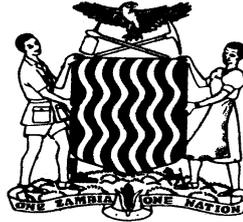


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REPUBLIC OF ZAMBIA



MINISTRY OF COMMERCE, TRADE AND INDUSTRY

Draft

Commercial, Trade and Industrial Policy

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ACRONYMS

AGOA	African Growth Opportunity Act
AIDS	Acquired Immune Deficiency Syndrome
ATI	Appropriate Technology International/ African Trade Insurance
BDR	Business Development Review
BIPM	International Bureau of Weights and Measures
BZC	Buy Zambian Campaign
CEE	Citizen Economic Empowerment
CEEC	Citizen Economic Empowerment Commission
COMESA	Common Market for Eastern and Southern Africa
DRC	Democratic Republic of Congo
DTC	Department of Domestic Trade and Commerce
EBA	Everything But Arms
EBZ	Export Board of Zambia
ECZ	Environmental Council of Zambia
EDF	European Development Fund
EDP	Export Development Programme
EPZ	Export Processing Zone
EU	European Union
FDI	Foreign Direct Investment
FNDP	Fifth National Development Plan
FTA	Free Trade Area
GDP	Gross Domestic Product
GPS	Graduate Placement Scheme
HIV	Human Immune Deficiency Virus
HS	Harmonised Standards
IAF	International Accreditation Forum
IEC	International Electro-technical Commission
ILAC	International Laboratory Accreditation Corporation
IMF	International Monetary Fund
IP	Intellectual Property
ISO	International Standards Organisation
ITC	International Trade Centre
LUSE	Lusaka Stock Exchange
MACO	Ministry of Agriculture and Cooperatives
MCT	Ministry of Communications and Transport
MCTI	Ministry of Commerce, Trade and Industry
MEWD	Ministry of Energy and Water Development
MFNP	Ministry of Finance and National Planning
MFEZ	Multi Facility Economic Zones
MIBS	Ministry of Information and Broadcasting Services
MSE	Micro and Small Enterprise
MSME	Micro Small and Medium Enterprise
MTEF	Medium Term Expenditure Framework
MTENR	Ministry of Tourism Environment and Natural Resources
MWS	Ministry of Works and Supply
NEPAD	New Economic Partnership Agreement
NEP	New Economic Recovery Programme
NGO	Non Governmental Organisation

NISIR	National Institute for Scientific and Industrial Research
NWG	National Working Group
OIML	International Organisation of Legal Metrology
PAC	Policy Analysis and Coordination Division
PACRO	Patents and Companies Registration Office
PDP	Product Development Programme
PPI	Public/Private Investment
PPP	Public Private Partnership
PRSP	Poverty Reduction Strategy Paper
PSD	Private Sector Development
PSDP	Private Sector Development Plan
PTA	Preferential Trade Area
SADC	Southern African Development Community
SAP	Structural Adjustment Programme
SED	Small Enterprise Development
SEDB	Small Enterprises Development Board
SIDO	Small Industries Development Organisation
SME	Small and Medium Enterprise
SQAM	Standardisation, Quality Assurance, and Accreditation and Metrology
SWOT	Strength, Weaknesses, Opportunities and Threats
TBT	Technical Barrier to Trade
TDAU	Technology Development and Advisory Unit
TEVETA	Technical Education, Vocational and Entrepreneurship Training Authority
TICAD	Tokyo International Conference on African Development
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNIDO	United Nations Industrial Development Organisation
USA	United States of America
VAT	Value Added Tax
WB	World Bank
WTO	World Trade Organisation
ZABS	Zambia Bureau of Standards
ZAMSIF	Zambia Social Investment Fund
ZCC	Zambia Competition Commission
ZDA	Zambia Development Agency
ZEPZA	Zambia Export Processing Zones Authority
ZIC	Zambia Investment Centre
ZNTB	Zambia National Tender Board
ZPA	Zambia Privatisation Agency
ZRA	Zambia Revenue Authority
ZWMA	Zambia Weights and Measures Agency

FOREWORD

Zambia offers significant economic opportunities due to its abundant natural resources, access to preferential trading opportunities in regional and international markets and more recently the country's sustained economic growth. A sustained economic growth is necessary to ensure progress in reducing poverty, creating domestic employment opportunities and a more equitable distribution of income.

In the past decade, the country experienced significant institutional and market-based policy and structural reforms. The reform measures were broadly aimed at making the country more responsive to economic stimuli and expand domestic productive capacities. Although there were initial gains from the liberalization policies of the 1990s, growth rates declined gradually.

There is however, continued optimism for export-led growth in Zambia. The past decade has shown noticeable growth in some non-traditional export sectors, notably the horticultural industry. In the industrial sector, there has also been a gradual, but sustained, expansion of the processed food sector. Growth in the processed foods sector is of particular interest as it provides extensive linkages with the agricultural sector and is thus important to ensure national food security and increase household disposable income.

In international trade, Zambia is in the process of negotiating Economic Partnership Agreements (EPAs) with the EU under the Eastern and Southern African (ESA) configuration. Within the sub-region, Zambia actively participates in the SADC and COMESA Free Trade Areas. It is hoped that domestic firms, particularly Micro Small and Medium Enterprises (MSMEs) would take greater advantage of these preferential trade opportunities.

In the domestic economy, the Government is making strides in providing an enabling economic environment for the private sector to thrive. In this regard, the Private Sector Development (PSD) Reform Programme is being implemented with the aim of reducing the cost of doing business in Zambia. Under the PSD, Government intends to empower economically marginalized nationals through the Citizens Economic Empowerment (CEE) policy. Through the Buy Zambian Campaign, the Government intends to promote the production and consumption of quality local products. Government also intends to set up Multi Facility Economic Zones (MFEZs) equipped with the requisite infrastructure for industrial activities. Public Private Partnerships (PPP) shall also be encouraged.

The Government is also supporting various regulatory reforms to improve competition and develop a vibrant domestic trading sector. To this end, the Zambia Development Agency (ZDA), an amalgamation of institutions *hitherto* involved in the promotion of trade, investment and the promotion of the small scale has been established as a 'one – stop – shop'. Additional incentives have been provided under the ZDA Act.

I am confident that industrial development and international trade can fuel our agenda for national economic growth and contribute to national wealth creation. This policy document shall serve as a framework for collaboration between the Ministry of Commerce, Trade and Industry and other government institutions, domestic stakeholders and international cooperating partners in the development of the Zambian Commercial and Industrial

Sectors. The success of this policy will to a large extent depend on the aggressiveness of the private sector in translating opportunities that the policy provides into tangible outputs.

Felix Mutati, MP

MINISTER OF COMMERCE, TRADE AND INDUSTRY

ACKNOWLEDGEMENTS

This revised National Commercial Trade and Industrial (CTI) Policy document is the product of extensive discussions and consultations with various Government departments as well as stakeholders in the private sector, civil society and academia. This has been an extensive and exhaustive process which begun in the latter half of 2005 to date. The Ministry of Commerce Trade and Industry at different fora such as workshops and seminars interacted with different government institutions and stakeholders so as to get as many views and suggestions as possible on board.

This has paid off as the document reflects the views of not only the Ministry of Commerce Trade and Industry but views from a broad spectrum of society. The preparation of the document also coincides with the preparation and subsequent launch of the Fifth National Development Plan (FNDP). Consequently issues presented in this current CTI policy are also mainstreamed into the Fifth National Development Plan.

The Ministry is grateful for the diverse support received from various donor institutions that enabled the revision of the CTI Policy. In particular, valuable comments and feed back was provided by officials at UNCTAD. The key lessons from other existing donor activities also assisted us in prioritising our areas of focus for the coming years.

Finally I wish to thank all the members of staff at the Ministry of Commerce Trade and Industry as well as various statutory bodies for their effective collaboration and dedication in the preparation of this document. The list of people and Organisations to thank and acknowledge is endless, therefore suffice to say thank you to all who participated in the preparation of this important national document. The Ministry looks forward to more of such value adding collaborations.

I hope and trust that the revised CTI Policy document will serve as a blue print for the Governments future actives in the Commercial, Trade and Industrial sectors for the coming years.

D.M Chilipamushi
PERMANENT SECRETARY
MINISTRY OF COMMERCE, TRADE AND INDUSTRY

1.0 POLICY FRAMEWORK

1.1 Background

The Zambian economy experienced significant institutional and policy reforms in the early to mid-1990s. The various structural reforms were aimed at transforming the planned, state-centered economy to one with more market-based institutions and policies. The policy framework in the 1990s was designed to encompass the structural adjustment programs, and included trade and financial liberalization, privatization of some state-owned companies, and general macroeconomic stabilization programs. These reform programmes were broadly aimed at improving economic growth, and contributing to poverty reduction in Zambia.

There were significant initial gains following the period of reform, such as reduction in inflation, growth of non-traditional exports, and diversification of agricultural production. Tight monetary and fiscal policies were also introduced, and the increased discipline resulted in improvements in various macroeconomic indicators. In 1994, the *Commercial, Trade and Industrial Policy* was introduced, which spelled out the Government's long term vision for the industrial sectors, domestic trading activities, and Zambia's participation in international trade arrangements.

The initial gains from reform were however not sustained. Despite the modest economic growth rates, the incidence of poverty increased and various macroeconomic indicators lagged behind projected targets. Moreover, increasing integration of the economy into the southern African region implied that the direction and pattern of Zambia's trade also changed significantly. In general, had been a contraction in industrial output in the decade following liberalization. In international trade, the country's export supply capacity was inadequate to take full advantage of available preferential schemes such as AGOA, and the EU EBA. Consequently in 2004, the Government launched a comprehensive Private Sector Development (PSD) Program which was aimed at reducing the cost of doing business in Zambia, and providing an enabling environment for investments.

By 2005, it became necessary to provide a new Government *Commercial, Trade and Industrial Policy*, which reflected progress and challenges of the past decade, and also discussed the future direction of government activities to support private sector enterprise in Zambia. This policy document provides a discussion on various strategies and measures to be implemented by the Government in the next decade to support the growth of a competitive, export-led, Zambian economy.

1.2 Situation Analysis

The Zambian industrial sector experienced modest annual growth rates of about 5 per cent in the past decade. In 2004, the manufacturing sector recorded a growth rate of about 5.4 per cent, 5.1 percent (in 2005); 5.6 percent in (2006), due largely to activity in the food, beverage and tobacco sector. During the period 2000-2006, the food, beverage and tobacco sector contributed to about 60 per cent of manufacturing sector GDP, with the textiles and leather sector contributing an additional 17 per cent of manufacturing sector GDP. Over the same period, the chemicals and rubber sector, as well as the wood products sector, accounted for 9 per cent and 8 per cent respectively of manufacturing GDP. The final share of the manufacturing sector was comprised of output from other sectors such as the non-metallic mineral, fabricated metals, and basic metals industries.

In the past decade, there have also been noticeable changes in the direction and composition of Zambia's trade. The changes in Zambia's trade patterns are due largely to the country's increasing integration in the southern African region, and its participation in the SADC Trade Protocol and the COMESA F Trade Area. Regional trade currently accounts for about half of Zambia's total trade.

The direction of trade changed, with South Africa replacing the EU and Japan as the dominant trading partner for both exports and imports. The total value of Zambian exports showed very little growth over the period 1995-2004 due mainly to weak international copper prices. However, there was a modest recovery in total exports in 2004 to 2006 to about \$1,501 million due to improved copper prices. The value of imports has however shown steady growth in the past five years; with total imports increasing from \$978 million in 2000, to about \$1727 million in 2004. There has also been the rising importance of non-traditional exports (defined as non-metal exports) in the country's total exports: the share of NTE in total exports increased from 8 per cent in 1990, to 30.54 per cent in 2004. There was notable growth in the floricultural and horticultural sectors, as well as some manufacturing sectors such as processed foods and engineering products.

There has also been an expansion of the domestic trading sector over the past decade. While the formal trading sector has shown modest growth, it is the informal sector that has recorded the most significant expansion. The domestic trade sector is a vital component of the national development process. The sector facilitates the exchange of goods and services within national borders and supports the development of strong domestic institutions to ensure a vibrant, competitive and fair trading environment.

In 2004, the Government launched the Private Sector Development (PSD) program aimed at providing an enabling environment for private sector economic activity. The PSD program is comprised of six reform areas, namely: policy environment and institutions, trade expansion, infrastructure development, local economic empowerment, business facilitation and economic diversification, and regulatory reform. Activities in the PSD program are complemented by other donor-supported programmes, such as, the *Triangle of Hope Initiative*, the *Integrated Framework*, and the European Union *EDF IX* program. The Triangle of Hope Initiative is supported by the Tokyo International Conference on African Development (TICAD) while the Integrated Framework is supported by six agencies, namely: the World Bank, IMF, UNCTAD, UNDP, ITC and the WTO. The overarching goal of the PSD program is to lay the foundation for accelerated private sector led growth through the creation of an enabling economic environment, which will foster investment and support national economic diversification efforts.

1.3 Vision and Rationale

1.3.1 Vision

The overall vision of the National Commercial, Trade and Industrial Policy is:

To develop an enabling economic environment in Zambia which supports private investments, enables the development of domestic productive capacities, and contributes to the expansion of Zambia's international trade.

1.3.2 Rationale

The revision of the Industrial, Commercial and Trade policy has been necessitated to take account of the emerging issues that have taken place since the policy was formulated in 1994. The policy takes into account the macroeconomic developments and economic liberalisation Zambia has been going through, particularly in the last 10 years. The major areas of reform process in the industrial, commercial and trade sector have centred on investment, privatisation, financial, legal and trade reforms.

Although the measures introduced so far have helped in producing goods for the domestic market and bringing about macroeconomic stability, not much has been realised in terms of building the requisite capacity needed for industrial development and boosting trade, particularly exports. Thus the strategies on economic diversification and industrialisation failed to sustain the economy.

Besides, the policy makes provisions on how trade in services and promotion of local products should be handled and how the empowerment of indigenous Zambians to create wealth from their own resources should be encouraged. This policy document aims at addressing such issues cited above. It is intended to provide long-term guidance and framework for the development of the country's industrial base and trade interventions through a well coordinated and multi sector approach to improve the quality of life of the Zambian people.

Trade is widely viewed as being important for poverty reduction in developing countries. International trade can assist in sustained economic growth, contribute to the development of productive capacities, support the expansion of employment opportunities and assist in reducing poverty. The linkages between trade policy reform and economic growth are however not automatic. In the case of Zambia, despite the trade liberalization policies of the 1990s, there has been very limited expansion of the industrial sector, weak export growth, and low levels of investments in the domestic economy. Although the reform measures produced some initial stimulus to the domestic economy in the 1990s, the expected export supply response and economic growth were not sustained.

For example, in the period since 1994, Zambia has been granted preferential access to various industrial country markets such as the USA (under the Africa Growth and Opportunity Act, AGOA); to the European Union (under the Everything-but-Arms Initiative), as well as under the Chinese and Canadian market access initiatives. Utilization of available preference schemes has however been very weak. The low uptake of preferences is due mainly to low domestic supply capacities, and also partly the result of difficulty in meeting external quality and standards requirements.

If international trade is to contribute positively to national economic development, then complementary domestic policies and investments are needed to support previous trade reforms. Investments are needed to support the development of both physical and human capital. Strong domestic institutions are also needed to support market-based policies introduced in the post-liberalization period. Moreover, sustained growth will also require the effective development and utilization of domestic productive capacities. Domestic firms must adopt modern industrial technologies, and adapt these new methods and processes to their local operations.

On its part, the Government will support the development of an enabling economic environment, which provides a favourable investment climate for both domestic and foreign entrepreneurs. The Government will also provide export diversification programmes to support the private sector, and support initiatives to increase the competitiveness of domestic industries and firms.

This current policy document therefore prioritizes the development of an enabling economic environment, the improvement of domestic productive capacities, and trade expansion as critical areas for government support. In addition, more specific issues on export diversification, expansion of trade in services, and the empowerment of indigenous Zambian enterprises are discussed in more detail in this current policy. The objectives discussed here are consistent with the goals of the current Private Sector Development (PSD) reform program, and are also presented in the Fifth National Development Plan.

1.4 Policy Objectives

- i. To stimulate and encourage value-addition activities on primary exports as a means of increasing national export earnings and creating employment opportunities;
- ii. To transform the Zambian economy into a diversified and competitive economy which is well integrated into the international trading environment;
- iii. To stimulate investment flows into export-oriented areas in which Zambia has comparative advantages as a strategy for inducing innovation and technology transfer in the national economy;
- iv. To support the effective development and utilization of domestic productive capacities as a means to increasing output and expanding employment opportunities;
- v. To facilitate the acquisition of modern technology to support value-adding, industrial processes by domestic firms;
- vi. To facilitate public and private investments in testing infrastructure to support improvements in the quality and standards of Zambian products;
- vii. To assist domestic firms to increase their levels of efficiency and competitiveness, and therefore withstand increasing competition in domestic and international markets.
- viii. To formalize, monitor and regulate domestic trade activities with a view to promoting and stimulating a vibrant domestic trading sector; particularly by ensuring fair competition in the domestic market, and also protecting the welfare of consumers.
- ix. To facilitate the mainstreaming of HIV and AIDS into the sector's core mandates by exploiting our comparative advantage in the response.

1.5 Policy Guiding Principles

The *Commercial, Trade and Industrial Policy* is premised on the following guiding principles, which serve as the foundation for the development of sector:

- a. **Economic growth:** The policy recognizes the importance of international trade in stimulating economic growth, particularly in developing countries. By expanding exports, countries earn additional incomes which can finance the importation of goods - such as machinery, raw materials, and intermediate inputs - needed in domestic production processes.
- b. **Poverty reduction:** The policy also recognizes that trade can serve as a vital tool for addressing poverty reduction. In Zambia, international trade, particularly in regional markets, can contribute to raising average incomes and consumption levels of poor households which are often engaged in agricultural production.
- c. **Enabling economic environment:** The Government also re-affirms its commitment to the development of a conducive economic environment to attract additional investments for the domestic economy. The broad goals of the Private Sector Development (PSD) reform program are mainstreamed in this current policy.
- d. **Competitiveness of domestic firms:** Improving the productive capacities and competitiveness of domestic firms also serves as a regular theme in this policy document. With the increased level of sub-regional integration, domestic firms (particularly MSMEs) must adopt modern technologies and improve their competitiveness particularly in regional markets.
- e. **Export diversification:** The Government recognizes the importance of diversifying production away from the existing high level of dependence on a few commodities. Emphasis is therefore placed on product diversification as well as diversification of export market destinations.
- f. **Employment creation:** The various policies and strategies discussed in the subsequent chapters are also aimed at the expansion of domestic employment opportunities, and the creation of sustainable livelihoods.
- g. **Improving human capital and technical skills:** In order to sustain growth in productive sectors of the economy, the Government also recognizes the importance of investing in skills training of the domestic labour force. Improving the quality of skills domestically can support an expansion of productive capacities, and increase the utilization of available local manpower.
- h. **Competition, fair-trading and protection of consumer welfare:** The policy also discusses various Government measures and strategies which are to be implemented to minimize anti-competitive practices in the economy, to ensure fair trading practices, and to protect the welfare of domestic consumers.
- i. **Environmental protection:** This current policy also supports the growth of environmentally-friendly industries in Zambia, in order to ensure sustainable development.

1.6 Outline of the Policy document

The remaining parts of this policy document are organized as follows. Chapter 2 provides a substantive discussion of the *Industrial Policy*. It presents the priority sectors identified by the Government, and provides details of specific Government interventions and strategies for various industrial sectors. The *Commercial and Trade Policy* is provided in Chapter 3 of this document. In Chapter 3, the various trade arrangements in which Zambia participates are briefly presented, and specific government policies on trade issues are presented. Chapter 4 presents the issues on investment in Zambia. Chapter 5 presents various thematic or cross-cutting issues which affect domestic activity in trade and industry sectors, such as: R&D and technology transfer, skills training, citizens economic empowerment, and

HIV/AIDS. Chapter 6 outlines an implementation framework to be used in achieving the desired goals of the policy. It presents the prescribed mechanisms that should ensure the successful implementation of the policy, such as the institutional arrangements, a legal framework, and the monitoring and evaluation system.

2.0 INDUSTRIAL POLICY

2.1 Introduction

2.1.1 Policy Context

The industrial sector comprises eight sub-sectors, namely food, beverage and tobacco; textile and leather products; wood and wood products; chemical, rubber and plastic products; non metallic mineral products; basic metal products; fabricated metal products; paper and paper products. The manufacturing sector forms an important component of total NTEs, and also contributes to total annual GDP. The share of manufacturing in GDP was estimated at 11.8 per cent in 1998, but declined to 11.0 per cent in 2004. The share of non-traditional exports in Zambia's total exports has increased from about 8 per cent in 1990 to about 38 per cent in 2004. Sustained growth of the NTE sector is important if Zambia is to achieve its goals of economic diversification and economic growth targets. Sustained economic growth is also needed to create jobs in the domestic economy and also tackle the high levels of poverty. This current industrial policy identifies various areas of government support aimed at providing an enabling environment to develop Zambia's industrial sector.

Table 1: Composition of Manufacturing Sector GDP, 2001-2006 (in ZMK 'billions)

<i>Sub-sector</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>Average (2001-6)</i>	<i>Average share in Total Manufacturing GDP</i>
Food, beverage and tobacco	164.0	172.8	187.7	197.3	205.7	215.0	190.4	60.0
Textiles, leather and leather products	46.8	49.7	51.3	52.4	48.9	48.7	49.6	16.7
Chemicals, rubber and plastics	22.8	25.1	26.4	28.8	29.5	31.5	27.4	8.6
Wood and wood products	20.3	21.9	24.4	26.1	26.3	24.4	23.9	7.7
Paper and paper products	7.8	8.0	8.6	8.8	9.8	10.0	8.8	2.8
Fabricated metal products	6.0	5.8	6.1	6.4	6.8	7.0	6.35	2.0
Non-metallic mineral products	4.8	4.9	5.6	6.3	6.9	6.0	5.75	1.8
Basic metal products	1.2	1.2	1.4	1.5	1.4	1.4	1.35	0.4
Total Manufacturing	273.7	289.4	311.5	327.6	335.3	344.0	313.6	100.0
Total GDP	2621.3	2707.9	2846.7	2988.9	3,153.5	3,332.0	2941.7	
Share of manufacturing in GDP	10.4	10.7	10.9	11.0	10.6	10.5	10.7	

Source: National Accounts (CSO, 2006)

2.1.2 Challenges

Despite the large endowments of natural resources, recent economic reforms, and preferential market access opportunities, growth of the industrial sector in Zambia has been low due to various supply-side constraints. The major constraint to the expansion of the industrial sector has been weak infrastructure – such as roads, rail, and telecommunication. In addition, other factors adversely affect the competitiveness of domestic manufacturing sector, such as: comparatively high transportation costs (due to Zambia’s landlocked status), high costs of essential inputs; lack of improved manufacturing technology; and lack of access to finance. More generally, there is also the need to develop a favourable investment climate to support growth in the industrial sector. Improving the domestic investment climate requires sustained government reforms to provide a stable macroeconomic environment, to support the removal of administrative barriers to businesses, and to improve existing regulatory frameworks.

2.2 Vision and Rationale

2.2.1 Vision

The goal of the national industrial policy is:

To develop a competitive, export-led manufacturing sector that contributes 20 per cent of GDP by 2015

2.2.2 Rationale

The manufacturing sectors accounted for about 11 per cent of GDP over the period 2001-2004. The manufacturing sector also recorded modest growth rates over the same period. Expansion of the industrial base is however needed if Zambia is to increase annual economic growth rates, and also attain national poverty-reduction objectives. This current policy framework anticipates an expanding manufacturing sector which contributes to about 20 per cent of GDP by 2015.

The current industrial policy also aims at developing a competitive and export-led manufacturing sector in Zambia. With increasing regional integration in the southern African region, domestic firms must remain competitive and also penetrate foreign markets. To stay competitive, domestic firms must adopt new production technologies, minimize their input costs, and also operate in a stable macroeconomic environment. Moreover, to achieve an export-led strategy, the Government will support the activities of domestic firms to fully utilize available preferential trade arrangements – such as the SADC Trade Protocol, the COMESA Free Trade Area, AGOA, and the EU Everything-but-Arms Initiative.

2.3 Priority Sectors

By targeting high priority sectors, providing appropriate incentives, and sustaining an appropriate enabling environment, the Government can facilitate the activities of the private sector to develop a competitive, and export-led, manufacturing sector.

In this current policy, the Government through consultations with cooperating partners will continue identifying priority sectors and has identified six (6) main priority sectors, namely:

- a. Processed Foods
- b. Textiles and Garments

- c. Engineering Products
- d. Gemstones
- e. Leather and Leather Products
- f. Wood and Wood Products

By providing targeted incentives and supervision to these sectors, the Government will support private sector activities in these priority areas to improve production, generate export earnings and create employment opportunities within the Zambian economy.

2.3.1 Processed Foods

Context

The processed foods sub-sector is the largest in the Zambian manufacturing industry, and currently accounts for about 60 percent of the total manufacturing GDP.

Table 2: Contribution of Processed Foods sub-sector to total Manufacturing GDP at Constant 1994 Prices (in ZMK 'billions)

	2001	2002	2003	2004	2005	2006	Average (2001-4)	Average share in total manuf. GDP
Processed Foods	164.0	172.8	187.7	198.6	205.7	224.0	192.1	61.0
Total Manufacturing	273.7	289.4	311.4	325.9	335.3	354.6	315.0	100.0
Total GDP	2621.3	2707.9	2846.7	2,999.2	3,115.9	3,351.7	2,947.1	

Source: National Accounts (CSO, 2006)

The major products in this sector are processed foods such as sugar, wheat flour, stockfeeds, and maize meal. Due to its dependence on agriculture, this sector provides significant backward and forward linkages, and contributes to employment creation and export diversification. In 2004, the sector contributed USD50 million to total exports earnings, and accounted for 11 per cent of total NTE. The major export destination for Zambian processed food were (in order of importance): DRC, Kenya, Portugal, Rwanda and Burundi.

Policy Objectives

- i. To promote domestic value-addition, by enhancing production capacities of the food processing sector;
- ii. To improve quality and competitiveness of Zambian processed foods in both domestic and international markets;
- iii. To secure favourable market access requirements for the food processing sector, particularly in regional markets.

Policy Prescriptions

- i. The Government will promote Zambia as a hub for agro-processing centre in the southern African region by upgrading infrastructure in agro-processing centres;
- ii. The Government will support investments in standards and certification infrastructure to assist in improving the quality of local processed foods;
- iii. The Government will secure preferential access to foreign markets for Zambian processed foods, particularly in regional trade agreements;

- iv. The Government will strengthen the agro processing alliance comprising various stakeholders (government, farmers and processors) to examine challenges faced by the sector, and to improve dialogue between farmers and the industry.

2.3.2 Textiles and Garments

Context

The textile and garments industry is the second largest contributor to the manufacturing sector GDP (see table 3 below). Activities in this sector are often labour-intensive, and thus could contribute significantly to employment creation for both skilled and unskilled labour.

Table 3: Contribution of Textiles, leather and leather sub-sector to total Manufacturing at Constant 1994 Prices GDP (in ZMK 'billions)

	2001	2002	2003	2004	2005	2006	Average (2001-6)	Average share in total manuf. GDP
Textiles, leather and leather products	46.8	49.7	51.3	50.3	48.9	48.2	49.2	15.6
Total Manufacturing	273.7	289.4	311.5	327.6	335.3	354.6	315.0	100.0
Total GDP	2621.3	2707.9	2846.7	2999.2	3,155.9	3,351.7	2791.2	

Source: National Accounts (CSO, 2006)

Products of this sub-sector include cotton yarn, manufacturing cloth, and garments. The sector contributed for US\$28 million in export earnings in 2004, and accounted for about 6 per cent of NTE. The major markets for Zambia's textiles industry are regional, primarily South Africa, which has replaced the EU as the primary export destination for Zambian yarn. There has been low utilization of opportunities provided by preferential initiatives such as AGOA, except via the indirect export of yarn to South Africa as input for garments manufacture, and subsequent export to the USA. The textiles sector has however been in relative decline following tariff liberalization policies of the 1990s.

Policy Objectives

- i. To re-vitalize the domestic textile and garment industry;
- ii. To build capacity of MSMEs to process cotton, and other fibres, for the local and export market. Particular emphasis is to be placed on increasing the utilization of preferential trade initiatives.

Policy Prescriptions

- i. The Government will develop a comprehensive reform package for the textile and garment sector by conducting a complete value-chain analysis of the sector; and addressing weaknesses identified at each step of the production chain;
- ii. The Government will impose appropriate duties on second-hand clothes to support development of the domestic garment industry;
- iii. The Government will support the development of an effective textile producers' association to facilitate dialogue between domestic producers and government; and also facilitate the establishment of links between domestic producers and international buyers;

- iv. The Government will support both product and market diversification for textile producers: into high-end, niche garment markets; diversification into the production of other types of fibres; and also diversification into other export destinations.

2.3.3 Engineering Products

Context

The engineering products sector accounted for about US\$65 million in total export earnings (or about 14 per cent of NTE) in 2004. The major products from this sector include: semi-finished and finished non-ferrous metal products (such as copper rods and cables, metal sheets, strips and coils); finished metal by-products (such as radiator ingots and metal railway sleepers); and other engineering products such as cans, drums and carbon brushes.

Table 4: Contribution of Fabricated engineering products to NTE (in ZMK' Million)

	2001	2002	2003	2004	Average (2001-4)	Average share in total NTE
Fabricated engineering products	21.3	22.2	29.1	64.7	34.3	9.4
Total NTE Exports	282.2	350.8	356.3	468.6	364.5	100.0
Total Exports	979.6	893.9	946.3	1457.1	1069.2	

Source: Export Audit Survey (EBZ, 2005)

ZAMEFA serves as the major exporter of Zambian engineering products, accounting for about 90 per cent of export revenues in this sub-sector. Products in this sub-sector are exported primarily to regional markets.

Fabricating industries have many close linkages with mining and other manufacturing sectors. The development of mechanical, electrical and electronic industries to provide basic equipment and machine tools provides the necessary inputs for key sectors such as agriculture, construction, energy generation and transmission, mining, transport and communications. The Zambian engineering industry has the potential to be one of the most important branches of the manufacturing sector. Priority interventions are needed in skills training, and the development of the metal working industry, which includes foundries, forges and other fabricating industries.

Policy Objectives

- i. To support the growth and expansion of the engineering products industry particularly into export markets;
- ii. To facilitate skills training and technological investments in the engineering products sector.

Policy Prescriptions

- i. The Government will ensure stable and secure access to regional markets for Zambian engineering products; and also facilitate the development of business links between domestic producers and major regional purchasers;
- ii. The Government will support skills development by encouraging tertiary institutions to offer specialised training in metallurgy and related disciplines, which are of relevance to the engineering sector;
- iii. The Government will utilize appropriate policy tools to encourage the local processing of scrap metal.

2.3.4 Gemstones

Context

Zambia is endowed with significant deposits of gemstones, such as (in order of importance): emeralds, tourmalines, aquamarines, amethysts, citrines and garnets. Gemstones have great economic potential in this sector, and according to some estimates Zambia currently produces about 20 per cent of global emerald supply. Gemstone mining (both formal and informal) occurs in various parts of the country such as: Ndola Rural, Itezhi tezhi, Kalomo, Lundazi, Mkushi and Mumbwa.

Table 5: Contribution of Non-metallic mineral products to NTE (in US\$'millions)

	2001	2002	2003	2004	Average (2001-4)	Average share in total NTE
Non-metallic mineral products	37.9	62.6	26.3	17.9	36.2	9.9
Total NTE Exports	282.2	350.8	356.3	468.6	364.5	100.0
Total Exports	979.6	893.9	946.3	1457.1	1069.2	

Source: Export Audit Survey (EBZ, 2005)

During the period 2001-4, the sector contributed to about 10 per cent of NTE. In particular, gemstone exports averaged US\$24.3 million over the same period. In 2004, the major destinations for Zambian gemstone exports were: India, Hong Kong, and Thailand.

Informal sources suggest that the actual value of gemstone exports may be higher due to extensive illegal and informal activities in the sector. The World Bank estimates the export potential of Zambia's gemstone sector could be significantly higher than officially recorded. Inadequate government supervision, illegal mining operations and extensive informal trading activities in this sector have inhibited the realization of the full economic potential. A well-organized and effectively supervised gemstone sector can create jobs, increase export earnings, and improve Zambia's reputation in international gemstone trade.

Policy Objectives

- i. To maximise country benefits from gemstones and other related sub sectors. ;
- ii. To improve investment climate of the non-metallic minerals sector, and support increased investments in the extraction and processing of non-metallic mineral products;
- iii. To facilitate efficient trading in the sector, by accelerating the establishment of a gemstone exchange centers;
- iv. To form links with major global purchasers, and improve the international reputation of Zambian semi-precious stones.

Policy Prescription

- i. Government will increase supervision and monitoring of the non-metallic minerals sector
- ii. The Government will pursue a comprehensive strategy, as stated in the Mines and Minerals Act and PRSP, to improve supervision of commercial mining activities in this sector. In particular, the Government will improve its monitoring of production and exports of gemstones;
- iii. The Government will support increased private-sector investments, particularly aimed at improving technologies for extraction and processing of non-metallic mineral products in Zambia;

- iv. The Government will facilitate the establishment of gemstone marketing centres in order to promote efficient exchange of gemstones in Zambia;
- v. The Government will adopt a coherent skills training programme in cutting and polishing gemstones for Zambian workers in the sector;
- vi. The Government will also support the formal promotion and branding of Zambian gemstones in international markets;
- vii. The Government will provide new infrastructure (such as roads, electricity, water supply) in major gemstone mining areas to support commercial activities.
- viii. The Government will assist in providing information to (To consult Ministry of Mines)
- ix. The Government will facilitate and provide geological information and that of value of running small mines to gemstone mine owners

2.3.5 Leather and Leather products

Context

The leather and leather products industry constitutes a relatively small component of the manufacturing sector, but has been identified as a sector with high growth potential (see table 6 below). Major products of this sector include cattle hides, wet blue and crust leather, with Mexico, Korea, China and the United States serving as the major export destinations.

Table 6: Contribution of Leather and leather products to NTE (in US\$'millions)

	2001	2002	2003	2004	Average (2001-4)
Leather and leather products	3.9	4.1	3.4	3.5	3.8
Total NTE Exports	282.2	350.8	356.3	468.6	364.5
Total Exports	979.6	893.9	946.3	1457.1	1069.2

Source: Export Audit Survey (EBZ, 2005)

Activities in this sector are labour-intensive, and thus could contribute significantly to employment creation in the livestock industry. A major constraint to the expansion of the leather industry has been the lack of raw hides and skins for processing by local tanneries, and the occasional incidence of livestock diseases. Potential exists for diversification into niche product sectors (such as the production of crocodile hides), and for the increased utilization of preferential trade schemes.

Policy Objectives

- i. To enhance the production and export of crust, finished leather and leather goods;
- ii. To improve the capacity of MSMEs to produce and process high quality leather and leather products.

Policy Prescriptions

- i. The Government will provide appropriate incentives to support private sector investments in the leather industry, particularly by the establishment of tanneries utilizing modern technologies;
- ii. The Government will establish a hides pricing and grading system to support fair and efficient trading of domestic rawhides;

- iii. The Government will also utilize appropriate policy measures to discourage the export of raw hides and unprocessed skins, when necessary;
- iv. The Government will strengthen the organization of various stakeholder groups in leather sector (comprised of cattle herders, traders, and tannery operators); and provide technical support to these stakeholder groups when necessary.

2.3.6 Wood and Wood Products

Context

Zambia's forests, which cover 9 million hectares of land, are composed of very high value hard woods such as teak, mahogany, rosewood and pine. Wood and wood products however form a relatively small manufacturing sub-sector, accounting for only 7.7 per cent of total manufacturing GDP (see Table 7 below).

Table 7: Contribution of Wood and wood products sub-sector to total Manufacturing GDP (in ZMK 'billions)

	2001	2002	2003	2004	2005	2006	Average (2001-4)	Average share in total manuf. GDP
Wood and wood products	20.3	21.9	24.4	25.4	26.3	26.5	24.1	7.7
Total Manufacturing	273.7	289.4	311.4	325.9	335.3	354.6	315.0	100.0
Total GDP	2621.3	2707.9	2846.7	2,999.2	3,155.9	3,351.7	2,947.1	

Source: National Accounts (CSO, 2006)

In 2004, the sector contributed about US\$4 million to total export earnings, in addition to significant production for the domestic market. Value-added processing of raw timber to products such as particle boards, plywood can assist in increased export revenue and employment creation. At present, the export destination for Zambian wood products is mostly regional, with major markets being: South Africa, Zimbabwe and Botswana. Despite the low level of current production, significant opportunities exist in this sub-sector due to the large natural resource endowment, and preferential access to regional markets.

Policy Objective

- i. To facilitate additional investments in the wood and wood processing sector;
- ii. To build the capacity of MSMEs to process and produce quality wood products;
- iii. To promote the effective management and conservation of Zambia's forests for sustainable development of the wood and wood products.

Policy Prescriptions

- i. The Government will support development of the wood processing sector, by providing incentives for technological investments (e.g. modern machinery, kilning facilities, etc) in the sector;
- ii. The Government will address the problem of fragmentation in the industry by facilitating dialogue between various producers in the wood sector value-chain; and supporting the establishment of a strong alliance of producers in the sector;
- iii. The Government will use appropriate policy measures to discourage the export of raw unprocessed timber;
- iv. The Government will ensure the effective management and sustainable utilization of Zambia's forest reserves.

2.4 Micro, Small and Medium Enterprises (MSMEs)

Policy Context

The development of Micro, Small and Medium Enterprises (MSMEs) is viewed as one of the sustainable ways of reducing the levels of poverty and improving the quality of life of households in wealth and job creation in Zambia. The contribution of MSMEs to employment, growth and sustainable development to the economy is now widely acknowledged. MSMEs are believed to deepen the manufacturing sector, foster competitiveness and help in achieving a more equitable distribution of the benefits of economic growth and thereby help in alleviating some of the problems associated with uneven income distribution. They achieve this by generating more employment for limited capital investment, acting as 'seed bed' for the development of entrepreneurial talent, playing an important role in the training of young people, supplying the lower income groups with inexpensive consumer goods and services and also acting as buffer in time of recession.

Zambia recognised the need to diversify her economy and reduce over-dependency on mining exports. The preferred strategy was import substitution industrialization that was import-dependent and the creation of subsidized Micro and Small Enterprises (MSMEs). This encouraged firms to produce for the domestic market but did little to build the requisite capacity to export and grow.

In 1991, through an Act of Parliament, Government established the Small Industries Development Organisation (SIDO) to promote the Micro, Small and Medium Enterprise sector (MSMEs). SIDO was constituted to cater for financing needs of small-scale companies and individuals and adopted an operation definition of Micro and Small Enterprises (SMEs). In 1996, SIDO was transformed into Small Enterprises Development Board (SEDB) through the 1996 Small Enterprise Development (SED) Act and in 2006 it was amalgamated into the Zambia Development Agency (ZDA) under the ZDA Act No. 11 of 2006.

Policy Objectives

- (i) To develop a comprehensive Micro, Small and Medium Scale Enterprises (MSMEs);
- (ii) To promote the growth and development of Micro, Small and Medium Scale Enterprises in order to create wealth and employment;
- (iii) To increase domestic and foreign investment in the manufacturing sector;
- (iv) To increase and diversify the range of value added products for both the domestic and export markets; and
- (v) Strengthen the linkage between the MSMEs and large manufacturing firms, especially for MSMEs supplying intermediate raw materials and those utilising labour intensive production processes

Policy Prescriptions

- (i) The Government will develop and implement a programme for identification of potential projects and resource mobilization for MSMEs;
- (ii) The Government will sensitize potential and existing MSME owners about the benefits of registering with support organizations (this will facilitate the graduation of the informal sector to formal sector, hence widen the tax base);
- (iii) The Government will promote the establishment of Small Aggregate Initiative (SAI) joint ventures through creation of vertical and horizontal linkages for both competing and non competing products and sensitize MSMEs on the benefits of joint ventures by exposure to successful SAI;
- (iv) The Government will support training of MSMEs in business management and technical skills;

- (v) The Government will develop appropriate institutional and legal instruments to support MSMEs, including the informal sector;
- (vi) The Government will provide special incentives for the MSME Sector i.e. double deductions on tax, wear and tear allowance exemption on customs and duty, etc;
- (vii) The Government will Promote entrepreneurship training in schools and tertiary education curriculum; and
- (viii) The Government will promote the development of incubation centres.

2.5 Rural Industrialization

Context

With the majority of the Zambian population classified as poor and poverty being more prevalent in rural areas as compared to urban areas, industrialization is considered to be one of the sustainable ways of reducing the incidence of poverty and ultimately economic growth.

Rural development plays a very important role in the development of rural areas. It contributes immensely to the development of the rural economy in terms of absorbing rural labour force, slowing urban migration, contributing to national income growth, effective and efficient utilisation of local resources through value addition and promoting a more equitable distribution of income. The importance of rural enterprises is their capacity of generating more employment for limited capital investment, acting as ‘seed bed’ for the development of entrepreneurial talent, playing an important role in the training of young people, supplying the lower income groups with inexpensive consumer goods and services and also acting as buffer in time of recession.

Policy Objectives

- (i) To stimulate economic activity in rural parts of the country, particularly in manufacturing sectors;
- (ii) To develop rural based industrial enterprises; and
- (iii) Develop an appropriate infrastructure in rural areas so as to support small-scale manufacturing, targeting the processing of rural-based primary products.

Policy prescriptions

- (i) The Government will assess the economic potential of rural districts;
- (ii) The Government will development of a comprehensive rural industrialisation policy;
- (iii) The Government will explore market opportunities for rural manufactured goods;
- (iv) The Government will provide incentives for rural industries;
- (v) The Government will encourage the establishment of agro-processing zones, as well as improve infrastructure and the provision of one product one services concept (resource based);
- (vi) The Government will address issues of economic viability and poor infrastructure in order to ensure that more manufacturing entities are established in rural areas; and
- (vii) The Government will establish linkages between agricultural farming blocks, industrial estates, and out grower schemes in order to establish industries close to the raw material source.

3.0 COMMERCIAL AND TRADE POLICY

3.1 Policy Context

Trade policy can serve as an effective tool in stimulating economic growth and reducing poverty in Zambia. In the past decade, the Government of Zambia has embarked on various reforms aimed at simplifying the national trade regime, promoting economic diversification and generating export-led growth. This current trade policy aims at consolidating gains from previous reforms, and ensuring that Zambia maximises potential benefits from its current trade arrangements.

Zambia currently participates in international trade agreements at various levels: multilateral, regional, and bilateral. In addition, the country benefits from various preferential trade arrangements offered by industrial countries. At the multilateral level, Zambia is a Member of the World Trade Organization (WTO), and currently a Member of the Least Developed Country (LDC) country grouping at the WTO. At the regional level, Zambia currently participates in the Common Market for Eastern and Southern Africa (COMESA) free trade area, and is also a signatory to the trade protocol of the Southern African Development Community (SADC). Zambia also participates in the EU-ACP Cotonou Trade Protocol, and benefits from various preferential trade arrangements such as the Everything-but-Arms Agreement (from the EU), the Africa Growth and Opportunity Act (AGOA; from the US), and the ‘Canadian Initiative’.

Within the domestic trade sector, the Government aims at supporting the activities of domestic firms and enhancing the organic growth of domestic trade. The goal is to assist domestic firms to increase their levels of efficiency, and therefore to withstand increasing competition in the domestic market. This current policy discusses government measures which will formalize, monitor and regulate domestic trade activities in order to promote a vibrant domestic trading sector. There is also need to ensure fair competition in the domestic market, and also protect the welfare of consumers.

3.2 International Trade and Commerce

3.2.1 Multilateral Trade

Zambia’s *ad valorem* external tariffs are structured into four bands: 0, 5, 15, and 25 per cent. In 2004, there were an estimated 6,234 tariff lines at the HS eight-digit level. These tariffs are offered on a most-favoured-nation basis to other WTO Member states (see Table 1 below). A few *specific duties* also exist on some products.

Table 8: Structure of Zambia’s Tariffs

Tariff Rates	Tariff lines (%)	Classification
0	20.9	Agricultural Machinery, Pharmaceuticals, some raw materials
5	15.1	Mining and Quarrying, Machinery, some raw materials
15	33.0	Intermediate goods
25	31.0	Final goods including agricultural products

Source: Zambia Trade Statistics (Central Statistics Office; Lusaka, Zambia)

Within the framework of the WTO, Zambia has bound tariffs on all agricultural products at 125 per cent; about 4 per cent of industrial products are also bound at rates ranging between 35 and 60 per cent. Zambia is also actively engaged in negotiations on trade in services at the WTO, as this component of international trade is showing rapid growth.

3.2.2 Regional Trade

Zambia currently participates in the COMESA Free Trade Area, and is also a signatory to the SADC Trade Protocol.

COMESA: COMESA was created from the previous Preferential Trade Area (PTA) for Eastern and Southern African States at the end of 1994. The COMESA Free Trade Area was established in 2000, and is currently comprised of *13 Member States including Zambia*. COMESA aims at deepening regional integration in the future by forming a Customs Union, and adopting a common external tariff (CET) and a common tariff nomenclature (CTN), for imports into the COMESA region.

SADC: The SADC Trade Protocol was signed in 1996 by SADC Member States. The Protocol aims at deepening economic integration in the region by creating a SADC Free Trade Area by 2008. The free trade area is to be achieved by progressive liberalization of intra-SADC trade. As a signatory to the SADC trade agreement, Zambia has offered two separate liberalization schedules to SADC trading partners: a general offer to South Africa; and a differentiated offer to other SADC Member States.

3.2.3 Preferential Trade Arrangements

Zambia also benefits from additional preferential schemes such as the Everything-but-Arms arrangement (from the EU); the African Growth and Opportunity Act (AGOA) from the USA; the 'Canadian Initiative'; as well as other trade preferences provided under the Generalized System of Preferences (GSPs) for developing countries. Zambia also participates in the EU-ACP Cotonou Trade Protocol, and is currently negotiating Economic Partnership Agreements (EPAs) with the EU as part of the Eastern and Southern African (ESA) configuration. EPAs are envisaged to be GATT-compatible, and the current preferential trade scheme under the Cotonou Protocol will gradually be phased into a reciprocal free trade arrangement.

3.2.4 Bilateral Trade Agreements

Zambia recognises the important role that bilateral trade arrangements can play in the enhancement of exports. In this regard, Zambia is currently negotiating bilateral trade arrangements with the Democratic Republic of Congo (DRC), Mozambique, Nigeria, Tanzania and Zimbabwe.

3.3 Domestic Trade and Commerce

The Government also supports the activities of domestic firms with various programs which aims in increasing their levels of efficiency, and thus enable them to withstand increasing competition in the domestic market. There are various government activities and strategies to formalize, monitor and regulate domestic trade activities in order to stimulate a vibrant domestic trading sector. Through appropriate institutions, the government also ensures fair competition in the domestic market, and also protects the welfare of consumers.

3.4 Vision and Rationale

3.4.1 Vision

To become an export-driven and competitive middle-income economy by 2015; and to formalize, monitor and regulate domestic trade activities with a view to promoting a vibrant domestic trading sector.

3.4.2 Rationale

Trade is widely viewed as an important tool for economic growth, which in turn is, a pre-requisite for long-term poverty-reduction. With a small domestic market, Zambia must use its trade policies take advantage of external market opportunities and ensure its successful economic diversification from single commodity dependence. The limited domestic market size and low domestic purchasing power imply that sustained economic growth must be export-led. Active participation in multilateral trade will enable Zambia to take advantage of opportunities in foreign markets, while improving domestic competitiveness. Regional markets also provide additional outlets for Zambian goods. In particular, the geographic proximity of regional markets make them attractive export destinations for products from small and medium enterprises, as well as smallholder farmers. Increased agricultural output from smallholder farmers which is directed at regional market for Zambian goods and services (e.g. in COMESA and SADC) can assist in national poverty-reduction efforts. A vibrant domestic sector is also important to support the activities and improve the competitiveness of domestic firms. Zambia must therefore utilise its trade policy to promote economic growth and diversification, and also to address current poverty-reduction goals.

3.5 Objectives

Specific policy objectives and prescriptions are discussed under six main clusters as follows: International Trade; Policy Instruments; Trade Expansion and Diversification; Facilitation of Trade; Commercial Services; and Domestic Trade.

3.5.1 International Trade

1. Multilateral Trade – The World Trade Organization

Context:

Multilateral trade encompasses Zambia's trade within the framework of the World Trade Organization (WTO). Under the WTO, trade is concluded under the principle of the Most Favoured Nation (MFN).

Policy Objectives:

- i. To improve export opportunities for Zambian producers by negotiating for global reduction in tariffs, and the elimination of non-tariff barriers, for Zambian goods;
- ii. To secure duty-free and quota-free market access for Zambian goods into developed country markets within the multilateral framework;
- iii. To seek reduction in export subsidies and domestic market support in developed country markets, particularly in cases where such subsidized products compete with Zambian products;

Policy Prescriptions:

- i. The Government will seek improved market access for Zambian products to important export markets;
- ii. The Government will also support the elimination of various forms of exports subsidies and domestic support in developed countries, which tend to distort competitiveness in international markets;
- iii. In considering additional areas of negotiations under the WTO, the Government shall conduct thorough internal studies to assess potential benefits and costs to Zambia before engaging in further discussions.
- iv. The Government will Cooperate with Africa Union, the LDC group, and other like-minded groupings in pursuing national trade goals;
- v. The Government will domestic Bilateral, Regional and Multilateral Trade Agreements.

2. Economic Partnership Agreements (EPAs)

Context:

Zambia is currently negotiating Economic Partnership Agreements (EPAs) with the EU, which are envisaged to be a reciprocal trade arrangement, replacing the previous preferential schemes as under the Lome and Cotonou Agreements.

Policy Objectives:

- i. In negotiating EPAs with the EU, to ensure that Zambia maintains and expands existing preferential market access into EU markets;
- ii. To ensure that any reciprocal trading arrangement with the EU minimizes adverse effects on Zambia's tariff revenue, and domestic industry.

Policy Prescriptions:

- i. The Government will actively engage in EPA negotiations with the EU under the Eastern and Southern Africa (ESA) configuration;
- ii. In negotiating EPAs, the Government will strive to maintain Zambia's existing preferences (the *Lome acquis*) at the minimum, while protecting sensitive domestic industry;
- iii. GATT Article XXIV – and definition of substantially all trade;
- iv. The Government will also negotiate long phasing-in periods to minimize adverse shocks on Zambia's tariff revenue;
- v. The Government will also seek a development dimension in the negotiation of EPAs, and link trade liberalization with the EU to the provision of additional technical assistance and technology transfer support from the EU.

3. Regional Trade

Context:

Zambia actively engages in trade with other countries in the eastern and southern African sub-region; and participates in two regional trade arrangements, namely: the COMESA Free Trade Area and the SADC Trade Protocol. Regional trade currently accounts for about 60 per cent of Zambian imports, and about 30 per cent of Zambian exports.

Policy Objectives:

- i. To enhance Zambia's participation in regional trading arrangements with countries in the eastern and southern African region;
- ii. To enable Zambian products to compete freely in regional markets;

Policy Prescriptions:

- i. The Government will ensure that Zambia actively participates in its regional trade arrangements and protocols;
- ii. The Government will negotiate flexible *rules of origin* requirements with regional trade partners which ensure that domestic producers are able to access regional markets.
- iii. The Government will provide incentives / conditions for local manufacturers to take advantage of regional markets;
- iv. The Government will conduct comprehensive internal assessments in considering whether to enter into a Customs Union arrangement with its regional trading partners.

4. Bilateral Trade

Context:

Zambia recognises the important role that bilateral trade arrangements can play in the enhancement of exports. In this regard, Zambia is currently negotiating bilateral trade arrangements with the Democratic Republic of Congo (DRC), Mozambique, Nigeria, Tanzania and Zimbabwe.

Policy Objectives:

- i. To secure access to important markets using bilateral trading arrangements, with a view to encouraging foreign direct investment (FDI) flows, and strengthening business cooperation and transfer of technology.

Policy Prescriptions

- i. The Government will effectively utilize bilateral trade policies (including participation in Joint Permanent Commissions) to seek improved market access with strategic trading partners.

5. Other Preferential Trade Arrangements

Context:

Zambia currently benefits from a number of unilateral preference schemes granted by various industrial countries and other emerging economies such as China.

Policy Objectives:

- i. To ensure the Zambian private sector takes full advantage of market access opportunities provided by preferential schemes such as the African Growth and Opportunity Act, the Everything-but-Arms Agreement, and other Generalized System of Preferences (GSP).

Policy Prescriptions:

- i. The Government will work closely with the private sector to identify and promote specific exports which can benefit from existing preferential schemes available to Zambia.
- ii. The Government will negotiate for additional duty-free and quota-free access to foreign export markets.

3.5.2 Policy Instruments

6. Duty Drawback Scheme

Context:

Duty drawback schemes essentially provide a refund on import taxes on imported inputs used in manufacturing goods for exports. The existing duty drawback scheme in Zambia is often viewed by the private sector as being inefficient, and slow, in providing tax refunds.

Policy Objective:

To ensure the efficient operation of the current duty drawback scheme in Zambia.

Policy Prescription:

- i. The Government, through the Zambia Revenue Authority and MoFNP, will work closely with the private sector to improve the mode of operation of the duty drawback scheme to ensure a more timely refund of duties to exporters.
- ii. The Government will establish dedicated fund at ZRA to facilitate efficient administration of duty drawback scheme;
- iii. The Government will establish a temporary admission regime; e.g. manufacturing in bond particularly for frequent and *bona fide* exporters; upon meeting prescribed criteria
- iv. The Government, through Zambia Revenue (ZRA), will conduct client education on the Duty Draw Back Scheme to ensure compliance with the requirements thereby facilitating efficient processing of the duty draw back claims.

7. Tariff Measures: Export Taxes

Context:

Export taxes are often imposed to discourage the exports of specific products. In most cases, export taxes are used by countries to promote domestic value-addition by preventing the export of unprocessed, raw materials – such as rawhides, timber logs, et cetera. Revenue generated from export taxes may be used in supporting research and training in value-added processing of exported raw materials.

Policy Objective:

- i. To promote domestic value-addition, the Government will use export taxes in selected cases where the export of particular unprocessed materials is not desired.

Policy Prescription:

- i. The Government will based on comprehensive internal assessments, and in consultation with the private sector may impose temporary or long-term export taxes on particular products, as a means of promoting value-addition to the specified product.

8. Tariff Measures: Import Duties

Context:

Tariffs serve as the major trade policy tool in Zambia. Currently, Zambia's MFN tariff structure is comprised of four bands: 0 percent, 5 percent, 15 percent, and 25 percent – for raw materials, capital goods, intermediate goods and finished products respectively (see Table 1). Although tariffs may be used to provide temporary protection to domestic industries, they may also create an anti-export bias if they raise input costs for Zambian exporters above world market prices.

Policy Objective:

- i. Zambia must use its tariff policy prudently to support the development of selected infant industries, while minimizing adverse effects to domestic exporters and consumers resulting from undue 'protection'.

Policy Prescriptions:

- i. The Government will actively work towards establishing a Tariff Commission in Zambia to oversee, and periodically review, tariff administration issues;
- ii. The Government will ensure that future tariff amendments in Zambia are based on comprehensive internal assessments, which are conducted in partnership with the domestic private sector.

9. Non-Tariff Measures

Context:

Non-tariff measures refer to various measures, which may be used to restrict imports into a country. These may range from quantitative restrictions (such as quotas) to various administrative requirements (such as import licenses), and stringent standards and quality requirements. Within the framework of the WTO, countries are encouraged to reduce, and ultimately eliminate, their non-tariff measures; and also to convert quotas into their equivalent tariffs.

Policy Objective:

- v. To minimize distortions in the local economy resulting from non-tariff measures.

Policy Prescription:

- i. The Government will use import licenses and controls in a clear and transparent manner; particularly, in cases where there are proven concerns, on grounds of health, public safety, environmental protection, national security;
- ii. Government will utilise quotas and tariff-quotas only in circumstances where other instruments (such as tariffs) fail to adequately address issues but will ensure that these are consistent with her international obligation.

10. Rules of Origin

Context:

Rules of Origin refer to a set of criteria used in determining the country of origin of a particular good. These rules are important for tariff preference purposes, particularly in the case of preferential or regional trade agreements. Misapplication of rules of origin may result in abuse of preferential schemes; whereas excessively stringent rules may reduce trade flows.

Policy Objectives:

- i. To negotiate simple and transparent rules of origin which promote Zambian exports in preferential trade arrangements;
- ii. To ensure that imports into Zambia conform to rules of origin

Policy Prescription:

- i. Government will actively engage in negotiations with its preferential trading partners, to develop simple and transparent rules of origin.

3.5.3 Trade Expansion and Diversification

11. Export Promotion

Context:

In pursuing an export-led growth strategy, Zambia must identify and actively promote specific products for which Zambia has a competitive advantage

Policy Objective:

- i. To encourage domestic value-addition, and promote the export of high value products. High priority export products include: fresh vegetables, tobacco, gemstones, cotton and cotton yarn, leather products, fresh flowers, sugar and oil cakes.

Policy Prescriptions:

- i. The Government in conjunction with the Private sector will identify new markets and improve access to existing regional and international markets;
- ii. The Government will work closely with the private sector to provide support services and incentives that promote export diversification, encourage value-addition in export products, and also improve the quality of Zambian export products;
- iii. The Government will strengthen capacity of export promotion institutions to conduct research on product and market diversification for domestic Zambian firms.

3.5.4 Trade Facilitation

13. Customs Valuation and Clearance of Goods

Context:

Valuation of goods at Zambia's borders must be conducted using transparent and uniform procedures. Clearance of goods must also be carried out promptly: delays in clearance at borders impose costs on Zambian traders.

Policy Objective:

- i. To ensure accurate valuation, and prompt clearance, of goods at Zambia's ports.

Policy Prescriptions:

- i. The Government, through the Zambia Revenue Authority will simplify border procedures, and expedite clearance of goods at Zambia's borders;
- ii. The Government will establish a *one-stop shop* to ensure efficient border clearance procedures such as the green light for goods in transit;
- iii. The Government will work towards ensuring that Zambia achieves one of the fastest clearing times in the sub-region.

14. Goods in Transit

Context:

Zambia's central location in southern Africa makes the country an important transit route within the sub-region.

Policy Objective:

- i. To improve transit facilities and procedures in Zambia, and thus facilitate commerce within the sub-region.

Policy Prescriptions:

- i. The Government will facilitate the efficient transit of non-Zambian goods through the country, while preventing the leakage of such merchandise into the domestic economy.
- ii. The Government will investigate feasibility of green channel subject to administration.

15. Technical Barriers, Sanitary and Phyto-sanitary Measures relating to Imports

Context:

Various quality standards are applied to Zambian imports to make sure that national health requirements, environmental standards, and public safety are not adversely affected. However, onerous standards requirements may impose welfare costs on both domestic producers and consumers.

Policy Objective:

- i. To ensure that Zambia maintains rigorous technical standards in conformity with national environmental, and public health requirements.

Policy Prescription:

- i. The Government will encourage the prompt assessment of imports to ensure conformity with domestic standards requirements

16. Standards, Quality Assurance, Accreditation and Metrology

Context:

In order to access, and also remain competitive in international markets, Zambian exports should meet the standards and quality requirements of their export destination countries. Weak standards infrastructure prevents Zambian exporters from fully utilizing international market access opportunities.

Policy Objective:

- i. To ensure improved testing and conformity assessment facilities in Zambia, and thereby improve utilization of preference schemes available to Zambian exporters.

Policy Prescriptions:

- i. The Government will work closely with the private sector to improve standards development, testing and conformity assessment in Zambia;
- ii. The Government will establish strategic alliances with international Standardization, certification Quality, Assurance, accreditation and Metrology bodies which will help improve Zambia's compliance with regional and international standards and technical regulations requirements.

17. Export Finance

Context:

In pursuing an export-led growth strategy, it is important to provide various financial facilities to support export activities of the domestic private sector. Such facilities include: export credits, export insurance, and export guarantee schemes.

Policy Objective:

To ensure that domestic firms have easy access to export finance facilities.

Policy Prescription:

- i. The Government will work closely with domestic financial institutions, as well as multilateral development banks, to develop export finance facilities for domestic firms.

- ii. The government will facilitate the establishment of an export credit guarantee scheme;
- iii. The Government will establish an export finance facility to avail financing to small and medium businesses.

18. Productive Infrastructure

Context:

Efficient domestic productivity requires proper infrastructure such as roads, rail and airports, information and communication technology infrastructure, and utility services.

Policy Objective:

- i. To ensure adequate and well-maintained infrastructure in Zambia which supports domestic production, and also stimulates direct foreign investments in Zambia.

Policy Prescription:

- i. The Government will work closely with the private sector, as well as multilateral development institutions, to improve and maintain productive infrastructure in Zambia.

3.5.5 Commercial Services

19. Trade in Services

Context:

Trade in services is rapidly emerging as an important component of global commerce, and accounts for about 20 per cent of total world trade. Zambia must ensure that private sector explores opportunities available in the services sectors, as part of the country's overall economic diversification efforts. Some important sectors include tourism, transport, financial services, construction, telecommunications et cetera. For services exports, it is important to examine the national potential beyond the tourism sector. In the domestic economy, improving quality and lowering costs of available ancillary services can greatly improve the competitiveness of local firms. Such ancillary services include – financial, telecommunications, energy, logistics and other services required by businesses. A vibrant and efficient domestic services sector can greatly contribute to the development of a dynamic and competitive investment environment.

Policy Objectives:

- i. To support the development of services exports particularly in the tourism sector, as well as other potential sectors;
- ii. To promote the development of a vibrant domestic services sector which delivers efficient services at competitive costs for domestic businesses and consumers;
- iii. To provide an enabling regulatory environment to support additional investments in the domestic services sectors.

Policy Prescriptions:

- i. As part of the PSD reform program, the Government will conduct various regulatory reforms to encourage additional investments in the domestic services

- sector; and ensure the provision of high quality services at competitive prices to domestic businesses and consumers;
- ii. The Government will conduct periodic domestic assessments of the Services sector, and improve the capacity of the Ministry of Commerce, Trade and Industry, to monitor Zambia's services export potential;
 - iii. The Government will negotiate effective trade agreements at the multilateral, regional and bilateral levels, to ensure Zambia secures benefits from international trade in services. Particularly in multilateral context, the Government will pursue potential benefits to be obtained for Zambia from the liberalization of the temporary movement of natural persons (Mode IV);
 - iv. The Government will sensitize domestic stakeholders on the potential benefits of trade in services.

3.5.6 Domestic Trade

20. Registration of Businesses and Trade Licensing

Context:

The administrative and regulatory procedures involved in establishing, locating and operating a business are burdensome, increasing the cost of doing business in Zambia. A regulatory framework was developed in the 1990s to respond to increasing competition and the liberalisation of the economy. However, the focus was placed mostly on increasing compliance in the formal sector, rather than rationalising and streamlining administrative procedures. This has resulted in a regulatory system that is complex, cumbersome and poorly coordinated. Domestic firms operating in the trading sector also need to obtain appropriate trade licenses for their operations.

Policy Objective:

- i. To rationalise and streamline administrative procedures needed for the establishment of businesses in Zambia;
- ii. To formalize, monitor and regulate domestic trade activities with a view to promoting and stimulating a vibrant and orderly domestic trading sector through the issuance of trade licenses.

Policy Prescriptions:

- i. The Government will simplify administrative procedures, and reduce the number of licenses required for domestic enterprises to establish and operate their businesses;
- ii. The Government will maintain flexibility in Trade Licensing Act to reflect prevailing economic conditions;
- iii. The Government will conduct periodic sensitisation campaigns on legal requirements of appropriate trading licences;
- iv. The Government will enhance coordination among all relevant departments and agencies involved in the issuance of trade licenses.

21. Promotion of Local Products

Context:

The consumption and use of locally produced goods and services will ensure that domestic firms expand their output and improve their competitiveness in the Zambian economy. The promotion of local products is also important for the development of MSMEs which need to grow domestically, and subsequently, compete in regional markets.

Policy Objective:

- i. To promote the consumption of locally produced goods and services in order to increase domestic demand for Zambian goods and services; and increase their market share.

Policy Prescriptions:

- i. The Government will encourage the branding of locally produced goods and services;
- ii. The Government will maintain its support for the *Buy Zambian Campaign*, in order to ensure that locally manufactured goods and services compete favourably in the domestic market, while becoming competitive on the international markets.
- iii. The Government will endeavour to procure quality goods and services from local suppliers and providers of services
- iv. The government will encourage the participation of locals in contracts awarded to foreign contractors

22. Trade Remedies

Context:

Trade remedies refer to various policy instruments available to countries, which may be used to protect domestic firms and consumers from injury, due to sudden import surges. These instruments include: safeguard measures, subsidies and countervailing duties, and anti-dumping legislation, separate policy objectives of safeguards and countervailing.

Policy Objective:

- i. To protect local industry from the adverse effects of surges in imported goods.

Policy Prescriptions:

- i. The Government will review the Control of Goods Act, and ensure the appropriate implementation of various trade remedies when necessary;
- ii. The Government will strengthen the capacity of stakeholders – both within the public and private sector – to identify and address cases when trade remedies are required;
- iii. The Government will establish a Tariff Commission to oversee the implementation of trade remedies when appropriate.

23. Procurement Monitoring

Context:

As part of empowerment of local citizens, it is important to provide procurement opportunities to domestic suppliers to support expansion of their operations. The mining sector, in particular, forms a major component of the Zambian economy, and the provision of various supplies and services to this sector must be conducted in a fair and transparent manner which avoids anti-competitive practices.

Policy Objective:

- i. To ensure fair competition between local and foreign suppliers in the provision of goods and services to the Zambian mining sector.

Policy Prescriptions:

- i. The Government will facilitate effective dialogue between various mine suppliers; and mine owners;
- ii. The Government will continuously align relevant legislation to address concerns raised by the business community in the mine sector.
- iii. The Government will encourage corporate social responsibility

24. Consumer Welfare

Context:

The Ministry of Commerce, Trade and Industry is tasked with ensuring the welfare of both domestic firms, and also consumers. International trade improves consumer welfare by providing access to a greater variety of goods, at relatively lower prices. The welfare of consumers may however be reduced by the presence of inferior goods, as well as anti-competitive practices, in the domestic economy.

Policy Objective:

- i. To protect the welfare of domestic consumers.

Policy Prescriptions:

- i. The Government will strengthen the Competition and Fair Trading Act, develop a Consumer Protection Act, and harmonize all existing consumer protection legislation;
- ii. The Government will monitor the domestic market and address any adverse effects on consumer welfare;
- iii. The Government will build human and institutional capacity – among all relevant stakeholders – in addressing issues relating to consumer welfare.

25. Competition and Fair Trading

Context:

Anti-competitive practices by local and foreign firms result in welfare losses to domestic consumers who are likely to pay higher prices for goods and services.

Policy Objective:

- i. To promote fair-trading and competitive practices which promote economic efficiency in domestic markets, and ensure welfare gains (in better quality goods and services) to consumers.

Policy Prescriptions:

- i. The Government will prevent anti-competitive practices between firms, or restrictive activities by a single firm, which prevent fair competition in the Zambian economy;
- ii. The Government will ensure that there are no *onerous* barriers to entry and exit for firms operating in the Zambian economy.
- iii. The Government will endeavour to develop a competition policy

4.0 INVESTMENT PROMOTION

Policy Context

Investment plays a major role in introducing capital, advanced Technology and managerial expertise; increasing government revenue; creating jobs and expanding the trade volume. The Zambia Development Agency (ZDA) is the government institution charged with the responsibility of promoting investment and MSME's activities in the country.

4.1 MAJOR CONSTRAINTS

In spite of the favourable macro economic environment and the Incentives offered to attract investment; Zambia has not been very successful in attracting investment. In comparison with countries in the region, very little of the pledged investment has actually been actualized. A good percentage of foreign investors that have shown interest in investment in Zambia, for instance, have ended up investing in other nations in the region. The following are some of the constraints to attracting investment:

- Shortage of physical and social infrastructure whose Investment requirements have been beyond the financial capability of local private investors or whose rate of return is not attractive to foreign investors or whose rate of return is not attractive to foreign investors e.g. dams, power, roads and other facilities.
- Weaknesses of administration and institutional framework Coupled with unsupportive policies in certain cases.
- Low levels of domestic savings and low foreign private capital inflows.
- Small size of the national budget and the in effectiveness of Regional/sub regional sector trade agreements.
- Lack of a strong and effective institutional framework to Support the private sector.
- Small size of the Zambian market due to small population, the majority of which are poor.
- Landlocked nature of Zambia, which makes it costly to export.
- Wars in neighbouring countries portraying the region as an unfavourable for investment.

4.2.1 Policy objectives

The following policy objectives should be pursued in investment promotion:

To create a dynamic, competitive, stable and predictable Environment in which the private sector can make efficient investment decisions.

To attract a fair share of foreign direct investment flowing into the COMESA and SADC region.

To attract investment to areas with comparative advantage.

Investment incentives will be focused in sectors where studies revealed comparative advantage.

- d) To modernize and rehabilitate plant and equipment.

Policy Prescription

- i Government will create an enabling investment climate.
 - ii The Government will provide stable and non-discretionary environment by reviewing the legal regime for investment promotion.
 - iii The Government will improve infrastructure.
 - iv The Government will strengthen public private sector interaction.
 - v The Government will improve the conduct of public officers who interact with investors in the investment process
 - vi The Government will provide investment incentives.
2. Identify investment opportunities in all parts of the country

The Government will, in collaboration with stakeholders, identify investment opportunities in all parts of the country.

The Government will undertake economic and sector studies, including market surveys with the view to identifying investment opportunities.

3. Government will develop economic infrastructure such as roads, ICT, airport, Rail infrastructure by government investment and/or through Build operate and Transfer framework.

To undertake international marketing of investment opportunities existing in Zambia

The Zambia Development Agency (ZDA) will identify potential sources of both the industrial, agriculture and service sector investment that will lead to job creation and local business growth.

The Zambia Development Agency (ZDA) will develop appropriate prospecting and marketing tools that would be shared with all involved in marketing Zambia to the broader international investor community.

4. To reducing hassles and transactions costs for investors.

The Zambia Development Agency (ZDA) will assist investors navigate the approval and business establishment processes by operationalising the concept of one-stop-shop.

The Zambia Development Agency (ZDA) will identify and highlight obstacles to investment so as to enable government to solve them.

5. To reducing hassles and transactions costs for investors.

The Zambia Development Agency (ZDA) will assist investors navigate the approval and business establishment processes by operationalising the concept to one stop shop.

The Zambia Development Agency (ZDA) will identify and highlight obstacles to investment so as to enable Government to solve them

6. To undertaking research aimed at generating information that would enable investors make investment decisions and for the Zambia Investment Centre's policy advocacy purposes.

The Zambia Development Agency (ZDA) will singularly or in partnership with any intermediary organisation or approved consultant undertake economic studies to assist in determining priority economic sectors and competitiveness.

The Zambia Development Agency (ZDA) will singularly or in partnership with any intermediary organisation or approved consultant undertake economic studies as a mechanism to identify business issues for policy advocacy so as to enhance the investment climate.

7. Review whole of relevant characteristic of Zambia as an investment of Zambia as an investment destination.

Government, in collaboration with stakeholders, will address all areas with potential to negatively affect the growth of business in Zambia.

8. Articulate strategies to achieve specific objectives including ensuring substantial participation by indigenous people in the domestic economy as a means of local empowerment.

4.4 Multi-facility Economic Zones

Context:

Multi-facility Economic Zones (MFEZ) are widely used by Government to stimulate export activities, technology and skills transfer, foreign exchange earnings and job creation.

Policy Objective:

- i. To support the operationalization of multi-facility economic zones in Zambia, as a means of promoting Zambia's export-led growth strategy.

Policy Prescriptions:

- i. The Government will revise the current EPZ Act, and actively support the establishment, and successful operations of multi-facility economic zones in Zambia;
- ii. The Government will periodically review various investment incentives provided to firms operating within multi-facility economic zones to ensure that they remain competitive in international markets while contributing to the domestic Zambian economy.

5.0 THEMATIC ISSUES

In addition to the proposed Government strategies and programs discussed in Chapters 3 and 4, there are additional planned interventions which are cross-cutting in nature. These include domestic institutional reforms and Government support programs where the benefits are not limited to any particular sector or sub-sectors. This chapter presents a number of broad thematic issues which are vital for the successful implementation of the Government's *Commercial, Trade and Industrial Policy*. The issues discussed are: an Enabling Economic Environment, R&D and Technology Transfer, Citizens Economic Empowerment, Human Capital Development and Skills Training, International Development Cooperation, Environmental Safety and HIV/AIDS.

5.1 Enabling Economic Environment

Context

The development of a conducive economic environment to attract additional investments for the domestic economy is central to the successful realization of the Government's vision as stated in this policy document. To develop an enabling economic environment, it is important to build upon reform programs of the early 1990s, and to develop strong institutions that support the process of economic growth. Under the current Private Sector Development (PSD) program, various policy and institutional reforms have been identified, including: improving domestic regulatory reform, amending the investment code, and removing administrative barriers to business activities. The existence of weak infrastructure, as well as other supply constraints, prevents the private sector from fully utilizing existing preferential trade opportunities available to Zambia. The PSD Program will therefore encourage the establishment of private-public partnerships to support investments in infrastructure. Other important areas of reform to be addressed include: labour reform, land reform, and improving access to investment finance.

Policy Objectives

- i. To improve the domestic business and investment climate, and thus to attract increased levels of investments in the economy;
- ii. To support the development of adequate infrastructure to support private sector activities.

Policy Prescriptions

- i. The Government will implement reform programs and strategies as specified in the six (6) reform areas of the PSD Program. The six priority areas are: policy environment & institutions, business facilitation and economic diversification, laws & regulations, local empowerment, trade expansion and infrastructure development.
- ii. The Government will ensure the effective coordination of inter-ministerial reforms which are needed for the successful implementation of the PSD reform program.

5.2 Research and Development (R&D) and Technology Transfer

Context

One of the major factors constraining industrial growth is the lack of adequate research and development activities to support the development of new products and processing technologies. The lack of modern scientific techniques and technologies result in an under-utilization of the abundant natural resources in Zambia. In cases where local appropriate technologies are developed,

the lack of adequate dialogue between research institutions and the intended beneficiaries hinder the dissemination of these technologies. There is also an under-investment in domestic R&D as most firms often view such research as costs, rather than long-term investments.

In the industrial sector, the lack of adequate R&D may be partly overcome by the use of imported technology. By importing and adapting foreign technologies, domestic firms can utilize modern industrial technologies and remain competitive in international markets. In other sectors of the economy (such as agriculture), it is important for imported technologies to be adapted to the prevailing domestic conditions in order to ensure sustainable productivity growth.

Policy Objectives

- i. To increase the level of domestic research and development;
- ii. To support the dissemination and implementation of domestic research findings in industrial processes;
- iii. To facilitate the process of technology transfer to support the growth of the domestic industrial sector, particularly firms operating in the MSME sector;
- iv. To promote the use of ICTs by MSMEs in order to boost production and economic activity.

Policy Prescriptions

- i. The Government will provide incentives to support industrial research and development; for example firms will be allowed to treat R&D expenditures as tax deductible;
- ii. The Government will support programmes that enable research institutions to disseminate their research findings more effectively to the private sector;
- iii. The Government will use appropriate measures (such as tariff policies) to support the adoption of modern and appropriate technologies by local firms in order to ensure their competitiveness in international markets;
- iv. The Government will support private sector joint venture projects between local and foreign enterprises aimed at the transfer of technology; and also facilitate the activities of technology business council;
- v. The Government will strengthen the capacity of research institutions such as NISA, TDAU and TEVETA, to collaborate with the private sector in commercially oriented research programs; and also serve as an advisory centre for reliable and quality information on technology policy and planning.

5.3 Citizens Economic Empowerment

Citizen empowerment is anchored as one of the six reform areas of the PSD program. The objectives of this reform program is to unlock the growth potential of citizens through business development support and empowerment initiatives. At present, limited management and technical capabilities inhibit citizen owned manufacturing firms from fully utilizing opportunities in domestic and regional markets. The development of home grown Zambian enterprises is vital for the growth of the Zambian manufacturing sector, and particularly of MSMEs. For example, in the food-processing sector, the growth of Zambian, agro-based, industries can assist in expanding domestic employment opportunities, and also in creating sustainable livelihoods for many.

Policy Objective

- a. To increase participation in business and the economy by citizens;

Policy Prescriptions

- i. The Government will adopt an empowerment policy that aims to promote economic participation and equity among the Zambian citizenry.
- ii. The Government will promote broad based empowerment through various mechanisms such as ownership, procurement, enterprise development programs and human resource development.
- iii. The Government will promote a supportive culture in the public and private sector that encourages broad based empowerment;
- iv. The Government will implement additional support measures as recommended by the Citizens Economic Empowerment Advisory Committee.

5.4 Human capital development and Gender Equality

Context

The development of a skilled work force is important in ensuring utilization of available local manpower, and in sustaining growth in productive sectors of the economy. Although Zambia possesses significant skilled and semi-skilled personnel, there is a general lack of specialized managerial, technical and entrepreneurial skills among the vast majority of Zambians. Furthermore, women remain marginalised in the professional workplace and in private enterprise. Continuous education and training of the domestic labour force is needed to promote gender equality and to ensure that local personnel are kept updated with international best practices. There is also a general reduction in demand for unskilled labour, due partly to the prevalence of labour-saving technologies in most modern industrial operations. The challenge for Zambia is to identify sectors with critical skill shortages and identify strategies to improve skill levels. An additional challenge is to increase representation of women at all levels, from the boardroom to the shopfloor as well as actively promoting more women entrepreneurs. Investments in human capital are essential for supporting growth in productive sectors of the economy.

Policy Objective

- i. To develop skilled and professional personnel in Zambia, and maximise the utilisation of available local manpower in productive sectors of the economy;
- ii. To support the development of vocational, technological and business-related courses in the country's tertiary institutions;
- iii. To promote gender equality in the productive sectors of the economy.

Policy Prescriptions:

- i. The Government will encourage skills development and entrepreneurship in women;
- ii. The Government will encourage the teaching of various vocational, technological and applied skills at the country's tertiary institutions;
- iii. The Government will provide tax incentives for firms providing in-house and external training programs for their employed staff members;
- iv. In the case of MSMEs, the Government will underwrite the costs entrepreneurship or skills training if such training is conducted at bona fide training institutions;
- v. The Government will in conjunction with relevant Government agencies only allow the employment of expatriates with skills not available in Zambia.

5.6 International Development Cooperation

Context:

Zambia currently benefits from various donor projects aimed at improving human and institutional capacity on trade and industrial policy issues. Currently, there are various programs supported by donors and agencies such as UNDP, UNCTAD, ITC, UNIDO, TICAD, the World Bank, and other bilateral donors. South-south cooperation on capacity-building projects and technology transfer can also assist in improving domestic productive capacities. Effective coordination of donor programmes is essential to avoid duplication technical assistance projects in the trade and industrial sectors in Zambia.

Policy Objective

- i. To ensure effective coordination of donor activities in trade and industrial policy issues;
- ii. To develop stronger south-south cooperation ties as a means for providing capacity building and technology transfer.

Policy Prescription:

- i. The Government will actively ensure the coordination of donor projects in its various departments, as well as in other government statutory bodies working on trade and industrial policy issues;
- ii. The Government will develop closer bilateral ties with other countries of the South to provide technical cooperation programs for Zambia.

5.7 Environmental Safety and Protection

Context

In the process of industrialization and economic development, pressure is often placed on the natural surroundings, and could lead to environmental degradation if not properly addressed. Environmental degradation could also have long-term adverse effects on the health of people. Environmental protection issues are relevant for all industrial sectors of the country, but particularly for activities in the mining and food processing sectors. While it is important to protect the environment, impact assessments should not involve burdensome processes and excessively high costs that can act as a barrier to promoting investment.

Policy Objectives:

- i. To ensure that domestic industrial activities are properly supervised to minimise the adverse effects on the environment, while ensuring that government regulations do not serve as an administrative barrier to business;
- ii. To support sustainable and environmentally friendly industrial developments.

Policy Prescriptions:

- i. The Government will support activities of the *Environmental Council of Zambia*, aimed at supervising and minimizing the release of harmful environmental emissions and waste industrial by-products;
- ii. The Government will introduce a standard exceeding fee and emission fee on charged pollutants such as efficiency, gas and solid waste, noise and radioactive;

- iii. The Government will provide incentives to enterprises using wastewater, gas and solid for production;
- iv. The Government will require domestic firms with heavy pollution levels to treat the adverse environmental effects of their pollutants within given timeframes, and impose stiff penalties for non-complying firms.

5.8 Response to HIV and AIDS Pandemic

Context

The HIV/AIDS epidemic currently affects about 16 per cent of the Zambian population (Economic Report, 2006). The impact of the epidemic is most severe on the active workforce of the Zambian population between the ages of 15 and 49 years. The HIV/AIDS epidemic has adverse impacts on the Zambian economy by reducing the productive capacities of the workforce. Particularly in industrial and trade-related activities, high mortality and morbidity rates resulting from HIV/AIDS have a direct impact on economic productivity.

Policy Objectives

- i. To mainstream HIV and AIDS programme into the core mandates of the commercial, trade and industrial sector;
- ii. To formulate relevant policy interventions that contribute to the reduction of staff and stakeholders' susceptibility to HIV infection;
- iii. To explore and implement all possible measures in the preventive and curative approaches of HIV and AIDS at local, regional and global level taking into consideration the WTO and other international trade prescribed guidelines, in the way of fostering the provision and acquisition of pharmaceutical and surgical products related to HIV and AIDS.

Policy Prescription

- i. The Government shall support coordinated, prioritised and knowledge-based scale up of the HIV and AIDS response in the commercial, trade and industrial sector;
- ii. The Government shall coordinate the monitoring, learning and evaluation of HIV and AIDS mainstreaming interventions in the CTI sector;
- iii. The Government shall support the broader goals of the national HIV and AIDS policies and strategies as presented in the Vision 2030, 5th National Development Plan and National HIV and AIDS Strategic Framework 2006-2010;
- iv. The Government shall work with stakeholders in attending to both the immediate and the underlying determinants of staff and stakeholders' susceptibility to HIV infection and also take into account the impact of AIDS in order to adjust their work accordingly;
- v. The Government shall support studies aimed at analyzing the economic cost of various HIV and AIDS impact mitigation interventions and the general impact of the pandemic on various levels of the economy;

- vi. The Government shall encourage and attract investment in the area of HIV and AIDS preventive and curative measures
- vii. The Government will support the broader goals of the national HIV/AIDS policies as presented in the 5th National Development Plan.

6.0 IMPLEMENTATION FRAMEWORK

6.1 Time frame for Implementation

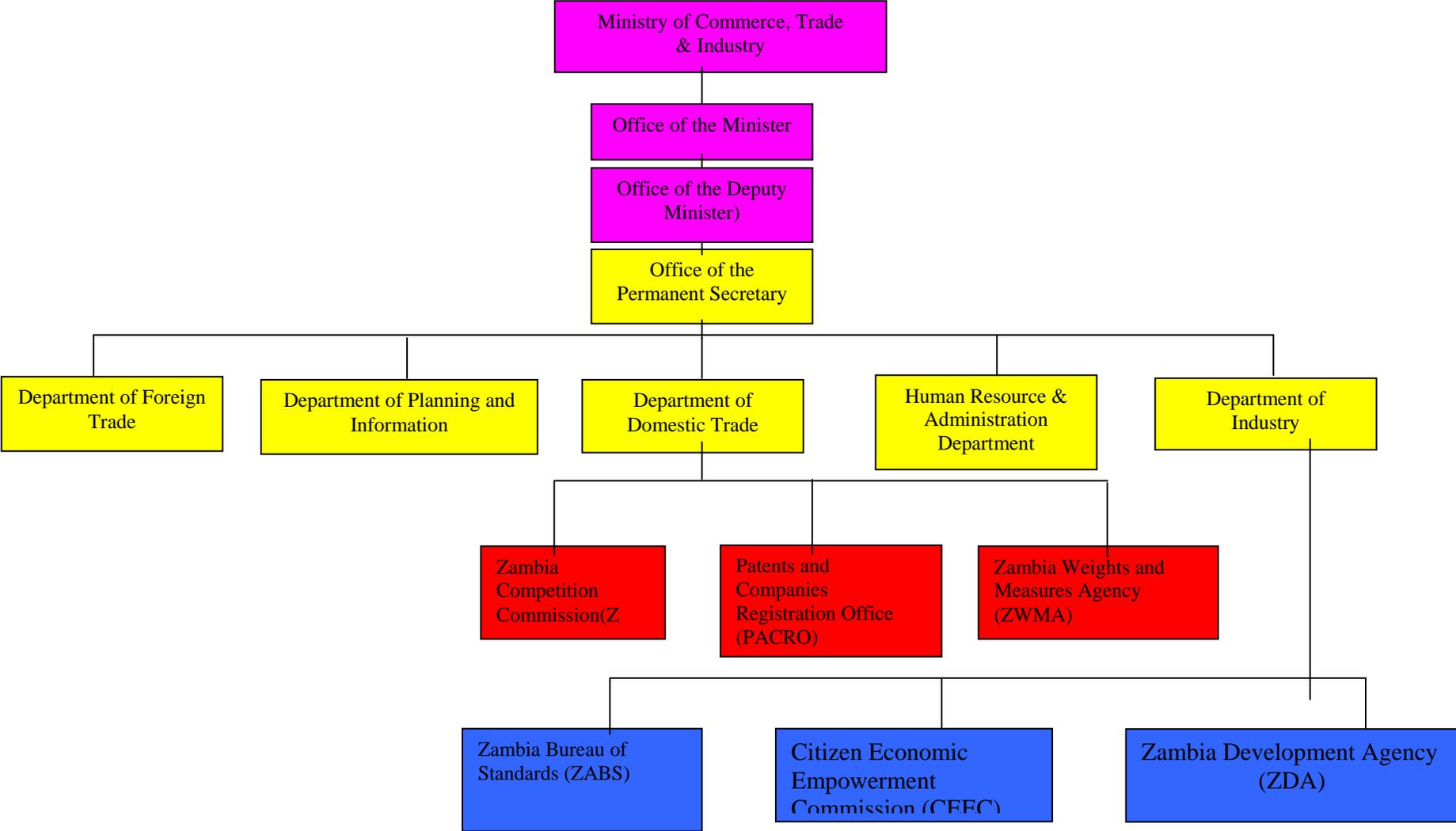
The revised national Industrial, Commercial and Trade policy will be implemented over a ten-year period, beginning in 2006. The Government will work actively towards achieving the goals spelled out in the document. Implementation of the various policies will also be closely aligned with other government initiatives in the Medium Term Expenditure Framework (MTEF), the National Development Plan (NDP), as well as other donor-supported programs, which are conducted in the Ministry of Commerce, Trade and Industry.

6.2 Institutional arrangements

The Ministry of Commerce, Trade and Industry serves as the primary government institution responsible for the implementation of the CTI policy. The Ministry is comprised of four technical departments, and also governs the activities of various statutory bodies under its jurisdiction (see Fig 5.1).

The central mission of MCTI is to promote the growth, development and competitiveness of Industrial, Commercial and Trade sectors in order to enhance socio-economic development. Its goal is to develop a sustainable and globally competitive commercial, trade, and industrial base that should effectively contribute to the social economic development of the country. In pursuing its mission and goal, the Ministry has the primary responsibility of providing an enabling economic environment conducive to the operations of domestic investors and firms. In addition, the Ministry, with its statutory bodies, is mandated to formulate and implement the national Industrial, Commercial and Trade policy.

Figure 6.1: Organizational Chart of Ministry of Commerce, Trade and Industry, and associated Statutory Bodies



6.2.1 Role of MCTI Statutory Bodies

The Zambia Development Agency (ZDA) was established after the enactment of the Zambia Development Agency Act No. 11 of 2006. The ZDA is an amalgamation of the five statutory bodies, namely the Zambia Investment Centre (ZIC), the Zambia Privatisation Agency (ZPA), the Export Board of Zambia (EBZ), the Small Enterprise Development Board (SEDB) and Zambia Export Processing Zones Authority (ZEPZA). It became operational in January 2007. The new Agency undertakes the services previously carried out by these agencies. The main function of the Agency is to foster economic growth and development by promoting trade and investment in Zambia through an efficient and coordinated private sector led economic development strategy.

Zambia Development Agency (ZDA)

Principal functions include,

- a. Attracting and facilitating investment,
- b. Provision and facilitating support to micro and small business enterprises, promotion of exports and internationalism,
- c. Streamlining bureaucratic procedures and requirements faced by investors,
- d. Facilitating industrial infrastructure development and local services
- e. Promoting Greenfield investments through joint ventures and partnerships between local and foreign investors
- f. Promoting and encouraging education and skills training so as to increase productivity in business enterprises
- g. Encouraging measures to increase Zambia's capacity to trade and enable business to participate in competitive global environment
- h. Ensuring that the private sector takes advantage of and benefits from international and regional trade agreements

The Agency therefore is a diversified organisation whose mission is to enhance economic development by attracting and assisting business both independently and through public private partnerships.

Other statutory bodies operating under the supervision of the Ministry of Commerce, Trade and Industry include:

Patents and Companies Registration Office (PACRO)

Principal Functions

- a. Providing a legal framework through which business concerns in Zambia can be established and be able to conduct their commercial transactions;
- b. Protecting the rights of owners of technological information that can be used by scientist, investors, planners and industry;
- c. Providing an accurate and up to date registration service of companies, business names, patents, trade marks and registered designs in Zambia.

Zambia Competition Commission

Principal Functions

- a. Applying and enforcing competition legislation. This includes the handling of applications for negative clearance and notifications for exemptions, as well as control of notified mergers. The commission also takes action against infringements of the prohibitions in the Act;
- b. Proposing changes in administrative regulations restricting competition. When required, it assists other authorities in monitoring adherence to other rules where infringements may have harmful effects on market and competition conditions;
- c. Making market proposals aimed at increasing competition and facilitating entry for new competitors;
- d. Issuing appropriate information concerning competition policy and the application of competition rules in order to promote a “culture of competition” in the market;
- e. Initiating and supporting relevant research within the field o competition.

Zambia Bureau of Standards

Principal Functions

- a. Promote quality product assurance in industry and commerce;
- b. Setting Zambian standards and promoting their use;
- c. Arranging and providing facilities for the examination and testing of commodities;
- d. Providing schemes of export inspection for export commodities;
- e. Providing training and constancy in standardization, quality management and quality assurance.

Zambia Weights And Measures Agency

Principal Functions

- a. Administering the Act and all matters relating to weighing or measuring instruments used in trade;
- b. Keeping and maintaining secondary and working standard and other measuring;
- c. Verifying measuring instruments used in domestic and international trade;
- d. Testing and approving new types of weighing and measuring instrument used for trade which comply with international or national standards;
- e. Investigating any alleged breach of the provisions of this Act;
- f. Collecting and disseminating information on the work of the Agency through publications, seminars, workshops and the print or electronic;
- g. Liaising with regional and international metrological organisations and institutions on matters relating to the promotion of metrology in Zambia;
- h. Providing a uniform system of trade measurement to ensure traceability to international standards;
- i. Establishing laboratories and other facilities to improve maintenance, storage and testing of trade measurement standards;
- j. Examining candidates for a licence to repair, service or install weighing and measures instruments;

Citizen Economic Empowerment Commission

Principal Functions;

- a. advise on the necessary changes to various types of legislation for the effective delivery of economic empowerment initiatives;
- b. promote gender-equality in accessing, owning, controlling, managing and exploiting economic resources;
- c. encourage effective and meaningful participation of targeted citizens in the economy in order to contribute to sustainable;
- d. mobilise resources for economic empowerment programmes;
- e. review the framework for the provision of development services to micro and small businesses in response to changing circumstances;
- f. encourage public and private institutions to provide opportunities to targeted citizens to acquire necessary skills and work experience;
- g. promote the subcontracting of services, materials and equipment from targeted citizens, citizen empowered companies, citizen influenced companies and citizen owned companies; and
- h. monitor and evaluate economic empowerment initiatives.

6.2.2 Inter-ministerial Cooperation and Collaboration

The MCTI will collaborate with other Government institutions and departments, local authorities and other stakeholders involved in the development of the trade and industrial sector. Since the determinants of competitiveness tend to be broad and cross-sectoral, it is important to ensure effective dialogue among government agencies. The Government will therefore emphasise effective inter-ministerial coordination between its various departments to ensure successful implementation of the new Commercial, Trade and Industrial Policy. In particular, the Ministry of Commerce, Trade and Industry will maintain close working relationships with the following institutions:

- i. Cabinet Office: To ensure that all relevant government ministries work jointly towards attaining the vision of a competitive, export-led economy by 2015. Cabinet Office will also ensure that inter-sectoral issues on commerce, trade and industry are effectively addressed by the inter-ministerial Committee of Permanent Secretaries.
- ii. Ministry of Agriculture and Cooperatives (MACO) and Ministry of Lands: To promote the development of industrial focal points and attract ancillary services; to help in establishment of agri-food processing and other related agri-business activities.
- iii. Ministry of Science, Technology and Vocational Training and Ministry of Labour and Social Security: To support efforts in improving research and the development (R&D), technology transfer and skills training in Zambia.
- iv. Ministry of Tourism, Environment and Natural Resources, and ECZ: MCTI will collaborate with MTENR and ECZ on environmental safety and protection issues.
- v. Ministry of Labour and Social Security, Ministry of Sport, Youth and Child Development: To promote good labour practices in manufacturing industries, to collaborate on industrial labour matters such as issues of child labour, discrimination at work places and wages; and to also assist in government programs on skills training and manpower development.
- vi. Local authorities: To ensure adequate coverage of activities, MCTI will continue to work closely with local authorities to assist in decentralization of government programs such as the provision of domestic trade licenses.
- vii. Ministry of Commerce, trade and Industry in collaboration with various ministries

6.3 Resource Mobilization

6.3.1 Role of Government in the Commercial, Trade and Industrial Policy

The principal responsibility of the central Government in the implementation of the policy would be to mobilize domestic resources, and provide the MCTI with necessary financial resources to ensure successful implementation of the proposed government strategies and activities.

6.3.2 Role of Cooperating Partners

The Ministry of Commerce, Trade and Industry will work in collaboration with cooperating partners such as BIPM, the Commonwealth Secretariat, ITC, OIML, ILAC, IAF, IMF, ISO, IEC, UNIDO, UNCTAD, UNDP, the World Bank, and other bilateral donors. The Ministry will participate actively in the activities of regional integration secretariats such as COMESA and SADC; and also in multilateral fora such as the WTO.

The Ministry will coordinate activities of the various cooperating partners to minimize the duplication of technical assistance programs in the trade and industrial sectors. The Government will work closely with cooperating partners to mobilize financial resources and develop technical capacity needed for the growth of the trade and industrial sectors of the *Zambian economy*.

6.4 Legal framework

Improved regulations and laws are paramount in laying the foundation for sustainable economic growth. A sound legal framework always facilitates clear distinction of the various roles played by the various actors in an environment, be it political, social, or economic. Regulatory reform forms a vital priority area under the Private Sector Development (PSD) reform program.

To strengthen the public agencies that support the sector development and to enhance public/private dialogue and effectiveness, The ZDA is intended to ensure more streamlined and efficient delivery of government support services to the domestic private sector.

The Government will also work actively to remove administrative barriers to business entry and operation in order to facilitate development of high potential growth sectors identified in this policy document.

The implementation of the various strategies of the CTI policy may have involve programs which are legally outside the mandate of MCTI. The Ministry will therefore work closely with various institutions to ensure the successful implementation of legal reforms proposed in the policy document.

6.5 Monitoring and Evaluation

MCTI will serve as the principal institution responsible for the implementation, monitoring and evaluation of the CTI policy on behalf of the Government of the Republic of Zambia. Through its departments, and in collaboration with its statutory bodies and the PSD Coordinating Unit, MCTI will periodically monitor progress on the implementation of the CTI policy. The various public/private sector working groups will also examine sectoral issues such as industrial development, commerce and trade, and local empowerment. Working in conjunction with various domestic stakeholders, MCTI will prepare periodic progress reports on the implementation of the CTI policy.