harmonised transport charges, third party motor insurance, to the introduction of cross border radio communication system including an agreement on telecommunications.

3.3 Export Promotion

Another important area in encouraging trade is trade promotion which is very important in the creation of market awareness. The objective is to create a dynamic trade promotion programme with the involvement of the private sector for the purpose of enhancing trade. A prerequisite for this is the availability of consistent, timely and
comparable data among trading countries. In order to realise this objective a number of activities were outlined as provided in Table 5, each of which is to be carried out by member countries.

The strategy also included enhancement of market development activities, the introduction of specialised trade services and the promotion of marketing missions and trade fairs; export quality management and packaging, and capacity building in trade issues.

Table 5: Implementation of Export Promotion Programme

<table>
<thead>
<tr>
<th>Activity</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementation of common statistics rules, definitions and concepts</td>
<td>on going</td>
</tr>
<tr>
<td>Publication of statistics, documents and dissemination</td>
<td></td>
</tr>
<tr>
<td>Standardisation, quality assurance, metrology and testing</td>
<td></td>
</tr>
<tr>
<td>Timely production of harmonised statistical data</td>
<td></td>
</tr>
</tbody>
</table>

Source: [12]

While progress was slow in the harmonisation of statistical data, Zambia has made tremendous improvements in other areas. Trade promotion in the country is spear headed by the Export Board of Zambia (EBZ) which was established by the Export Development Act of 1985 and as amended by the 1994 Act. The objective of EBZ is to promote, develop and encourage exports. EBZ collects, collates and disseminates trade information on existing and potential markets, provides technical know-how and specialised assistance in quality control, supply and pricing of exports.

The export procedures have been stream-lined and simplified such that it is no longer necessary to apply for an export licence. The procedure is as follows:

- Obtaining the customs and excise documentation (CED) form from either a commercial bank or the Zambia Revenue Authority (ZRA) where one is required to indicate the range and value of export commodities;
- Delivering a completed letter of credit to customs for inspection;
- Obtaining an official certificate of origin from the ZRA;
- Obtaining a quality certificate, gemstone permit or verification certificate, depending on the commodity;
• Preparation of an original commercial invoice and packing list; and
• Completion of the airway bill or bill of landing for the transportation of the export commodity.

This resulted in three pieces of government documentation, namely the CED, certificate of origin and quality certificate/permit or verification certificate, to enable one to export.

The EBZ plays an active role in trade promotion by directly participating in trade fairs both inside and outside the country. The board also assists export firms to participate in such fairs. Trade missions abroad are also undertaken in order to assess the export potential of Zambian products, as well as the organisation of training programmes, seminars and workshops in support of exports from Zambia. Moreover, the EBZ also makes recommendations to Government in relation to policies supporting the development, promotion and encouragement of Zambian exports, and policies concerning the adoption and ratification of multilateral and bilateral agreements which promotes the country’s exports. The EBZ mandate further incorporates making recommendations to Government about measures which enhance laws, systems and programmes that encourage exports from Zambia as well as trade policies which facilitate and are in harmony with the objectives of regional economic integration.

3.4 Deregulation of Foreign Exchange Market

Exchange control regulations, and in particular, restrictive foreign exchange allocation, was identified as one of the major impediments to trade. Thus, there was need to remove such restrictions so that exchange rates become market determined. Zambia began moving towards this road in 1985 with the introduction of the foreign exchange auction system. However, in 1987, the Government changed its economic policy and re-introduced the manual system of allocating foreign exchange. This was short-lived as the country could not sustain the old policies for long and went back to negotiate with the IFIs, which resulted in the establishment of the Open General Licence (OGL) in 1990. In 1992, the Bureau de Changes were introduced in the country. Moreover, most of the current account transactions were
freed. All the capital account transactions were freed in 1994 when the exchange controls measures were officially abolished.

The exchange rate is the principal instrument through which the monetary authority, the Bank of Zambia, equilibrate the supply and demand of foreign exchange. The Government has over the years endeavoured to move towards equilibrium rates, not only as a means of allowing for a quick adjustment in the exchange rates, but also of ensuring competitiveness of the export sector. The sustainability of the external sector requires that the real exchange rate remains in line with that of the main trading partners. Despite such efforts, the discrepancy between the nominal and real exchange rates persisted and exhibited a widening trend. In the recent past, there has been sudden appreciation of the local currency arising from external factors such as higher than expected donor inflows, surge in portfolio investment and higher copper prices, with the hallmarks of the Dutch disease problem, that will be discussed later.

The foreign exchange market is dominated by a few market players, namely, earnings from the traditional export sector and inflows from external donors. An interesting development in the foreign exchange market was the introduction of foreign currency accounts. The objective was to attract off shore deposits held by residents and firms. However, there is no clear information on the source of funds going into local external accounts due to the absence of disclosure requirements. The majority of the account holders are importing firms accumulating amounts for import orders whose motives tend to exhibit rigid upward real exchange rate adjustments.
4 Labour Market Policy Framework

The Zambia's labour policy, as articulated in the National Employment and Labour Market Policy of the Ministry of Labour and Social Security, sets the parameters for the Government's role in creating a conducive environment for generating employment and ensuring an effective and efficient labour market. It provides policy direction to propel the labour market in the country, coordinating and monitoring the implementation of the labour policy in order to enhance productivity in the economy. The policy document was produced with the financial support provided by the World Bank and the United Nations Development Programme, while the International Labour Organisation provided technical support. Other national stakeholders included but not limited to the Zambia Congress of Trade Unions, the Zambian Federation of Employers and Non-Government Organisations.

The policy is seen as one of the measures the Zambian authorities has put in place to reverse the continued economic decline in the country. Labour being an important factor of production. The government liberalised the labour market in order to make it more efficient and responsive to the challenges of the day with the aim of enhancing its productivity. Moreover, the Government also seeks to improve information on the labour market. The labour policy document was adopted by Government in 2004.

The broader objective of the labour policy is to create adequate and quality jobs under conditions that ensure adequate incomes, and protection of workers’ and basic human rights. The policy sets a strategy pertaining to population and labour force, labour migration and employment creation, (Table 6). The issues covered in the policy are:

- Safeguarding the rights at work;
- Improving working conditions, equality and productivity of labour;
- Provision of social protection/security;
- Strengthening social dialogue and labour market information system.

Formal sector employment has been declining by an annual average of -2.4% from 544,200 in 1991 to 416,228 in 2004, against the back
drop of a population of 9,885,591 according to the 2000 census. The growth in the population with the corresponding expansion of the labour force and demand for jobs has not been matched with an increase in the formal sector employment. The Zambian population at large can not find productive and remunerative employment. The lack of job opportunities, coupled with poor conditions of services has resulted in the loss of skilled and qualified human resources to western industrial countries and the sub-region.

Small and medium scale enterprises (SMEs) constitute an important source of employment in both the formal and informal sectors, but more especially in the informal sector. The government aims to support this sector through the Small Enterprises Development Board and the TEVET Act No.13 of 1998, which aims at providing training to the SMEs.

### Table 6: Labour Policy Objectives and Strategies

<table>
<thead>
<tr>
<th>Policy Issue</th>
<th>Goal</th>
<th>Objective</th>
<th>Strategy</th>
</tr>
</thead>
</table>
| Population & labour force | Reduce the population growth rate | Improve people’s standard of living | • Organise workers’ education programmes in the formal and informal sectors with social partners on the importance of family planning  
• Facilitate the provision of family planning devices in work places  
• Improve provision of family planning services at all health institutions to make it more accessible to people who need it |
| Labour migration | Reduce brain drain in the country | Attract Zambian professionals working outside and retain those working in the country | • Improve the conditions of employment, especially for strategic personnel  
Provide up-to-date information on new job & investment opportunities to Zambians working abroad  
Promote the principle of equal pay for equal work of equal value |

**Employment**

<p>| Creation | Small scale &amp; medium | Create more employment opportunities | Stimulate creation &amp; growth of the sub sector | Establish common services, facilities, machinery, equipment &amp; marketing services |</p>
<table>
<thead>
<tr>
<th>enterprises managers</th>
<th>Agriculture sector</th>
<th>Manufacturing sector</th>
<th>Mining sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide training to owners &amp; managers in business management skills</td>
<td>Provide credit facilities to increase production capacities</td>
<td>Provide appropriate legal framework to safeguard investment</td>
<td>Increase investments</td>
</tr>
<tr>
<td>Provide credit facilities to increase production capacities</td>
<td>Encourage purchase of goods by government &amp; private sector</td>
<td>Enhance the provision of tax &amp; other incentives in order to attract foreign investment</td>
<td>Undertake infrastructure development</td>
</tr>
<tr>
<td>Encourage purchase of goods by government &amp; private sector</td>
<td>Agriculture Create more employment opportunities</td>
<td>Promote industrial policies to foster development</td>
<td>Open up new mines</td>
</tr>
<tr>
<td></td>
<td>Create productive employment opportunities</td>
<td></td>
<td>Provide support to the development of small-scale mining</td>
</tr>
<tr>
<td></td>
<td>Create productive employment opportunities for both women &amp; men</td>
<td></td>
<td>Promote mineral processing industries</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Promote skills development in gemstone mining</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Information &amp; communications technology</td>
<td>Create more employment opportunities</td>
<td>Build capacity in information &amp; communication technology &amp; overcome the digital divide</td>
<td></td>
</tr>
<tr>
<td>----------------------------------------</td>
<td>-------------------------------------</td>
<td>----------------------------------------------------------------------------------</td>
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<tr>
<td></td>
<td></td>
<td>• Expand internet points of presence to all districts</td>
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<td></td>
<td>• Create ICT resource centres in all districts</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>• Provide ICT skills &amp; knowledge</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>• Promote school connectivity &amp; distance learning</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>• Remove tariffs on computers &amp; other related equipment</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Develop an efficient ICT infrastructure</td>
<td></td>
</tr>
<tr>
<td>Tourism</td>
<td>Create more employment opportunities</td>
<td>Provide an attractive environment</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Encourage opening up of new tourism destinations &amp; attractions</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Promote small &amp; medium enterprises in the cultural sector</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Undertake infrastructural development</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Encourage development of tourism services</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Advertise tourism attractions</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Encourage local participation in tourism</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Promote community participation in game management activities</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Train human resources</td>
<td></td>
</tr>
<tr>
<td>Education &amp; Training</td>
<td>Relevant skills to be made available to the labour market</td>
<td>Build an efficient &amp; effective management &amp; planning systems</td>
<td></td>
</tr>
<tr>
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<td>• Sensitise the providers of education &amp; training on the need for collecting, analysing &amp; storing labour market information</td>
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<td>• Encourage education &amp; training for self employment</td>
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<td>• Regular review of education &amp; training curricular to meet the skills demand of the labour market</td>
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<td>• Promote human resource development in education &amp; training sectors</td>
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<td>Finance</td>
<td>Ensure that the financial sector caters for all sectors of the economy &amp; all operators</td>
<td>Provide appropriate financial services to all sectors &amp; operators in the economy</td>
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<td>• Reduce operational costs of all financial institutions</td>
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<td>• Support SMEs in working through groups for easy identification</td>
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<td>• Devise user friendly collateral requirements</td>
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| Trade & Commerce | Create more employment opportunities | Contribution to employment generation in the sector | • Implement gradual & cautious liberalisation  
• Encourage orderly domestic trade operations  
• Promote locally produced goods & services  
• Encourage fair competition between imports & local goods & services  
• Utilise market & other opportunities derived from bilateral regional & multilateral frameworks  
• Encourage export processing zones  
• Encourage orderly & fair cross border trade |
|------------------|--------------------------------------|---------------------------------------------------|---------------------------------------------------------------------------------|
| Transport        | Create more employment opportunities | in the country Improve all forms of transport       | • Promote labour intensive technologies in road & bridge construction  
• Remove back log of repairs on all forms of transport infrastructure  
• Promote regional cooperation in transport development  
• Promote sub contracting between large & small scale contractors  
• Promote employment of Zambians by contractors |

| Safeguarding the Rights at Work | Forced labour | Stop all forms of forced labour | Protect workers from any form of forced labour | • Enforce the provisions of labour & other laws which prohibit forced labour  
• Carry out sensitisation campaigns for employers & workers against forced labour |
|---------------------------------|---------------|-------------------------------|-----------------------------------------------|---------------------------------------------------------------------------------|
| Child labour                    | Stop all forms of child labour | Eradicate all forms of child labour | • Monitor child labour trends in the country  
• Review, harmonise & enforce existing pieces of legislation on child welfare |
| Discrimination in employment | Stop all forms of discrimination in employment | Protect workers from any form of discrimination in employment | • Conduct nation-wide public awareness campaigns on the dangers of child labour  
• Facilitate the provision of education & skills training to children & young people  
• Coordinate with all relevant institutions in mobilising resources aimed at assisting vulnerable children  
• Enforce all labour & other laws that prohibit discrimination in employment  
• Amend the Industrial & Labour Relations Act Cap 269 to include discrimination on grounds of HIV/AIDS in employment as an offence  
• Promote collective bargaining as a way of determining wages & other conditions of employment |
| Freedom of association | Promote freedom of association at work places | Safeguard the rights of workers & employees at places of work | • Enforce provisions of labour laws  
• Educate employers & employees about their rights at work  
• Review labour laws  
• Promote collective bargaining as a way of determining wages & other conditions of employment |

### Improving Working Conditions

| Contract of service | Improve working conditions for all workers | Ensure that all employees are employed on contract of employment | • Enforce provisions of the Employment Act Cap 2668  
• Educate workers & employers on the benefits of contract employment  
• Safeguard the rights of employees under contract employment  
• Review labour laws |
| Protect wages | Ensure the protection of wages & salaries | Reduce cases of exploitation of employees | • Enforce provisions of the law in the determination & payment of wages, salaries & other conditions of service  
• Promote collective bargaining  
• Continue reviewing wages & other conditions of employment |
| Occupational health & safety | Improve working conditions for all workers | Ensure the safety & health of employees at all work places | • Improve capacity in the occupational safety & health inspectorate  
• Review the provisions of labour laws  
• Undertake educational campaigns on safety & health at work places |
### Improving quality & productivity of labour

| Education system & labour market | Increase access by male & female to quality education at basic, secondary & tertiary levels | Provide broad based schooling which gives core competences | • Expand the basic, secondary & tertiary education system  
• Improve & increase the number of teachers  
• Provide quality & innovative training for teachers  
• Provide free & compulsory basic education for all  
• Promote the advancement of the girl child education  
• Review curricular  
| Technical, vocational & entrepreneurial training (TEVET) & labour markets | Enhance the efficiency & effectiveness of the TEVET system | Create job level competencies | • Improve equity in TEVET  
• Improve quality of TEVET  
• Increase people’s access to TEVET  
• Rehabilitate & expand TEVET training instructions  
• Carry out regular reviews of the curriculum  
• Enhance distance vocational training, competence based modular training & apprenticeship  
| Social protection/security | Enhance the efficiency & comprehensiveness of social security system in the country | Improve the level of benefits coverage & delivery of the social security system | • Effectively regulate all social security institutions to ensure that they operate efficiently & within a given framework  
• Undertake regular reviews of social security benefits in order to take into account the effect of inflation & other factors on these benefits  
• Mobilise informal sector workers to form mutual aid societies that would collect contributions from members, which can be used to meet needs arising from contingencies (sickness, injury, death, etc.)  
• Establish social security data bank for ease of monitoring of social security trends  
• Provide for legislation that would ensure remittance from both the employer’s and worker’s contributions by the employer to social security houses |
## Strengthening social dialogue

<table>
<thead>
<tr>
<th>Employers &amp; their organisations</th>
<th>Ensure the participation of employers &amp; their organisations in social dialogue</th>
<th>Strengthen the participation of employers &amp; their organisations in social dialogue</th>
<th>Review labour laws to promote the participation of employers &amp; their organisations in social dialogue</th>
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<tr>
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<td>• Involve employers &amp; their organisations in the formulation of social &amp; economic policies</td>
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<td>• Encourage employers &amp; their organisations to improve competitiveness, productivity, training &amp; consultancy</td>
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<tr>
<td>Workers &amp; their trade unions</td>
<td>Ensure the participation of workers &amp; their organisations in social dialogue</td>
<td>Strengthen the capacity of workers &amp; their organisations</td>
<td>Review labour laws</td>
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<td>• Encourage workers &amp; their organisations to acquire necessary skills, knowledge &amp; capacity in micro analysis</td>
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<td>• Involve workers organisations in the formulation of social &amp; economic policies</td>
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<tr>
<td>Government &amp; its agents</td>
<td>Promote labour relations</td>
<td>Foster social dialogue</td>
<td>Ministry of Labour &amp; security to play its expected role</td>
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<td>• Enforcement of labour laws</td>
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<td>• Government to establish &amp; provide labour market information system</td>
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<tr>
<td>International Labour Organisation (ILO)</td>
<td>Promoting &amp; strengthening social dialogue among labour market parties</td>
<td>Encourage social dialogue among government, employers &amp; workers</td>
<td>Encourage advocacy &amp; social dialogue among labour market parties</td>
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<td>• Strengthen the capacity of government, employers &amp; workers organisations</td>
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<td>• Encourage labour market parties to forge links with civil society</td>
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## Mainstreaming special interests & vulnerable groups

<table>
<thead>
<tr>
<th>Gender</th>
<th>Reduce gender imbalance in employment</th>
<th>Increase the level of women participation in all gainful employment in all sectors of the economy</th>
<th>Raise gender awareness among various players in the labour market</th>
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<td></td>
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<td>• Remove all legal provisions that discriminate on the basis of gender</td>
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<td>Youth</td>
<td>Create an environment conducive to promote youth employment</td>
<td>Increase youth access to practical skills training &amp; employment</td>
<td>Increase programmes for entrepreneurship, apprenticeship, in-house training &amp; industrial attachment</td>
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<td></td>
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<td>• Provide micro finance for youth self employment</td>
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</table>
| **People with disabilities** | **Mainstreaming people with disabilities in employment** | **Increase employment opportunities for people with disabilities** | • Increase youth access to land & other factors of production  
• Develop special skills training programmes for people with disabilities  
• Increase access to credit facilities by people with disabilities |
| **Retrenches** | **Reduce the level of vulnerability among retrenches** | **Provide social safety nets for retrenches** | • Provide skills training to retrenches  
• Provide counselling services to retrenches  
• Provide social welfare services to retrenches & their families |
| **People with HIV/AIDS** | **Reduce the impact of HIV/AIDS on all sectors of the economy** | **Reduce the impact of HIV/AIDS on workers & employers** | • Educate workers on legal provisions against discrimination in employment on account of HIV/AIDS  
• Government to provide counselling & social support systems to employees infected or affected with HIV/AIDS  
• Employers to provide counselling & social support system to their employees infected or affected with HIV/AIDS  
• Reduce the spread of HIV/AIDS in the country through various awareness & sensitisation programmes |
| **Environment** | **Ensure quality environment & sustainable utilisation of heritage & natural resources** | **Promote investment in environment & natural resources**  
**Promote sustainable livelihoods of communities** | • Facilitate the creation of an incentive framework for investors to participate in the development of natural resources  
• Enhance protection & management of natural resources |
| **Strengthen labour market information system** | **Have adequate, accurate & up to date labour market information for policy & planning** | **Compile & disseminate adequate, accurate & up to date labour market information** | • Transform the existing employment services into modern & effective labour market information centres  
• Create & maintain an up to date data bank of labour market information  
• Undertake regular labour market surveys  
• Disseminate, on regular basis, labour market information |
Whereas agriculture has been identified to be the main stay of the Zambian economy in terms of contribution to output and job creation, the performance of the sector continues to be volatile due to its dependence on seasonal rainfall, low investment and inadequate support infrastructure. Mining has continued to be the country's major foreign exchange earner since independence, despite the decline in its contribution to both output and employment. The information and communications technology sub-sector is relatively small in Zambia, but is seen as having a high employment creation potential, despite the initial pessimism on its ability to create jobs.

The tourism sector is small but growing and contributed 11,000 jobs to formal sector employment in 2000. The country has abundant untapped natural resources for tourism development such as wildlife, rich cultural and natural heritage sites and water resources. It is estimated that Zambia holds over 35% of the water resources of Southern Africa. Despite substantial levels of investment in the education sector, especially after the attainment of independence in 1964, the sector suffered the blunt of the country's sluggish economic performance which set in from the mid 1970s. It manifested itself in low levels of investment maintenance in the education and training sectors. Moreover, the skills training has favoured males against females and dominated by urban against rural areas. The financial sector has generally shrunk. The trade and commercial sector seeks to take advantage of the existing opportunities in bilateral, regional and multilateral arrangements such as those provided by the World Trade Organisation (WTO), Generalised System of Preferences (GSP), European Union-African Caribbean Pacific (EU-ACP), Common Market for Eastern and Southern Africa (COMESA), Southern African Development Community (SADC), African Growth Opportunity Act (AGOA), etc. These arrangements are expected to enhance investment, industrialisation and exports which will in turn result in higher economic performance and increased job creation.

The liberalisation of the transport and communication sector has attracted investment and employment in the sector. The Road Sector Investment Programme (ROADSIP) created job opportunities for both skilled and unskilled labour. There is little or no evidence of forced labour in Zambia, though the Government acknowledges the existence
of child labour in the informal sector. In 1999, 521,019 children were recorded as working in rural areas and 74,014 were recorded in urban areas. While the labour laws forbid discrimination in employment on the grounds of sex, marital status, religion, political opinion or affiliation and tribal status, the provisions do not cover discrimination against people with HIV/AIDS. The Constitution guarantees the freedom of association. The conditions of service are generally poor and not enforced with respect to minimum wage and conditions of employment, despite the existence of the minimum wages and conditions of employment Act Cap 276. Workers in the main, face several occupational health safety risks at places of work. The working environment is unsafe and unhygienic because there is weak enforcement of legislation.

Article 26 of the United Nations universal declaration of human rights states that education is a right and that elementary education should be compulsory and free. The country’s education system is characterised by insufficient teachers and inadequate school places and facilities due to poor conditions of service, funding and lack of maintenance of infrastructure. The Basic Education Sub-Sector Investment Programme (BESSIP) currently in place, does not only suffer from lack of funding, but also caters for only grades 1 to 7. The number of teachers declined from 40,488 in 1996 to 37,117 in 1999, resulting in an average decrease of -2.8% on account of high staff turnover, natural attrition, public sector job freeze and the ravages of HIV/AIDS. The problems faced by Zambia’s education have not escaped the technical, vocation and entrepreneurial training. The poor state of the physical infrastructure and stagnation in enrolment resulted in the decline of the quality and quantity of skills training programmes.

Women have been substantially affected by the decline in formal sector employment. Most of these women have ended up in the informal sector. Perhaps more affected than women are the youth, largely due to high and rising levels of youth unemployment. The country’s population is youthful, whereby more than 67% is below 25 years of age. A survey carried out on employment trends in Zambia in 1996 revealed that 75% of the unemployed were below the age of 25 in urban areas, and 77% in rural areas. Some of the underlying problems pertain to the sluggish economic performance, inappropriate
education and training system, and lack of a comprehensive placement programme in work after completion of training.

The number of retrenchments has been high as employers reconfigured their work force as a way of reducing production costs and enhancing their profitability. HIV/AIDS infections have had detrimental effect on production, largely through lowering productivity. Labour costs tend to increase as a consequence of the affliction of HIV/AIDS due to increased training costs, medical, sick discharge, funeral and recruitment expenses.

Most Zambians derive their livelihood from natural resources. However, the Central Government tend to be uncomfortable with community and traditional management of the natural resources which have proved to be sustainable despite the inadequacy of the management of the resource at central government level. Natural resources depletion, though not a national problem, has significantly contributed to low productivity in the primary sectors at the local level.

Lack of information is one of the challenges affecting the efficient operation of the liberalised market economy in Zambia. The system of collecting and disseminating information on the labour market is inadequate. There is lack of an efficient and effective mechanism for collecting, processing and disseminating labour market information.
5 Social Impact

The Government, or more specifically, the executive arm of Government is committed more than ever before, to the continued implementation of the stabilisation and structural adjustment policy reforms. While it goes beyond doubt that the Government has succeeded in implementing the adjustment policy reforms, but this resolve has not been matched with the timely and well sequenced implementation of appropriate policy instruments. Despite such hurdles, Government’s perseverance in policy focus has paid-off with the attainment of the HIPC completion point in April 2005 which has resulted in unprecedented levels of debt relief to the country. An assessment of the social impact of Zambia’s economic and social policy is made in the context of moving towards the convergence targets which should be seen as the basis for deepening SADC integration. These indicators are supplemented by process indicators which serve as a link to assess the social impact. The first point to make within this framework, is that country’s social and economic policy do not diverge but rather are in tandem with the objectives for deepening regional integration. The focus of this section is to examine how far Zambia is in reaching the set convergence target.

The first macroeconomic convergence target is the core inflation. As seen from Table 1, the macroeconomic convergence target inflation rate is set at 9% for 2008, through 5% in 2012, and further decline to 3% in 2018. Zambia’s end of period inflation rate has been steadily declining from 46% in 1995 to 18% in 2004, giving an annual end of period decline of -7% over the same period. For 2005, Government has targeted to reduce inflation by three percentage points to 15% in line with the 2005-2007 Medium Expenditure Framework macroeconomic targets (Table 7). Inflation is targeted to decline to 5% by 2007, which means that Zambia would have achieved the 2012 macro convergence target by the close of 2007 and out performed the 2008 target by 4 percentage points.
The main instrument that the Government is using to control inflation, through the Bank of Zambia, is monetary policy, using open market operations by selling treasury bills. As already seen, the major advantage of this instrument lies in leaving financial institutions free to allocate credit according to the detects of the market which of course assumes that markets operate efficiently, which is an exception rather than the rule due to imperfect competition, externalities, incomplete information and other forms of market failures. Moreover, excessive dependence on this instrument, as is the case in Zambia, has resulted in huge budgetary implications as a consequence of the need to service interest payments on the financial instrument. The overall impact has been a substantial domestic debt burden which stood at K5.5 trillion by the end of December 2004, representing 21% of nominal GDP, 103% of the domestic financed budget, and 66% of the total budget (both domestic and external financed) of the same year.

Moreover, treasury bills exerted an upward pressure on interest rates, despite the government efforts to reduce interest rates. As a result of that effort, interest rates on treasury bills dropped from 47% in 2001 to 14% in 2004, but increased to 20% in 2005. (Figure 1). Commercial bank’s lending rates also declined in tandem with the treasury bills rate but remained substantially higher. The weighted lending base rate declined from 45% in 2001 to 26% in 2005, while the lending rate declined from 38% in 2004 to 32% in 2005. However, the
movement in the lending rate is likely to move upwards in line with the reversal in treasury bills rate, in the absence of further efforts by the authorities to ensure reduction in interest rates. Domestic savings as a percentage of GDP stood below one percentage point over the period 1994 to 2004, largely as a consequence of negative real interest rate on savings and the large spread between the lending and saving interest rates, and this explains the low levels of domestic savings (Figure 2).

**Figure 1: Movements in Treasury Bills and Lending Rates**

![Graph showing movements in Treasury Bills and Lending Rates]


While the government labour policy focuses on employment creation, this has not been matched with government action on the ground. Zambia’s Poverty Reduction Strategy Paper/Transitional National Development Plan also makes explicit mention of employment creation. However, this does not rank as one of the major objectives in the budget framework. The focus on employment creation has been of a temporary nature, i.e. within the context of the short term, namely to mitigate the short term impact of adjustment on the poor.

The immediate impact of these policy measures and expenditure patterns has been a marginal increase in real per capita GDP which averaged 0.5% annually over the period 1994-2004 (Figure 3). In 1994, the real per capita income stood at K262 thousand and increased
to K275,000 in 2004. Formal sector employment however, steadily deteriorated over the same period by an annual average of -1.6%, from a work force of 496,000 in 1994 to 416,000 in 2004 in contrast while 544,000 in 1991. Given the country's population of 11 million people, in 2004, of which about half constitute the labour force, only 4% of the country's labour force was in formal sector employment leaving the bulk of the labour either in the informal sector and subsistence agriculture, or not employed at all. Such a high incidence of non formal sector unemployment puts an excessive tax burden on the few workers in formal sector employment on one hand, and on the other hand, a heavy financial strain to operate and maintain the dilapidated social-economic infrastructure. This, coupled with government's spending priorities, has resulted in the lack of service deliveries with the exception of a few areas where donor countries and institutions intervene.

Figure 2: Movements in the Weighted Saving Interest Rate

![Graph showing movements in the weighted saving interest rate.]

Source: MoFNP, Macroeconomic Indicators 2005
The attainment of the HIPC completion point, coupled with the initiative to write off debt owed the Least Developed Counties which have attained the HIPC completion, has subjected Zambia to special prudent macroeconomic management challenges. In the first place, the initiative requires the benefiting country to apply the resources released from external debt service towards the social sectors, which implies additional budgetary resources that Zambia does not have because this has been previously financed through donor support. In the second place, lack of sterilisation of donor inflows or building-up of reserves may lead to an appreciation of the real exchange rate and the problem of the Dutch disease, which is currently on the door steps, if not already befallen Zambia. This is further exacerbated by the recent recovery in copper prices and the surge in external portfolio investment in treasury bills.

The BoZ credit to the Government as a percentage of the previous year’s tax revenue averaged 104% over the period 1996 to 2003. While the convergence target stands at 10% for 2008 and reducing thereafter, the Zambian reality shows that it increased from 72% in 1996 to 129% in 2003 (Figure 4). This target is, therefore, most unlikely to be achieved in view of the increasing domestic debt burden, and is also likely to exert additional inflation pressure.
The country’s current account deficit averaged 14% of GDP over the period 1994 to 2004. In 1994, the deficit stood at 0.8% and rapidly increased to 19% in 1996, after which it showed a steady decline, reaching a low of 11% in 2003 (Figure 5). In 2004, the deficit marginally increased by 0.3 percentage points whereby it is likely to elude the convergence target of 2008. Given that the country managed to attain the 2018 convergence target of 3% by 2004, there is a strong likelihood of the attainment of the target for both 2008 and 2012, particularly given the favourable rebound in the external economic climate. For 2005, the gross international reserves are programmed at 1.3 and 1.9 months import cover for 2007, which is significantly well below the convergence target of 2008 and beyond. Given Zambia’s favourable external climate, it is difficult to understand why the country is not using this opportunity to attain this objective by building the required reserves.

The marginal recovery in real per capita GDP, coupled with high levels of formal sector unemployment, is inadequate to have a significant dent on reversing the high poverty levels in the country. An examination of extreme poverty level trends reveals that extreme
poverty is very high and on the increase in the country.\(^2\) Poverty levels stood at 70% of the total population in 1991, and increased by 4% in 1993 (Figure 5). Thereafter, it began to decline and reached 69% in 1996, one percentage lower than on the outset. This improvement came as a consequence of an increase in GDP growth, primarily due to the bumper harvest that year. However, these modest gains were soon eroded by the high incidence of poverty which reveals a downward trend. Poverty levels declined to 68% in 2004 (Figure 6). The highest incidence of poverty was recorded in 1993 at 74%. However, figures reported in the 2004 survey somewhat differ from the previous levels reported in earlier surveys. The 1996 living conditions monitoring survey recorded a poverty level of 78% which resulted in an upward trend. While the attainment of the HIPC completion point has rapidly improved the country’s movement in meeting the convergence criteria of improving the ratio of external debt to GDP, the Dutch disease problem now threatens the sustained recovery of the Zambian economy and movement towards the achievement of the macroeconomic convergence criteria of 7% of real GDP growth by 2008.

\[\text{Figure 5: Current Account Deficit}\]

\[\text{Source: MoFNP, Macroeconomic Indicators 2005}\]

\(^2\) Extreme poverty is defined by the Central Statistical Office as persons living in households with per adult equivalent expenditure of K20,181.00 per month at 1996 prices (K10,457.00 per month at 1994 prices) or below. This is an amount of income required for purchasing basic food in order to meet a minimum caloric requirements per month. This requirement is based on the cheapest vegetarian food diet and excludes chicken, fish, etc, and other basic needs like safe water and sanitation, shelter, good health, education and transportation.
The history of poverty reduction in Zambia can be credited to civil society lobby of the Government, and donors who exerted more pressure on the Government to focus on poverty reduction. The government gave in to donor pressure. This pressure culminated in the preparation of an acceptable Poverty Reduction Strategy Paper which is now a conditionality for the PRGF.

It can be inferred that the impact of macro economic policies, and policies to mitigate poverty, reflects the underlying change in government priorities in contrast with policy objectives that has resulted in the marginal increase in the real growth of per capita GDP, the significant decline in formal sector employment, and worsening extreme poverty levels. This decline has now persisted for close to a decade after the introduction of the reforms and can no longer be explained in simple terms as a natural short term consequence of the structural adjustment. This seems to suggest persistence of structural bottle necks such as lack of capacity utilisation to formulate, implement appropriate policy instruments, which takes cognisance of market
failures at home and abroad, and passiveness in engagement with IFIs. This then calls for building appropriate institutional framework and capacity utilisation by the authorities.

Poverty reduction is not only dependent on increasing the level of investment, growth, and good management, it is also an income distribution issue. To this end, there is need for the Government to ensure that the high risk groups have adequate disposable income by adhering to a progressive income tax regime, exempting income below the poverty datum line and reducing the value added tax. Given government policy of no subsidies and cost sharing in socio-economic infrastructure provision and service deliveries, high tax rates and wide spread preferential tax treatment are no longer justifiable.

While Government has, as one of its objectives, addressed the issue of supply response by reducing tax rates on selected items, and also focused on raising tax elasticity and broadened the tax base as opposed to increasing the tax rates, tax rates tend to be high, resulting in high domestic cost structure. The increased selectivity in the reduction of tax rates, and the erosion of the tax base via ad hoc exemption and tax concessions, have increased the possibility of adverse incentives and tax evasion, as well as lowering the tax revenue. In order to avoid such adverse effects, the Government should broaden the tax base at relatively low tax rates. This will increase tax elasticity and stimulate the supply response, and consequently lead to high levels of growth and increase in tax revenue.

The budget deficit as a percentage of GDP is programmed to stand at 0.6% in 2007, well below the convergence target for 2008 through 2018. In 2004, the budget deficit was recorded at 2.2% of GDP. This means that the country has already achieved this convergence criterion. However, the cash budget system has not realised the objective of instilling financial discipline as evidenced by budget over-runs, and also excessive accumulation of payment arrears. It can also be taken to have directly led to poor economic performance by introducing uncertainty in the availability of financial resources, hence, directly leading to poor and haphazard spending with recurrent expenditure taking dominance over capital expenditure. Consequently, it has equally been difficult to deal with one of the most serious impediments to growth in Zambia, namely, extreme low income levels which makes
the country an unattractive investment destination, and directly contributes to low savings and productivity. Low productivity could be attributed to low salaries and inadequate salary differentials across skills, particularly in the public sector which is worsened by the continued wage increase restraint. Also recruitment on sectional and partisan levels undermines professionalism and rewards based on work effort.

A study of public sector investment for employment creation revealed that not only has actual public sector investment fallen short of authorised investment, the divergence between the two had increased even when overall public resources increased as a share of GDP. Further, the accounting procedures were found to be poor as evidenced by inappropriate posting of line items which also reflects weak internal and external auditing functions. Moreover, the timing of the release of capital funds was found to be inappropriate, usually in the last quarter of the financial year. Given the backlog of accumulated payment arrears, capital funds quickly get diverted to recurrent expenditures. Therefore, it is difficult to see how the government capital spending could contribute to growth in the face of weak administrative, economic, financial management and control. To this end, there is need to improve budgetary allocation and reporting system for both recurrent and capital expenditure to ensure that resources are spent on the intended purposes. Public investment should be directed to the most productive areas by improving the planning capacity.

A survey on business operation that was undertaken by the Zambia Investment Centre showed that the major constraint on business operations and new investment in the country, were those related to lack of finance: primarily the cost of credit, high interest rates and non availability of medium- and long term loans. This points to the effect of open market operations as an indirect instrument of demand management in "crowding out" private sector investment in terms of both the quantity of available resources and high interest rates. This is a very serious problem in a situation where incomes are very low, resulting in lack of domestic savings and directly leads to the poor supply response. Therefore, there is need to put an upper limit on the extent to which the instrument can be used to siphon liquidity from
the market in order to ensure availability of adequate resources for investment at affordable interest rates. This is also the need to recognise the critical role that the Government should play in providing capital resources for investment. Moreover non bank financial institutions should be encouraged to channel some of their financial resources to institutions that provide medium-term finance for investment. This will supplement the low savings as well as ensure the provision of the resources at a reasonable cost.

Zambia has moved fast in introducing a more liberalised trade regime relative to its trading partners. While such measures are good in promoting both growth and competition, implementation of such policies need to be well sequenced and timed so as to take into account trade restrictions and other rigidities imposed by trading partners, in order to ensure fair trade and competitiveness of domestic industries. The zero rating of finished commodities while inputs which go in the production of the same at home are taxed and the implementation of free trade before agreement on the external tariff is reached coupled with the high domestic tax regime continue to erode the competitiveness of domestic industries.

The implementation of the COMESA free trade will marginally lower the effective rates of protection for selected commodities, without taking into account differentials in external tariffs which would disadvantage local manufacturers. Therefore, there is need to maintain low, none discriminating and transparent protection levels, which take into account both internal and external market failures in order to support diversification of domestic production, employment creation and poverty reduction, as well as exploit comparative advantage to the full, both actual and potential. Consequently, a comprehensive study on the country's tax policy and its impact on the economy should be undertaken in order to establish how tax parameters should be adjusted.

The inadequacy of social-economic infrastructural, provision, the instability of the exchange rate, interest rates, and prices do not provide impetus to private investment. While Government has moved away from direct involvement in production by the privatisation of parastatals, its intervention, particularly in the agriculture sectors (as it relates to input procurement and selling of produce like maize through
the Food Reserve Agency), has proved to be both inefficient and ineffective. Little, if anything is being done to avail public resources for investment and to correct instances of market failures like the lack of information, poor regulation of monopoly producers/suppliers, lack of quality control and unfair trade practices against Zambian products by trading partners. The poor state of infrastructure, the cost and quality of utilities like electricity and fuel, contributes to high operational costs which also combine to render domestic production uncompetitive.
6 Conclusion and Recommendations

The Southern African Development Community (SADC) Member States adopted a Regional Indicative Strategic Development Plan (RISDP), which sets the parameters for deepening regional integration in order to accelerate poverty reduction and the achievement of the millennium development goals. The achievement of macroeconomic convergence indicators have been agreed upon as a framework to ensure smooth regional integration, thereby mitigating against possible detrimental effect that regional integration might have on a Member State. The country study provides a situation analysis of the state and constraints on deepening regional integration in the context of Zambia. The purpose of the study is to provide the SADC Secretariat and the Zambian authorities with a catalogue of factors affecting deepening regional integration which require further study. Therefore, the study identifies priority areas for undertaking further studies on how best to remove the identified impediments to deepening regional integration.

The country returned to a free market economy in 1991 under the direction and support of the International Financial Institutions (IFIs) and bilateral donors, which was dictated by various conditionalities and performance bench marks that constituted the stabilisation and structural adjustment policy package. The current medium-term macroeconomic goals as provided in the Poverty Reduction Strategy Paper/Transitional National Development Plan focuses on raising and sustaining economic growth, creating employment and reducing poverty. The main policy thrust used in achieving the said goals is fiscal restraint through the policy instrument of limiting government borrowing, and anchoring monetary policy on achieving price stability.

Zambia's social economic policies do not diverge, but rather are in tandem with the objectives of deepening regional integration. The macroeconomic convergence target of meeting the core inflation is on course while the increasing domestic debt burden exerts an upward pressure on lending interest rates with serious implications for the attainment of the target. This is further exacerbated by the low interest rates on savings, which continue to threaten the country's ability to raise domestic savings required for increased investment.
The government objective of employment creation has not been matched by appropriate budgetary allocations, but rather narrowly articulated in the context of mitigating the short term impact of adjustment on the poor. Of more significance is the failure to identify and provide appropriate response to the Dutch disease problem by the authorities arising from the continued donor support after the complete debt write-off initiative. This situation threatens the attainment of the real GDP growth rate and the budget deficit target. While the attainment of the current deficit target may elude the country, the favourable rebound in the external economic climate may lead to the realisation of the target. However, the official projections on international reserves are well below the convergence target yet the favourable external climate provides an opportunity for the rapid achievement of the target.

The marginal recovery in the real per capita GDP, coupled with high levels of formal sector unemployment is insufficient to reverse the high poverty levels in Zambia. The attainment of the HIPC completion point, together with the external debt write-off initiative has moved the country to the achievement of the external debt to GDP ratio convergence target. However, the increased selective in the reduction of tax rates, ad hoc exemptions, and tax concessions has lowered tax revenue and increased the possibility of adverse incentives and tax evasion. The programmed budget deficit is well below the convergence target, but again threatened by increased BoZ credit to the Government which has taken a divergent course.

It can thus be concluded as follows:

**Opportunities:**
- The Government has been successful in implementing the economic reform programme of re-establishing a free market system from a mixed economy system. Most of the key macroeconomic variables have been moving in the right direction.
- Monetary policy instruments of liquidity requirements, open market operations and central bank lending can be effective tools of controlling inflation within well defined limits.
- Fiscal policy is an important tool of influencing the level of economic growth and resource allocation. A first step in addressing the supply response has been made.
- Exchange rate stability is best attained through increasing export earnings.
- Trade liberalisation and introduction of COMESA FTA promotes both growth and competition.
- Donor support is important in alleviating the debt service burden and is pro-growth by freeing resources that can be invested elsewhere, including poverty reduction initiatives.

**Constraints:**

- Weak capacity in the design and implementation of the reform programme.
- Unconstrained use of monetary policy has potential to adversely affect private sector investment, growth and poverty reduction.
- Ad hoc exemptions and selectivity in reducing tax rates can erode the tax base and make tax compliance difficult. Lack of capital investment, productivity, and poor management and financial control can inhibit sustained economic growth.
- Uncertainty in foreign aid.
- High domestic tax structure, cost of utilities, including energy and electricity, poor quality control and poor infrastructure undermines competitiveness of domestic industries.
- Inadequate structural and competition promoting policies.
- Weak regulatory institutions for promoting competition.
- Corruption and other structural constraints as well as the inadequacy of policy in some areas.
- Macroeconomic assumptions could be too strong.

**Recommendations:**

The following recommendations are being made:

- Improve capacity in the design and implementation of the reform programme.
• Prudential use of monetary policy by the monetary authorities has potential to enhance private sector investment, growth and poverty reduction.
• The fiscal authorities should avoid ad hoc exemptions and selectivity.
• Provide capital investment, improve productivity, and management and financial system in order enhance sustained economic growth.
• Make foreign aid predictable and in harmony with the country's plan objectives.
• Review the domestic tax structure, cost of utilities, including energy and electricity.
• Improve the socio-economic infrastructure in order to enhance competitiveness of domestic industries.
• Improve structural and competition promoting policies.
• Improve regulatory institutions for promoting competition.
• Fight Corruption and other structural constraints as well as the inadequacy of policy in some areas.

Future Research Needs:

The study identifies the following future research areas:
• Study on comparative advantage in individual countries.
• Study of the tax structure and how it inhibits regional integration.
• Study the impact of moving towards achieving the convergence targets for each country.
• Study on the social-economic impact of achieving the convergence indicators.
• Study on the reliability, consistence and harmonisation of performance indicators and data.
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SADC (2002). Summary of the Desk Background Study to the Regional Indicative Strategic Development Plan (RISDP) - SADC Secretariat. Gaborone.

Deepening Integration in SADC

Zambia’s Economic Policies in Line with SADC Target

Part: 2

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Executive Summary

The survey provides perceptions of Non-State Actors on existing trade barriers, perceived challenges and opportunities for deeper regional integration. The objective of the survey is to provide policy makers and other interested stakeholders with information required to enhance regional integration. The methodology used in the study comprised of a standard coded questionnaire which were administered to Non-State Actors (NSA) and business entities.

The Non State Actors covered in the survey comprised of professional associations and other civil society organisations of which 10% were members of the SADC National Committee. The respondents tended to favour increased regional integration. However, the efficiency perception is not supported by evidence on the ground whereby the majority of industries survive on all kinds of tax incentives and concessions in all sectors of the economy. There is a negative perception on the impact of regional integration on the domestic turnover which seems to be in line with the evidence. However, this was again counteracted by the view that integration will have a positive impact on the economy in general. Although these views were clearly contradictory, the respondents generally felt that regional integration will be of benefit to the country. This optimism increases with views on the potential to provide new export opportunities.

The disposition of the respondents with respect to regional integration in the context of COMESA and SADC was not conclusive. The identified constraints to regional integration revealed that export/import licences or permits and lack of information about foreign market top the list. However, this does not reflect Zambian reality as export/import permits were abolished as far back as 1992 when export and import customs procedures, documentation, rules and legislation were simplified, streamlined and harmonised with the exception of agriculture commodities.

The lack of information about foreign markets was also considered to be an important barrier. Trade promotion in Zambia is the responsibility of the Export Board of Zambia (EBZ). The EBZ mandate, furthermore, incorporates recommending to Government measures which enhance laws, systems and programmes that encourage exports
from Zambia as well as trade policies which facilitate, and are in harmony with the objectives of regional economic integration. The Marketing Development Branch (MDB), under the International Agriculture Trade Section of the Ministry of Agriculture and Cooperatives, provides technical advice to exporters/importers on both domestic and international market trends. The perceptions of the non state actors seem to question the effectiveness of both the EBZ and MDB. The second identified barrier is customs tariffs. Despite the substantial reduction in the duty rates in the region, import excise pushes the effective tariff rates higher, thereby justifying the concerns by the respondents on high customs tariffs.

The third level is taken by high regional communications and transport cost. It was generally felt that increased regional integration is not likely to lead to job losses. There was also a belief that integration will lead to trade creation in the region. However, a number of respondents felt that integration would most unlikely lead to access to cheap foreign labour, and were pessimistic towards the impact of integration in enhancing their influence in policy making. There was lack of policy debate on issues concerning regional integration. There were no public discussions with respect to the Eastern African Community, and discussions of the impact of SADC regional integration on the organisation were not prominent.

It was further observed that there were no public workshops or seminars to discuss regional integration. The same pattern emerged in relation to the measures taken by the organisations to raise issues on regional integration. The responses became even more negative as it pertained to specific issues on regional integration. Few organisations or no organisations were invited or participated in SADC National Committee meetings. It was overwhelmingly felt that there was need to increase the capacity among Non-State Actors to participate in committees involved in deliberating regional integration issues. This tips the scale slightly to supporting regional integration in the context of SADC than COMESA. A wholesome sum regional integration was not supported. The focus of regional integration should be on two major areas: reduction in tariffs within SADC, and designing competition and trade policies for SADC as a whole.
Zambia is running a trade balance deficit with SADC and the rest of the world. Most domestic industries face competition from South Africa. It was recognised that regional integration may increase competition in domestic industries. Integration was considered to have a positive impact on efficiency and competitiveness. However, there was uncertainty about its ability to reduce unemployment. There was equal pessimism as regards the ability of integration to reduce labour costs. There was some pessimism about the ability of increased SADC integration in enhancing human rights situation in the country. Although almost balancing out, what emerges is that a sizable number of the respondents held different opinions about regional integration in the context of SADC or COMESA.

Despite the speed with which Zambia implemented its trade liberalisation reforms, business enterprises indicated that they still experience barriers in exporting and importing goods to and from SADC. Though a sizable number of enterprises did not trade within SADC, customs tariffs were still seen to be a significant barrier to trade within SADC. It was interesting to note sanitary and phytosanitary regulations were not considered to be a big problem. Lack of information about foreign markets was again seen as a problem by business entities. Exchange rate uncertainty was also seen to be a problem, yet Zambia has witnessed macroeconomic stability for the past 5 years.

The three most important barriers to SADC trade were identified to be customs tariffs. This was followed by import duties and taxes paid in cash. The third is occupied by two barriers which in any case, are closely related to each other time consuming customs procedures, and substantial paper work and bureaucracy. With the exception of the domestic market and to a limited extent, the South Africa market, most business entities did not know the state of the business climate in the other markets. Local industries saw substantial opportunities in joint ventures with business enterprises in SADC. Key production indicators revealed that employment, investment, exports to and imports from SADC countries, were all likely to increase. Another important observation was that a significant number of respondents did not know how integration would actually affect their level of operations. While most of the results were not significant, slightly
over 10% of the respondents indicated gains/losses in excess of K351 million.

Most business enterprises were of the view that there was substantial public debate on regional integration in general. The number increases as regards public debate on integration in the context of COMESA which is more in line with the Zambian reality. However, that does not provide information as to which form of regional integration grouping they would prefer. Respondents were in favour of regional integration with the support of integration in the context of SADC being significantly much stronger.

It can, therefore, be concluded as follows:

- Both the Non-State Actors and business organisation were in favour of increased regional integration, preferably in the context of SADC.
- Increased regional integration would enhance competition in the domestic market, reduce input prices and increase domestic production, among others.
- There has been little public debate on issues pertaining to regional integration.
- There was pessimism towards the impact of integration in enhancing their influence in policy making.
- No extra measures were taken to raise public awareness on regional integration issues.
- Most industries felt that they faced competition from South Africa.
- Non-State Actors point at high information asymmetry, trade taxes and transport costs as the most important trade barriers to deepening integration.
- Business entities felt that customs tariffs, import duties and taxes paid in cash, time consuming customs procedures, and substantial paper work and bureaucracy were most important.
- No wholesome regional integration for the time being.
- The focus of regional integration should be in two major areas: reduction in tariffs within SADC, and designing competition and trade policies for SADC as a whole.
1 Introduction

The survey forms part of the broader research project on "Deepening Integration in SADC - Macroeconomic Policies and Their Impact". It captures the perceptions of Non-State Actors on regional integration within SADC. The survey focuses on existing trade barriers, perceived challenges and opportunities associated with deeper regional integration. The objective of the survey is to provide policy makers and other interested stakeholders with valuable information about action to be taken in order to make regional integration a success.

The methodology used in the study constitutes a standard coded questionnaire for Non-State Actors (NSA) and for business entities, (see Annex I for detailed terms of reference and Annex II for sample questionnaires). The NSA are entities and individuals outside the three spheres of Government (the executive, legislature and judiciary). The NSA are divided into profit and non-profit oriented entities. The profit oriented entities constitute business organisations and the rest of NSA. These include organisations such as Zambia Chambers of Commerce and Industry, trade unions and professional associations, as well as relevant civil society organisations. The sample comprises of 42 businesses and 29 NSA located in Lusaka and the Copperbelt provinces. Although the financial resources available did not allow for a representative random sample of businesses and NSA across the country and across all sectors, an attempt was made to cover the two major industrial locations in Zambia and as many relevant industries and NSA as possible. The data was derived through personal face-to-face interviews.

The paper is divided into four sections which are preceded by an executive summary. The second section presents the views of Non-State Actors outside business entities in the context of SADC regional integration. The section is further divided into five sub sections which focus on the characteristics of the NSA that were the subject of the interview in sub-section 2.1. Sub-section 2.2 examines their views with respect to increased regional integration, followed by what they felt would be the impact of regional integration on the economy in sub-section 2.3 and how that would propel their policy influence in sub-section 2.4. An examination of their participation in policy debate
on regional integration is given in sub-section 2.5. The third section focuses on the perceptions of business enterprises and is sub-divided into three sections. Sub-section 3.1 portrays the characteristics of the business entities followed by an examination of their perceptions on regional integration in sub section 3.2. Sub-section 3.3 outlines issues concerning policy debate in the context of SADC. The paper ends with a conclusion in section four. An annex is also provided which gives the detailed terms of reference, a sample questionnaire and summary of statistics.
2 Non-State Actors

2.1 Characteristics of Non-State Actors

Figure 1: Type of Civil Society Organisation

![Bar chart showing the distribution of non-state actors by type of civil society organisation.]

Figure 2: Period of Operation

![Bar chart showing the period of operation for non-state actors.]

- Professional Association
- Civil Society Organisation
- Others

- Less than 2-5 years
- 6-10 years
- More than 10 years
The civil society organisations covered in the survey comprised of professional associations and other civil society organisations. The other civil society organisations dominate as they constituted 90% of the sample while professional associations constituted 7% with the balance being made by other organisations (Figure 1). Most of the organisations have been in operation for more than 10 years (Figure 2). These organisations represented more than 45% of the sample. Organisations who were in operation for 2 to 5 years accounted for 31% of the sample, while those that were in operation for 6 years, but less than 10 years represented 14%. Organisations that were operative for more than 2 years accounted for 90% of the sample, and the balance accounted for by those that were in operation for less than 2 years. 10% of the respondents were members of the SADC National Committee while the rest were not. 62% belonged to regional umbrella organisations.

2.2 Views on Increased Regional Integration

The respondents tended to favour increased regional integration whereby 41% were strongly in favour while 38% felt that regional integration would lead to increased competition in the domestic market, and this brings the total of those in favour to 79% (Figure 3). Only 7% strongly disagreed and 14% disagreed with the perception that integration would lead to domestic trade creation. Although in the minority, this perception is somewhat supported by empirical findings which pointed out that integration in its current form, is unlikely to benefit the region due to weak intra regional linkages. The strong optimism appears to wane with the reduction in the number of respondents who strongly believe that regional integration would reduce input and consumer goods prices to 35% and 17%, respectively. While the number of the respondents who agreed that integration would lead to a reduction in input price declined to 28%, those who agreed that it would lead to a reduction in consumer goods prices increased to 45%. Overall, the number of respondents who were pessimistic about the effect of integration on input prices increased to 25%. However, the number declined to 20% with respect to its effect on consumer goods prices. While a substantial proportion, about
79%, believed that integration will result in increased efficiency in domestic production, only 38% were of the view that it will have a positive impact on the turnover of domestic industries.

**Figure 3: Perceptions on Regional Integration**

However, the efficiency perception is not supported by evidence on the ground, whereby the majority of industries survive on all kinds of tax incentives and concessions in all sectors of the economy. If this phenomenon is to go by, these simply mean that domestic industries are not efficient and will simply fold up in the absence of government support. The negative perception on the impact on the domestic turnover seemed to be in line with the evidence, however, this was again counteracted by the view that integration will have a positive impact on the economy in general, which accounted for 72% of the responses which were in the affirmative. Although these views were clearly contradictory, the respondents generally felt that regional integration will be of benefit to the country. This optimism increased with views on the potential to provide new export opportunities, whereby 93% of the respondents were in the affirmative while 90% were of the view that regional integration will increase new investment opportunities.
Despite the optimism as regards new opportunities for investment, only 52% felt that integration will lead to increased employment opportunities. 41% felt that it will lead to a reduction in labour costs. It is also believed that integration will result in an increase in immigration, while it was unlikely to improve the human rights situation in the country nor would it threaten the political sovereignty of the country.

Figure 4: Barriers to Regional Integration
One of the areas of interest in the survey was to find out the respondents disposition to SADC and COMESA. The responses were not conclusive, 48% indicated that their answers would not have been different if they were asked about regional integration in the context of COMESA, while 45% indicated that it would have been different. 7% indicated no opinion.

Figure 4 provides barriers which are considered to inhibit regional integration. The top 10 barriers to regional integration are shown in Table 1. An examination of the responses reveals that export/import licences or permits and lack of information about foreign market top the list. However, this does not reflect Zambian reality as export/import permits were done away with as far back as 1992 when export and import customs procedures, documentation, rules and legislation were simplified, streamlined and harmonised, with the exemption of agriculture commodities (see Box 1). The problem here does not lie in the export/import permit itself but rather in the time consuming and cost of moving from one place to another. Efforts focused at resolving this problem attempt to make life easier for the exporter/importer by creating a one stop centre for the clearance of agricultural export/import products. The first slot is also shared by the lack of information about foreign markets. It may be important to note that trade promotion in Zambia is the responsibility of the Export Board of Zambia (EBZ), which was established by the Export Development Act of 1985 and as amended by the 1994 Act. The objective of EBZ is to promote, develop and encourage exports. EBZ collects, collates and disseminates trade information on existing and potential markets, provides technical know-how, and specialised assistance in quality control, supply and pricing of exports.
The EBZ plays an active role in trade promotion by directly participating in trade fairs, both inside and outside the country. The board also assists export firms to participate in such fairs. Trade missions abroad are also undertaken in order to assess the export potential of Zambian products as well as the organisation of training programmes, seminars and workshops in support of exports from Zambia. Moreover, the EBZ also makes recommendations to Government in relation to policies supporting the development, promotion and encouragement of Zambian exports. The EBZ mandate, furthermore, incorporates recommending to government measures which enhance laws, systems and programmes that encourage exports from Zambia, as well as trade policies which facilitate and are in harmony with the objectives of regional economic integration. The Marketing Development Branch (MDB), under the International Agriculture Trade Section of the Ministry of Agriculture and Cooperatives also provides technical advice to exporters/importers on both domestic and international market trends. The perceptions of the non-state actors seem to question the effectiveness of both the EBZ and MDB.

The second identified barrier is customs tariffs. However, before 1995, the lowest tariff was 0% and ranged between 20% (raw materials and productive machinery) and 40% (final products) for non-zero rated goods, which yielded a weighted average of 34% duty rate. Zambia quickly implemented tariff reforms in 1996, by reducing external tariffs by a maximum of 100% (productive machinery in the agriculture and mining sectors) and a minimum of 38% (final products),

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<th>Table 1: Top 10 Regional Integration Barriers</th>
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<td>Rank</td>
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<tr>
<td>Export/import licenses and permits</td>
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<td>Lack of information about foreign market</td>
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<td>Customs tariffs</td>
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<td>High regional communication costs</td>
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<td>High transport costs</td>
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<td>Lack of transparency of rules and regulations abroad</td>
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<td>Time consuming customs procedures</td>
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<td>Exchange rate uncertainty</td>
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<tr>
<td>Poor regional communication infrastructure</td>
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<td>Weak regional transport infrastructure</td>
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The second identified barrier is customs tariffs. However, before 1995, the lowest tariff was 0% and ranged between 20% (raw materials and productive machinery) and 40% (final products) for non-zero rated goods, which yielded a weighted average of 34% duty rate. Zambia quickly implemented tariff reforms in 1996, by reducing external tariffs by a maximum of 100% (productive machinery in the agriculture and mining sectors) and a minimum of 38% (final products),
which gave a simple average reduction of 66% with the revised actual tariff rate ranging between 0% (productive machinery in the agriculture and mining sectors) and 25% (final products). The reduction in external tariffs resulted in a weighted average of 12% for the rest of the world and 5% for the region; resulting in a larger reduction in the duty rate for the region which gave a simple average of 88%. The actual non-zero rated duty rates stood between 2% for raw materials and productive machinery and a maximum of 10% for final goods. Despite the substantial reduction in the duty rates in the region, import excise pushes the effective tariff rates higher, thereby justifying the concerns by the respondents on high customs tariffs.

Box 1: Import/Export Permit for Agricultural Products

The procurement of import/export permits for agricultural commodities begins and end with Ministry of Agriculture and Cooperatives. The main purpose of the permits is to ensure environmental safety, adherence to sanitary and phytosanitary requirements and human safety by ensuring that both imported and exported agriculture commodities meet the required minimum standards. The verification or examining agencies are the Department of Veterinary with respect to livestock, meat, poultry and fish products and Mount Makulu Research Station with respect to plants, crops and by-products. The process of obtaining a permit involves five steps as follows:

i. The applicant obtains application forms and technical advice from the Ministry of Agriculture and Cooperatives, Marketing Development Branch under the International Agriculture Trade Section in the Department of Planning and Cooperatives Development.

ii. The commodity in question is taken for examination by the importer/exporter at either Mt. Makulu or Department of Veterinary depending on whether it is a plant or livestock, respectively. The examining agencies work closely with their counter parts abroad.

iii. Once the product is certified clear, the application is sent to the Ministry of Commerce, Trade and Industry for compilation.

iv. The Ministry of Commerce, Trade and Industry before sends back the application to the Ministry of Agriculture and Cooperatives after compilation.

v. The applicant is issued the import/export permit by the Ministry of Agriculture and Cooperatives.

Source: Ministry of Agriculture and Cooperatives, Marketing Development Branch
The third level is taken by high regional communications and transport cost. These costs are exacerbated by the poor transport and communication infrastructure. The next major area of concern is the perceived lack of transparency on rules and regulations abroad, which takes the same position with time consuming customs procedures, despite the computerisation of the procedures. Exchange rate uncertainties and regional communication infrastructure take the 5th position, while the last position is taken by weak regional transport infrastructure. The least important factors perceived to impede regional integration comprise substantial amount of paper work, cash payment requirements for import duty and taxes, visa requirements for travelling abroad, and corruption of officials. This is followed by the weak law enforcement in countries where exports are destined.

Given the forgoing, the three most relevant barriers to imports and exports in the country comprise of time consuming and costly procedures for obtaining agricultural products export/import permits, and high information asymmetry, high trade taxes and transport costs.

2.3 Impact on the Economy

Figure 5: Perception on the Impact of Regional Integration
It is generally felt that increased regional integration is not likely to lead to job losses. 55% of the respondents felt that integration is unlikely to result in retrenchments, while 38% were of the view that it was likely to do so. (Figure 5). The responses were more positive towards job creation where 69% held the view that integration would lead to an increase in employment, while 72% felt that it would lead to an increase in domestic production. As regards the impact on investment, 66% of the respondents felt that it would lead to increased investment, abroad while 55% believed it would not lead to closing down of production in the country. This is in line with the respondents' perception that regional integration will increase opportunities for business. In that context, 83% were of the view that it would lead to joint ventures with companies in the SADC region, while 90% felt that there would be new business activities. There was also belief that integration will lead to trade creation in the region, whereby 76% were of the view that the country will import more from other SADC countries, while 66% felt that the country will export more to SADC. On the same lines, 72% of the respondents felt that deepening regional integration will accord Zambia access to cheap input prices. However, 52% of the respondents considered that integration would most unlikely lead to access to cheap foreign labour.

2.4 Policy Influence

Figure 6 reveals that the respondents were pessimistic towards the impact of integration in enhancing their influence in policy making. Only 28% felt that integration will strongly influence their involvement in policy making; while 38% were of the view that its influence will only be slight. It was the considered view of 17% of the respondents that integration would slightly weaken their policy influence, and 13% strongly felt so.
The majority of the respondents (66%) were of the view that integration would strengthen their hand to influence the design of domestic policies while a minority (34%) felt they would not be in a position to influence the design of SADC policies (Figure 7). With increased integration, 38% of the respondents strongly felt that their impact on domestic policy will be strengthened, while 28% were of the view that it would slightly strengthen (Figure 8). However, a total of 17% felt that their impact on domestic policy would weaken.
2.5 Policy Debate

Figure 9 portrays lack of policy debate on issues concerning regional integration. There is lack of or limited general public debates on regional integration where less than 31% of the respondents felt that while there may be some discussions, the discussions are not very prominent. However, it is perceived that there is public debate on SADC regional integration where 55% of the respondents felt the discussions were still not very prominent, but somewhat more prominent when it came to public debt on regional integration with respect to COMESA. In this connection, 45% of the respondents felt that the debt was very prominent while 42% viewed them not to be very prominent. With regard to public debt on Eastern African Community (EAC), it was generally felt that there were no public discussions on the issue.
The same picture is replicated when it came to the discussions of the impact of regional integration on organisations. In general, although the discussions are limited, there are somewhat considered to be very prominent with 34% of the respondents answering in the affirmative, while 31% felt there were no such discussions. As regards discussions of the impact of SADC regional integration on organisations, 38% felt the discussions were not prominent, while 38% also felt there were no such discussions. 41% felt that there were no discussions on the impact of regional integration in the context of COMESA. It also came out quite clearly that there were no discussions on the impact of EAC integration on organisations.

It was further revealed that there were no public workshops or seminars to discuss regional integration. 62% of the organisations never organised workshops or seminars to discuss regional integration.
in general, while 72% did not organise workshop/seminar to discuss COMESA integration. About 7% indicated that organisations held such workshops, notably among whom was the COMESA secretariat which organised several workshops on the impact of regional integration. The lack of organised workshops or seminars increased with respect to SADC and EAC whereby 77% and 83% of the respondents, respectively felt that there were no such workshops.

Figure 10: Other Measures Taken to Raise Awareness on RI

The same pattern emerges in relation to the measures which have been taken by the organisations to raise issues on regional integration. 69% of the respondents felt that the organisations never took any measures to raise issues on regional integration in general; while 76% felt no measures were taken to raise issues on regional integration in the context of SADC, 80% in the context of COMESA, and 87% in the context of EAC. Figure 10 reveals that other measures such as use of press releases to raise awareness on issues of regional integration were hardly utilised. 69% of the respondents indicated they did not take other measures to raise awareness about regional integration in general, while 24% indicated that they sometimes did. The responses became even more negative as it pertained to specific issues on regional
integration whereby 76% indicated that no extra efforts were made to raise awareness with respect to SADC, 80% with respect to COMESA and 87% with respect to EAC. Those in the affirmative correspondingly declined-from 21% in relation to SADC, 14% in relation to COMESA and 7% in relation to EAC.

Few organisations or no organisations were invited or participated in SADC National Committee meetings. Even though 3% of the organisations were invited to participate in the National Committee, they failed to attend (Figure 11). Over 94% of the respondents were never invited to attend the National Committee or showed ignorance about the existence of such a Committee while over 86% indicated they did not participate in the deliberations of the Committee or did not know about the existence of such a Committee.

Figure 11: Invitation to and Participation in SADC National Committee Meetings

It was overwhelmingly felt that there was need to increase the capacity among Non-State Actors to participate in committees involved in deliberating regional integration issues. The respondents who answered in the affirmative stood at 97%. However, none of the respondents was in a position to state what kind of capacity building was required for the Non-State Actors. As has been observed previously, the respondents were strongly in favour of regional integration. On top of the list, were those who were strongly in favour of regional
integration in general and integration in the context of SADC at 73% in each case, while those who slightly supported regional integration in general stood at 7%. Those who supported SADC integration slightly stood at 24%, which was at par with those who slightly supported integration with respect to COMESA. However, those who strongly supported integration in the context of COMESA marginally dropped to 69%. Those who support EAC integration dropped to below 50% at 48%. This tips the scale slightly to supporting regional integration in the context of SADC than COMESA. This is somewhat surprising because COMESA is highly visible in Zambia.

The respondents do not want a wholesome regional integration for the time being. The focus of regional integration should be in two major areas: reduction in tariffs within SADC whose support stood at 93%, and designing competition and trade policies for SADC as a whole with 86% in support (Figure 12). Least in the priority areas were those whose support accounted for less than 50% in respect of removal of tariffs and establishment of common external tariffs with all other countries.

**Figure 12: Support for Regional Integration**

![Bar chart showing support for regional integration in general, SADC, COMESA, and EAC.](chart.png)
In between, that is above 50%, but below 80% supported the removal of all trade restrictions within SADC (59%). Removal of restrictions on free movement of capital within SADC (62%), removal of restrictions on the free movement of labour within SADC (65%), removal of restrictions on the free movement of services within SADC (62%), implementation of the same level of taxes within SADC (58%), creation of a single currency within SADC (52%) and creation of a regional umbrella organisation of Non-State Actors (59%). What one reads from these responses is support for a creation of an economic union within SADC, yet one is left to wonder whether the respondents really understood what they wanted as reflected by their answer to the removal of tariffs and establishment of a CET with all other countries. Given the economic realities in Zambia, and the lack of inter-industry trade within SADC as an economic union, and indeed, all types of economic trade blocks tend to favour the most advanced members of the block. Zambia achieved little, or indeed lost a lot from the Federal of Rhodesia and Nyasaland.

**Figure 13: Degree of Regional Integration**
3 Business Enterprises

3.1 Company Characteristics

Figure 14: Type of Business Enterprise

Figure 15: Main Activity of Business Enterprises
The business enterprises covered in the survey comprised of private entities which constituted 91% of the respondents. Parastatal organisations and private-public partnerships each represented 2% of the respondents; and the "others" which accounted for the remaining percentage (Figure 14). The majority of the industries were in the manufacturing sector, accounting for 68% of the respondents. Wholesale and retail trade accounted for 21% of the respondents (Figure 15). The rest comprised of entities in the tourism sector (5%), fisheries (2%), financial services (2%), and others (2%).

**Figure 16: Number of Employees in Business Entities**

The majority of the enterprises interviewed were medium-sized with 50 to 99 employees, representing 38% of the respondents (Figure 16). The second position was taken by large industries with a workforce of over 100 employees, and small industries with a work force of between 11 to 24 employees, which constituted 21% of the sample. The rest were less significant. Most enterprises interviewed were in operation for over 10 years representing 74% of the entities (Figure 17). 12% of the respondents operated between 2 to 5 years, while the remaining operated in the intervening years.
The annual operating income of the enterprises was more than USD 100,000, representing 34% of the sample. (Figure 18). The rest, accounting for about 10% of the sample, each had operating income of at most USD 100,000. Most of the enterprises imported from SADC countries and the import values exceeded USD 100,000 annually, representing 36% of the imports. Imports from non SADC countries accounted for a higher percentage of 40% but valued at less than USD 25,000 annually and hence, relatively insignificant. However, exports to SADC were less significant with those valued at more than USD 100,000, representing only 5% of the sample, while the majority valued at less than USD 25,000 accounted for less than 50% of the sample. This signifies that Zambian enterprises are running a trade balance deficit with SADC. Exports to non-SADC countries, though falling below the 50% mark are more, but relatively small. The implication of this is a trade balance deficit with the rest of the world.

Figure 17: Period of Operation

An examination of Zambia’s major export destinations reveals surprising results. The majority of the respondents, more than 74% do not known where their products are exported. For those who know, the
Democratic Republic of the Congo (DRC) top the list, despite the non-existence of a trade agreement between the two countries (Figure 19). Official statistics puts the DRC as Zambia's major export destination in the sub region. The second place is apparently taken by two countries, South Africa and Angola. The third position is taken by Zimbabwe. With the exception of the Congo (DRC) where 14% of the respondents exported to, the rest of the export destinations account for less than 10%. This means that the country's regional exports constitute a small share of its total exports.

Figure 18: Enterprise Annual Turnover

![Enterprise Annual Turnover Graph]

Figure 19: Major Export Destination

![Major Export Destination Graph]
Figure 20: Sales on the Domestic Market

Figure 20 reveals that the majority of the enterprises (62%) sell within the domestic market. The magnitude of the sales accounts for 76% to 100% of the entities turnover. 23% of the enterprises did not know the share of the domestic market they commanded. Consequently, only under 25% of the turnover was sold in the first export market by 14% of the respondents, and 10% in the second export market, and under 5% in the third export market (Figure 21).

Figure 21: Export Share
Most domestic industries face competition from South Africa. Those who face strong to moderate competition from South Africa accounted for 58% of the respondents (Figure 22). Though business enterprises felt that they faced no competition from Botswana, Lesotho, Namibia and Swaziland (BLNS), less than 10% indicated that they faced moderate competition. Competition from other SADC countries, excluding BLNS countries and the rest of Africa, was considered to be even of less significance. However, this was considered to be moderately significant at 14%, which was at the same level as SADC excluding BLNS. Competition from the European Union (EU) was considered to range from marginally moderate to weak.

Figure 22: Degree of Foreign Competition on the Domestic Market

Competition from Asia was viewed to be marginally significant with 14% of the enterprises considering it to be very strong, while 7% considered it to be moderate, and 12% acknowledged its existence but felt that it was weak. The same applied to perceptions about competition from the United States of America (USA) and the rest of the world (RoW), inclusive of unknown competitors.

3.2 Perceptions on Regional Integration

It was generally recognised that regional integration may increase competition in domestic industries. 36% of the respondents strongly agreed with this view while 52% agreed, bringing the proportion of those who were in the affirmative to 88% (Figure 23). This perception
is in line with those held by the Non-State Actors. In the same vein, business enterprises believed that regional integration would result in a reduction in input prices, and at least 69% of the respondents were of that view. It was also generally felt that integration would lead to a reduction in prices of consumer goods 72% were in the affirmative.

Figure 23: Effect of Regional Integration within SADC
Integration was also considered to have a positive impact on efficiency and competitiveness. 12% of the enterprises strongly agreed that it will increase efficiency and competition; 60% agreed with that view while a total of 23% disagreed and 5% did not know. As already observed, 67% of the respondents felt that integration will have a positive impact on their turnover and the same proportion felt that it will have a positive impact on other domestic industries. In general, 72% were of the view that integration will benefit the economy; 76% felt that it will lead to trade creation by improving export opportunities. Moreover, it was also felt that it will provide new investment opportunities.

However, this optimism was over-shadowed by the perceptions of regional integration on employment and labour costs. There was uncertainty about its ability to reduce unemployment: 50% were for and 50% against. This brought into question the previously expressed optimism (or did it mean that regional integration would result in substantial increase in factor productivity without the need to alter the required factors of production?) The answer seems to be on the negative. There was equal pessimism as regards the ability of integration to reduce labour costs, whereby 52% of the respondents felt it would not result in a reduction in labour costs or they did not know what the impact would be. On the issue of immigration and human rights, 17% of the respondents strongly agreed, while 31% agreed that it would lead to an influx in the number of immigrants. However, 33% disagreed, while 5% strongly disagreed and the others did not know or could not form an opinion. There was some pessimism about the ability of increased SADC integration in enhancing human rights situation in the country. Whereas 33% of the respondents felt that it would, 36% disagreed, while 31% had no opinion. It was also moderately felt that increased integration would not reduce political sovereignty of Zambia. While a total of 38% of the respondents were of the view that it could, 41% felt that it would not and 21% reserved their opinion.
Like the Non-State Actors who were somewhat indifferent to regional integration in the context of SADC or COMESA, there was a marginal significant difference as to the perceptions of business enterprises. Looking at the aggregates, 43% indicated that they would have answered the questions differently if they were asked about regional integration within the context of COMESA or EAC while 50% said their answers would not have been different (Figure 24). Although almost balancing out, what emerges is that a sizable number of the respondents held different opinions about regional integration in the context of SADC or COMESA. What is not clear though, is which one was preferred and why.
Despite the speed with which Zambia implemented its trade liberalisation reforms, business enterprises indicated that they still experience barriers in exporting and importing goods to and from SADC. 60% of the business houses interviewed indicated that they experience barriers on trade, while 26% said they did not, and 14% felt it did not apply to them since they were not trading with SADC (Figure 25). Though a sizable number of enterprises did not trade with SADC (about 50%), customs tariffs were still seen to be a significant barrier to trade within SADC. Those who considered customs tariffs to be very relevant barriers stood at 31%, while those who took them to be relevant stood at 14%, bringing the total to 45%, and 15% considered them not to be relevant. Import duties and taxes to be paid in cash were considered to be a problem by 50% of the respondents. However, the Zambia Revenue Authority allows payment by bank certified cheques due to the problem of business
entities not honouring their obligations. Only 10% of the respondents considered cash payments not to be an issue.

It is interesting to note that sanitary and phytosanitary regulations are not considered to be a big problem (although the NSA felt they were), with only a total of 29% of the respondents indicating that it was a problem. Sanitary and phytosanitary regulations have been identified to be one of the non-trade barriers that countries use to protect their domestic industries or stop exports by certain regions. Rules of Origin are somewhat considered to be barriers to trade with 48% of the respondents answering in the affirmative, and 26% saying they were not. Unlike the Non-State Actors, only 39% of the enterprises considered export/important permits to be a hindrance to trade. As already discussed, they are not a problem in Zambia for any practical purpose. The minority (19%) who considered them not to be relevant are the ones who may be right. Lack of transparency of rules and regulations abroad are seen to be a barrier to trade, with 40% of the enterprises answering in the affirmative. The same number of the respondents also felt that time consuming customs procedures at points of entry constrain trade. This is somewhat disappointing considering the number of improvements which were undertaken by the Zambia Revenue Authority to streamline the procedures in terms of both paper work and administration. 43% of the respondents pointed out problems associated with substantial paper work and bureaucracy as areas of concern.
Corruption of officials was still cited to be of concern by 38% of the respondents. This was more of an exaggeration by the respondents as there has been a visible substantial reduction in corruption. What is evident are cases of business entities and individuals trying to bribe customs officials so as not to pay tax or pay less tax. There are problems
of under invoicing or misclassification goods in attempts to avoid paying customs duties. To date, there has been no case where merchandise was held at the border due to corruption of officials. Again, the minority (22%) who indicated that it was not an issue may be the ones who may be portraying the correct picture. Lack of information about foreign markets is again seen as a problem. This is in the same line as the concerns expressed by the Non-State Actors. The discussion under that section is also relevant here. In almost, if not all, SADC countries, Zambians do not need a visa to travel to those countries. However, this is identified to be a constraint to regional integration in SADC by 45% of the respondents. Moreover, one does not need to physically travel to a country in order to trade with that country. Exchange rate uncertainty is also seen to be a problem by 48% of the respondents Zambia has witnessed macroeconomic stability for the past 5 years, including exchange rate stability. The remaining two issues pertain to risk of non payment by customers abroad, and the lack of export insurance to cover payment risks of exports. The latter is not seen to be a problem by 35% of the respondents, while 26% saw it to be a problem. The former is taken to be a moderate problem by 31% of the respondents.

Table 2: Most Important Trade Barriers

<table>
<thead>
<tr>
<th>Barrier</th>
<th>Frequency (%)</th>
<th>Rank</th>
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</thead>
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<td>Customs tariffs</td>
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<tr>
<td>Import duties and taxes to be paid in cash</td>
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<td>2</td>
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<td>Time consuming customs procedures</td>
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<td>Substantial paper works, bureaucracy</td>
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<td>Export/import licenses and permits required</td>
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<tr>
<td>Exchange rate uncertainty</td>
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<td>5</td>
</tr>
<tr>
<td>High transport costs</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Weak regional transport infrastructure</td>
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<td>8</td>
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<tr>
<td>Lack of transparency of rules &amp; regulations abroad</td>
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<td>9</td>
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<tr>
<td>Corruption of officials</td>
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<tr>
<td>Visa requirement for traveling abroad</td>
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<tr>
<td>High regional communication costs</td>
<td>3</td>
<td>9</td>
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<td>SPS regulations</td>
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<tr>
<td>Rules of Origin</td>
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<tr>
<td>Lack of information about foreign markets</td>
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<tr>
<td>Risk of non payment by customers abroad</td>
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<tr>
<td>No export insurance available to cover payment risks of exports</td>
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<tr>
<td>Weak law enforcement in export destination</td>
<td>0</td>
<td>19</td>
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</table>
Table 2 shows the most important trade barriers, ranked according to importance as given by the frequency by which respondents identified the particular barrier. The frequency has been expressed in percentage terms. The three most important barriers to SADC trade are identified to be customs tariffs which top the list. In this context, the previous discussion under Non-State Actors also holds here. This was followed by import duties and taxes paid in cash. The problem in this case does not lay with the authorities but rather the other stakeholders. In the Zambian context, the authorities already allow payment by bank certified cheques. It may be important to explore other payment options which would be satisfactory and meet the concerns of all the parties involved. The third position is occupied by two barriers which in any case, are closely related to each other: time consuming customs procedures, and substantial paperwork and bureaucracy. As already pointed out, the Zambian authorities have introduced measures which have substantially reduced the required paperwork as well as bureaucracy, including computerisation of the procedures. What is surprising, however, is that customs clearance still takes a long time which points to the need for further investigations.

**Figure 27: State of the Business Climate**

![Figure 27: State of the Business Climate](image)
With the exception of the domestic market, and to a limited extent the South Africa market, most business entities did not know the state of the business climate in the other markets. This lack of knowledge ranged from 50% with respect to other SADC countries which excludes Botswana, Lesotho, Namibia and Swaziland (BLNS), through 57% for the BLNS countries to 69% for the rest of the world (Figure 27). Four markets were taken to be very favourable which was topped by the domestic market at 21%, the South Africa market at 12%, the United States of America market at 5% and the European Union market at 2%. Though the identified markets were considered to be favourable, the domestic market at 57% dominated them. The other markets were considered to be favourable with a range of 17% to 24%. Topping the list of not the favourable market at 26%, is the other SADC countries excluding the BLNS, followed by the BLNS and the rest of the world at 22%. This outcome contradicts the perceptions on the likely impact of regional integration within SADC. The perceived impact of increased regional integration for the business entity is next to be examined.

Figure 28 shows that business entities felt that increased regional integration within SADC was unlikely to result in retrenchment of their work force. 57% of the respondents while felt it was not very likely 26% felt that it was most likely. On the other hand, 55% of the respondents it was considered that it will lead to the employment of more workers, while 40% did not believe so. Most enterprises (64%) were of the view that they would increase their domestic production, while 29% indicated that they were less likely to do so. In contrast to the perceptions of the Non-State Actors, business entities were less likely to invest abroad, with 36% in the affirmative, while 33% indicated that they may invest abroad. 19% of the industries were of the view that increased integration would lead to their firm closing down. However, 55% felt that they were most unlikely to do so.
Local industries saw substantial opportunities in joint ventures with business enterprises in SADC. Those who identified this potential accounted for 64% of the responses. Some business entities saw themselves venturing into new business activities (81%). There was also strong optimism towards trade creation, with 62% of the respondents indicating an increase in both their imports from and exports to SADC. 67% felt that increased trade within SADC would allow them access cheaper inputs, but like the Non-State Actors, they did not see integration leading to access to cheaper foreign labour. 31% believed that it would allow them access cheap labour from abroad, while 48% felt that that was unlikely.
Further elaboration of the impact of increased integration on the magnitude of key production indicators revealed that employment, investment, exports to and imports from SADC countries, were all likely to increase from 1% to 25% (Figure 29). However, output would, most likely remain constant, a somewhat contradictory result which implies negative labour and capital productivity or that the increase in output arising from new investments will be matched by a fall in output from entities that will close down. It was further perceived that input prices will decline by between -1% to -25%. Another important observation was that a significant number of respondents did not know how integration would actually affect their level of operations.

The majority of the respondents, over 50%, did not know whether increased integration within SADC will result in more losses than gains. While most of the results were not significant, slightly over 10% of the respondents indicated gains/losses in excess of K351 million, with those predicting gains standing at 19%, while those who felt there would be losses stood at 10% (Figure 30).
3.3 Policy Debate on SADC Regional Integration

Most business enterprises were of the view that there was substantial public debate on regional integration in general. 31% of the respondents indicated public debate was very much on the issue; while 41% agreed with that view, they felt that the debate was not prominent, bringing the total of those who agreed to 72% (Figure 31). On the other hand, 14% disagreed. With respect to public debate on SADC integration, a total of 60% agreed to the notion of public debate on the subject, while 17% did not, and 24 did not know. The number increased as regards public debate on integration in the context of COMESA which is more in line with the Zambian reality. A total of 73% felt that there was public debate on integration in the framework of COMESA, while 21% felt there was none, with the "I don't know" cases dropping to only 5%. This shows that business entities in Zambia are more informed about integration with respect to COMESA than SADC. However, that does not provide information as to which form of regional integration grouping they would prefer.
The least known and least discussed regional grouping is the EAC, where 45% of the respondents indicated that they did not know anything about it, while 29% indicated that there was no public debate about it. However, a total of 26% agreed that there were public debates about it, although 21% indicated that the debate was not prominent. Again, this is in line with the responses obtained from the Non-State Actors. An examination of the attendance workshops clearly demonstrates that majority of business enterprises (over 30%) did not attend workshops/seminars on regional integration in general, or with respect to SADC, COMESA and EAC, irrespective of whether workshops were offered or not (Figure 32). Only 10% of the respondents regularly attended workshops in relation to regional integration in general, while only 5% did so occasionally. None of the respondents attended any workshops pertaining to EAC integration, while 12% sometimes attended workshops in the context of SADC integration and 5% in relation to COMESA integration.

Figure 33 shows that the respondents were in favour of regional integration with the support of integration in the context of SADC being significantly much stronger. A total of 76% of the business entities supported regional integration in general, with 45% showing very strong support. The support for integration increased to 85% in the context of SADC, of which 33% strongly supported and 52% just supported integration. The support for integration dropped to 73% with respect to COMESA, with those just supporting integration going
down to 40%, while further dropping to 57% in relation to EAC integration.

Most business houses were in support of all the identified aspects of regional integration in the context of SADC, with the exception of the creation of a political union with a parliament and executive. The highest support was for the reduction of tariffs within SADC, removal of tariffs within SADC and establishment of a common external tariff to all other countries outside the grouping, as well as implementation of the same level of taxes within SADC, both of which stood at 86% (Figure 34). Designing competition and trade policies for SADC as a whole stood at 83%, and the removal of restrictions for the free movement of services within SADC was supported by 81 respondents.

Figure 32: Attendance at Workshops/Seminars on RI
Figure 33: Support for Regional Integration

![Support for Regional Integration Chart]

- Yes, very strongly
- Yes, slightly
- No
- Don't know

Figure 34: Degree of Regional Integration

- Create political union with parliament and executive
- Create single currency within SADC
- Design competition and trade policies for SADC as a whole
- Implement same level of taxes within SADC
- Remove restrictions to the free movement of services within SADC
- Remove restrictions on the free movement of labour within SADC
- Remove restrictions on the free movement of capital within SADC
- Remove all trade restrictions within SADC
- Remove tariffs within SADC, establish CET to all other countries
- Reduce tariffs within SADC

![Degree of Regional Integration Chart]
The next level of support went to removal of all trade restrictions within SADC at 67% and removal of all restrictions on the free movement of capital and labour whose support stood at 74% and 64%, respectively. Furthermore, the creation of a single currency within SADC received the support of 52% of the respondents, with the least supported measure being the creation of a political union with parliament and executive (33%).
4 Conclusion

The survey portrays the perceptions of Non-State Actors and business enterprises towards increased regional integration in the context of SADC. The focus is on existing trade barriers and perceived challenges and opportunities associated with deeper regional integration, with the objective of providing policy makers and other interested stakeholders with valuable information about the action to be taken in order to make regional integration a success. A sample survey was used to collect information on the perceptions of 29 Non-State Actors (NSA), and 42 business entities located in the Lusaka and Copperbelt provinces of Zambia. The information was analysed using descriptive statistics.

Both the Non-State Actors and business organisations were in favour of increased regional integration, preferably in the context of SADC. It was believed that increased regional integration would enhance competition in the domestic market, reduce input prices and increase domestic production, among others. While there has been little public debate on issues pertaining to regional integration, the respondents were pessimistic towards the impact of integration in enhancing their influence in policy making. No extra measures were taken to raise public awareness on regional integration issues.

Most industries felt that they faced competition from South Africa. Non-State Actors point at high, time consuming and costly procedures of obtaining agricultural export/import permits, information asymmetry, trade taxes and transport costs was the most important trade barriers to deepening regional integration; while business entities felt that customs tariffs, import duties and taxes paid in cash, time consuming customs procedures, and substantial paperwork and bureaucracy were most important. The respondents did not want wholesome regional integration for the time being. The focus of regional integration should be in two major areas: reduction in tariffs within SADC and designing competition and trade policies for SADC as a whole. However, there was general support in the identified areas of regional integration, with the exception of the creation of a political union with a parliament
and executive. Further more, there was need to increase capacity among Non-State Actors to participate in deliberating regional integration issues.
## Annex

### Summary Data on Non State Actors

#### Barriers to Regional Integration

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<th>Relevant</th>
<th>Hardly Relevant</th>
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## Perception on the Impact of Regional Integration

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<td>Investing abroad</td>
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<td>Having access to cheaper inputs</td>
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## Public Debate, Organisation of Workshops and Issues Raised on Regional Integration

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Other Measures taken to Raise Awareness on RI

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Support for Regional Integration

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Degree of Regional Integration

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<td>Remove tariffs and establish CET with all other countries</td>
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<td>Implement same level of taxes within SADC</td>
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<td>Design competition and trade policies for SADC as a whole</td>
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<td>Create single currency within SADC</td>
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<td>Create political union with parliament and executive</td>
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<td>Create regional umbrella organisation of Non-State Actors</td>
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Summary Data on Business Entities

### Enterprise Annual Turnover

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<td>&gt;100,000</td>
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### Relevant Barriers to SADC Trade

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### State of the Business Climate

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<tr>
<td>Unsatisfactory</td>
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<td>7</td>
<td>7</td>
<td>10</td>
<td>14</td>
<td>12</td>
<td>10</td>
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<tr>
<td>Don’t know</td>
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<td>43</td>
<td>57</td>
<td>50</td>
<td>64</td>
<td>64</td>
<td>60</td>
<td>62</td>
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### Impact on Business Entities

<table>
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<tr>
<th>Impact on Business Entities</th>
<th>Likely</th>
<th>Unlikely</th>
<th>Don't know</th>
<th>Does not apply</th>
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<tbody>
<tr>
<td>Retrenchment of employees</td>
<td>26</td>
<td>57</td>
<td>5</td>
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<tr>
<td>Employing more workers</td>
<td>55</td>
<td>40</td>
<td>5</td>
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<tr>
<td>Increased domestic production</td>
<td>64</td>
<td>29</td>
<td>2</td>
<td>5</td>
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<tr>
<td>Investing abroad</td>
<td>33</td>
<td>36</td>
<td>12</td>
<td>19</td>
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<tr>
<td>Closing down of domestic production</td>
<td>19</td>
<td>55</td>
<td>5</td>
<td>21</td>
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<tr>
<td>Seeking joint ventures with companies in SADC</td>
<td>64</td>
<td>26</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>Venturing into new business activities</td>
<td>81</td>
<td>12</td>
<td>7</td>
<td></td>
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<tr>
<td>Increasing SADC imports</td>
<td>62</td>
<td>29</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>Increasing SADC exports</td>
<td>62</td>
<td>24</td>
<td>2</td>
<td>12</td>
</tr>
<tr>
<td>Access to cheaper inputs</td>
<td>67</td>
<td>21</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Access to cheaper foreign labour</td>
<td>31</td>
<td>48</td>
<td>2</td>
<td>19</td>
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### Impact of Factors of Production and Output

<table>
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<tr>
<th>%</th>
<th>Employment</th>
<th>Production</th>
<th>Investment</th>
<th>Export to SADC countries</th>
<th>Import from SADC countries</th>
<th>Import prices</th>
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<tbody>
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<td>-76 to -100</td>
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<tr>
<td>-51 to -75</td>
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<tr>
<td>-26 to -50</td>
<td></td>
<td></td>
<td></td>
<td>2</td>
<td>5</td>
<td></td>
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<tr>
<td>-1 to -25</td>
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<td></td>
<td>2</td>
<td>36</td>
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<td>7</td>
<td>10</td>
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<tr>
<td>1 to 25</td>
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<td>17</td>
<td>36</td>
<td>36</td>
<td>33</td>
<td>14</td>
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<tr>
<td>26 to 50</td>
<td>7</td>
<td>5</td>
<td>10</td>
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<td>51 to 75</td>
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<td>76 to 100</td>
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<td>7</td>
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<tr>
<td>Don't know</td>
<td>31</td>
<td>33</td>
<td>40</td>
<td>45</td>
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<td>38</td>
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</table>

### Public Debate on Regional Integration

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<thead>
<tr>
<th>General RI</th>
<th>SADC RI</th>
<th>COMESA RI</th>
<th>EAC RI</th>
</tr>
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<tbody>
<tr>
<td>Yes, very much</td>
<td>31</td>
<td>24</td>
<td>40</td>
</tr>
<tr>
<td>Yes, but not very prominent</td>
<td>41</td>
<td>36</td>
<td>33</td>
</tr>
<tr>
<td>No</td>
<td>14</td>
<td>17</td>
<td>21</td>
</tr>
<tr>
<td>Don't know</td>
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<td>24</td>
<td>5</td>
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### Support for Regional Integration

<table>
<thead>
<tr>
<th></th>
<th>General RI</th>
<th>SADC RI</th>
<th>COMESA RI</th>
<th>EAC RI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes, very strongly</td>
<td>45</td>
<td>33</td>
<td>33</td>
<td>19</td>
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<tr>
<td>Yes, slightly</td>
<td>31</td>
<td>52</td>
<td>40</td>
<td>38</td>
</tr>
<tr>
<td>No</td>
<td>10</td>
<td>7</td>
<td>17</td>
<td>10</td>
</tr>
<tr>
<td>Don’t know</td>
<td>14</td>
<td>7</td>
<td>10</td>
<td>33</td>
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### Preferred Degree of Regional Integration

<table>
<thead>
<tr>
<th>Proposed Action</th>
<th>Yes</th>
<th>No</th>
<th>Don’t know</th>
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<tbody>
<tr>
<td>Reduce tariffs within SADC</td>
<td>88</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>Remove tariffs within SADC, establish CET to all other countries</td>
<td>86</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>Remove all trade restrictions within SADC</td>
<td>67</td>
<td>31</td>
<td>2</td>
</tr>
<tr>
<td>Remove restrictions on the free movement of capital within SADC</td>
<td>74</td>
<td>19</td>
<td>7</td>
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<tr>
<td>Remove restrictions on the free movement of labour within SADC</td>
<td>64</td>
<td>31</td>
<td>5</td>
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<tr>
<td>Remove restrictions to the free movement of services within SADC</td>
<td>81</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>Implement same level of taxes within SADC</td>
<td>86</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Design competition and trade policies for SADC as a whole</td>
<td>83</td>
<td>12</td>
<td>5</td>
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<tr>
<td>Create single currency within SADC</td>
<td>52</td>
<td>33</td>
<td>14</td>
</tr>
<tr>
<td>Create political union with parliament and executive</td>
<td>33</td>
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</table>
About the Author:

I nyambo Mwanawina is a Senior Research Fellow, Coordinator of the Economic and Business Research Programme and Assistant Director of the Institute of Economic and Social Research of the University of Zambia. An econometrician and quantitative economist by training he holds a PhD degree in Economics obtained from the University of Konstanz in Germany. His research interests are in macro, trade, energy and environmental economics.

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“Regional Integration in Southern Africa”
is edited and published by the
Friedrich Ebert Foundation
Botswana Office
www.fes.org.bw