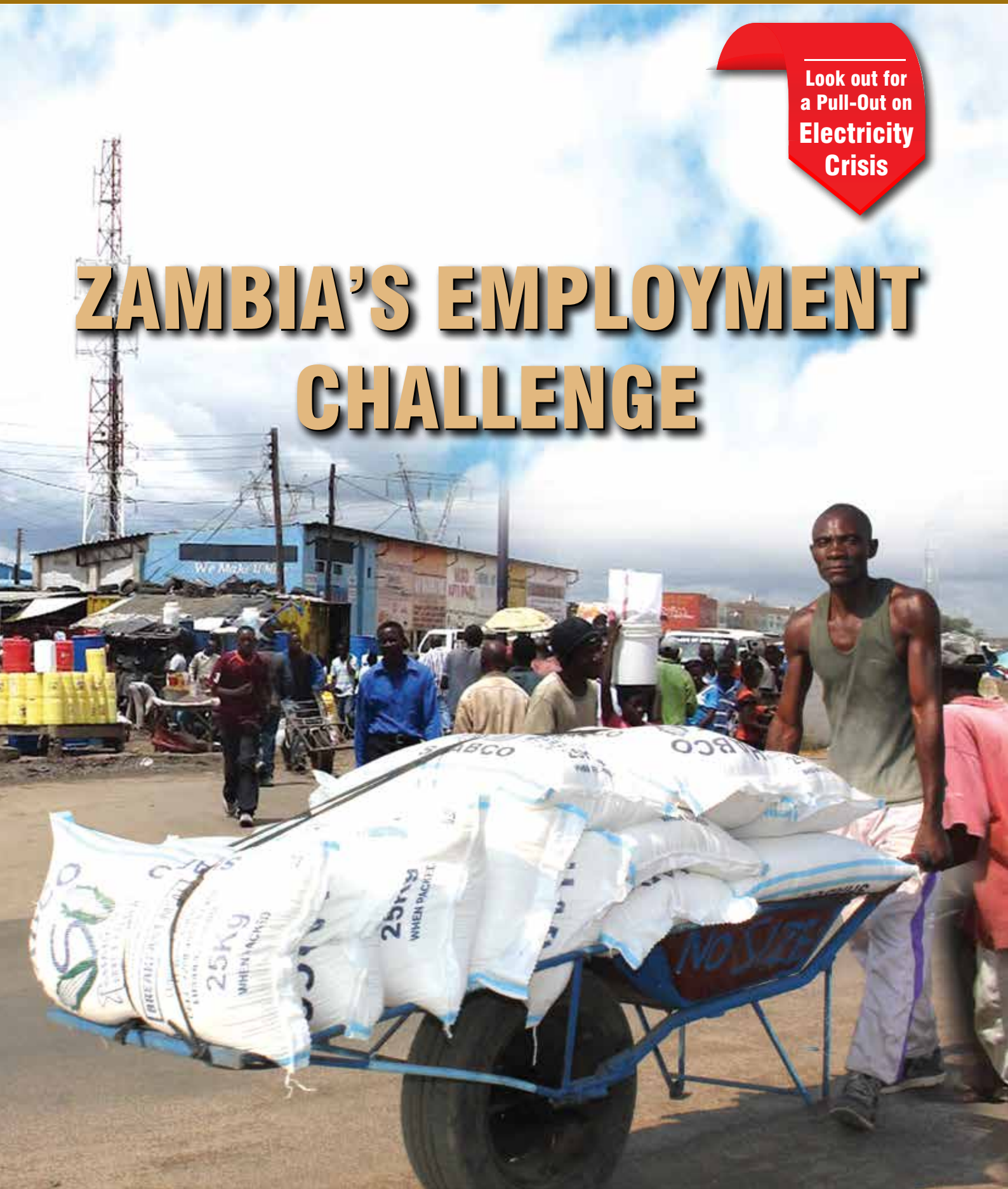
Issue 4

October 2015

The ZIPAR Quarterly

Look out for a Pull-Out on Electricity Crisis

ZAMBIA'S EMPLOYMENT CHALLENGE



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Message from the **EXECUTIVE DIRECTOR**

Welcome to issue 4 of the ZIPAR Quarterly. Employment is the red thread throughout this issue in particular the ZIPAR Flagship project on "More and Better Jobs". The issue highlights Zambia's jobs' challenge, how ZIPAR will help the Government respond to the scale of the challenge by drawing on expertise from across Zambian society from the private sector to civil society and from Government to universities, to develop a blueprint for creating "More and Better Jobs" for Zambians. This issue also contains articles on Zambia's Eurobonds. The articles present risks that are imminent and provide measures that should be taken to mitigate the risks. Equally interesting is a commentary on Industrialisation which gives insights on what Zambia and SADC must do in order to boost industrialization and improve their share of export trade.

A new feature in this issue is a supplement which is an investment brief and this time around it focuses on the Electricity Sub-Sector. The brief presents quick insights into Zambia's power crisis and the firm-level costs and provides a synopsis of the Electricity Sub-Sector Industry in Zambia. On the side lines of this issue, we bring to you an in-depth analysis of the 2016 National Budget. It provides ZIPAR perspectives on key aspects of the budget that include the persistent Kwacha depreciation and 2016 budget responses, energy crisis, implications of debt on fiscal consolidation, diversification in 2016 and beyond to mention but a few. The budget analysis is available in printed format and can also be found here: (http://tinyurl.com/omjf54w). I hope you will enjoy reading this copy and should you want to contribute or comment on the issue and the 2016 National budget analysis, you can forward your views to: info@zipar.org.zm.

Tackling Zambia's jobs challenge will require concerted action from across Zambian Society

ZIPAR launches ground breaking 'More and Better Jobs' flagship project

Mr. Trevor Kaunda (right) Permanent Secretary Ministry of Labour and Social Security launching the "More and Better Jobs" Discussion Paper assisted by ZIPAR Executive Director Dr. Pamela Nakamba-Kabaso and Flagship Project Advisory Group Chairperson Fr. Leonard Chiti on 25th June 2015.

ZIPAR's More and Better Jobs Flagship Project will be an all-inclusive exercise and will be a practical platform for reaching out to those who can contribute to job creation

The Zambia Institute for Policy Analysis and Research (ZIPAR) has raised concern that the country is currently facing a jobs challenge. To help respond to the scale of the challenge ZIPAR is today launching a 'flagship' project called "More and Better Jobs". This ground breaking project will draw on expertise from across Zambian society, from the private sector to civil society and from government to universities, to develop a blueprint for creating "More and Better Jobs" for Zambians.

Despite high levels of economic growth averaging 7.9% between 2007 and 2013, Zambia faces a jobs challenge. This is because formal sector jobs only increased by 3.4% over the same period. Today nearly half a million people in Zambia are unemployed. The youth are often the hardest hit with 31% of the youth in Lusaka and the Copperbelt unemployed.

But the levels of unemployment in Zambia tell only part of the story. Often overlooked, but just as important, is the low quality of jobs. The majority of Zambians work in the informal sector, on very low pay, leaving them trapped in vulnerable jobs. A paper published today by ZIPAR to launch the flagship project highlights the fact that in urban areas, about 7 out of 10 people in the labour force hold informal sector jobs. In rural areas it is worse; out of every 50 people, on average 47 are in the informal sector.

Responding to this dual challenge – of unemployment and poor quality jobs - is perhaps Zambia's biggest priority. ZIPAR's major new project will therefore focus not just on policies that create more jobs, but also those which create better jobs. The consequences, ZIPAR argue, of not responding could lead to increased numbers of people without jobs, continued poverty and stagnating economic growth. Population growth will put substantial pressure on the labour market. Even if the

unemployment rate did not increase, population growth alone would mean that the number of unemployed people will increase from under half a million (in 2012) to 770,000 by 2030. Should the informal sector continue to represent the same percentage of the workforce, the number employed in the sector will increase from 5 million in 2015 to 7 million in 2030. In addition to this, continued urbanisation will see unemployment more concentrated in cities and amongst young people. Thus, if left unchecked, ZIPAR argues that the jobs challenge is bound to get worse.

To address the scale of the jobs challenge, ZIPAR submits that concerted action across Zambian society is needed. Laudable efforts have been made and continue to be made by the Government. But a long-term strategy to create more and better jobs will only succeed with input, ideas and focus from all parts of the Zambian society. The private sector, civil society and others have a crucial role to play.

ZIPAR's More and Better Jobs Flagship Project will be an all-inclusive exercise and will be a practical platform for reaching out to those who can contribute to job creation. ZIPAR has therefore reached out in an unprecedented way to different organisations. An Advisory Group will guide and champion its work and include representatives of manufacturing businesses, through the Zambia Association Manufacturers; large and small employers through the Zambia Federation of Employers; farmers and agricultural businesses through the Zambia National Farmers Union.

Other representatives are key government ministries, including Ministry of Finance and Cabinet Office; Civil society and the churches, through the Jesuit Centre for Theological Reflection; Academia: the University of Zambia and International development partners such as the International Labour Organisation, International Monetary Fund, United Nations Development Programme (UNDP) and Africa Development Bank. In addition ZIPAR has developed key partnerships with other organisations, such as the World Bank.

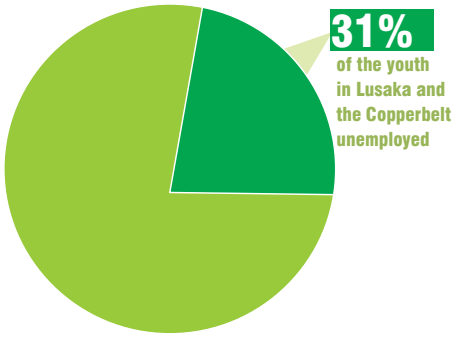
ZIPAR's flagship project, More and Better Jobs, will run for up to 18 months July 2015 to December 2016.

Ceasar Cheelo, ZIPAR Senior Research Fellow said:
"Tackling both unemployment and also underemployment – the jobs crisis – is one of the biggest challenges Zambia faces. As any Zambian will know the problem is already large, but without new thinking and concerted action it is set to worsen. Now is the right time to inject new thinking. ZIPAR believes the scale of the jobs challenge is such that it can only be tackled by working with all sections of Zambian society – from the private sector, civil society, academia and beyond – to develop a clear plan for providing the people of Zambia with more and better jobs."

Mr. Maybin Nsupila, Chief Executive Officer - Zambia Association of Manufacturers said:
"Taking practical steps that translate policy into action that enables the private sector to create many thousands more decent jobs is Zambia's greatest challenge. ZIPAR are absolutely right to listen to the experiences of business as part of this important project".

Mr. Tobias Rasmussen, Resident Country Representative for the International Monetary Fund said:
"Alongside achieving continuing economic stability and economic growth, creating an economy which provides more decent jobs is vital for the future of Zambia. It is one of the biggest challenges that the country faces. The IMF welcomes the launch of ZIPAR's 'More and Better Jobs' project, which we look forward to contributing to."

Father Leonard Chiti, Executive Director of the Jesuit Centre for Theological Reflection said:
"Extreme poverty still blights Zambian society. Without expanding the number of decent well paid jobs, we will never end this scandalous situation. That is why JCTR is delighted to be part of this crucial new ZIPAR project."



The full list of Advisory Group Members is:

- Zambia Association Manufacturers;
- Zambia Federation of Employers;
- Zambia National Farmers Union.
- Ministry of Finance;
- Cabinet Office;
- Ministry of Commerce Trade and Industry;
- Ministry of Education Science Vocational Training and Early Education;
- Ministry of Labour and Social Security;
- Ministry of Youth and Sport
- Jesuit Centre for Theological Reflection
- University of Zambia
- Africa Development Bank;
- International Labour Organization;
- United Nations Development Programme (UNDP);
- International Monetary Fund;
- Zambia Chamber of Small and Medium Business Associations (ZACSMBA)

To launch the project ZIPAR published the discussion paper: "More and Better Jobs: A ZIPAR Flagship Project to Help Address Zambia's Employment Challenge". This includes evidence on the scale of the jobs challenge, for example from the 2012 Labour Force Survey. The Discussion Paper is found here: http://tinyurl.com/ooscazl

Zambia faced with urgent need to ensure jobs are decent-Shamenda

By Euphrasia Mapulanga-Ilunga

"My Government is proud to be associated with ZIPAR's innovative Flagship research project".

Mr. Trevor Kaunda Permanent Secretary Ministry of Labour and Social Security delivering a speech on behalf of Labour Minister Hon. Fackson Shamenda during the launch of ZIPAR's Flagship Project on "More and Better Jobs

Government says there is urgent need to create decent and sustainable jobs for citizens to not only improve their living standards but also enable them to contribute to national development.

Ministry of Labour and Social Security Permanent Secretary (PS) Mr. Trevor Kaunda said in a speech read on behalf of the Minister Hon. Fackson Shamenda at the launch of the Flagship project on "More and Better Jobs" that the Zambian labour force was faced by a two-pronged challenge.

Mr. Kaunda stated that firstly, there were more people seeking the few jobs available and the saturation left many people jobless resulting in them engaging in low productivity economic activities in the informal sector.

He added that Zambia was faced with an urgent need to ensure that jobs are decent. Not only should they contribute to higher output for the economy, but most importantly enable citizens to lead decent lives.

Mr. Kaunda said that given the seriousness of the problems that the ZIPAR Flagship project seeks to address, Government was proud to be associated with such a new and innovative research project.

Mr. Kaunda said: "We are proud because as many of you will recall, Government is currently implementing the Industrialisation and Job Creation Strategy, which is aimed at transforming the industrial landscape of Zambia and create one million new formal sector jobs over a period of five years."

He said the independent policy scrutiny that ZIPAR will do will contribute to the identification and scaling up of job creation interventions that are working. It will also help with the quick identification and correction of those elements that may be falling short of Government's desired level of achievement. Speaking earlier, ZIPAR Executive Director, Dr. Pamela Nakamba-Kabaso, said despite the progress achieved so far in addressing the jobs challenge, efforts and approaches remained highly fragmented and if this is not corrected, the overall impact on both unemployment and underemployment will remain shallow.

The Flagship project launched on 25th June 2015 will run for 18 months effective from the launch date. During the period, a number of interim outputs will be produced and these will culminate into a final report at the close of the project.

Unravelling the Mysteries Surrounding Zambia's Employment Challenge

By Caesar Cheelo and Mwanda Phiri

For some time now, the true extent of the jobs challenge in Zambia has become a topic of considerable debate. Indeed this debate has become increasingly more heated in recent times with some members of the Zambian society contesting official statistical figures, which suggest that the unemployment problem in Zambia is not as bad as many believe it to be.
Official statistics indicate that only 8% of the total labour force as of 2012 is unemployed. In absolute terms, this is under half a million people out of nearly 6 million potential job seekers.

Despite this official position, many observers feel that Zambia's official unemployment rate is a gross underestimation. They argue that the levels of unemployment are much higher than what the recorded official statistics show, often pointing to the large numbers of unemployed people they anecdotally know about.

This explains why concerns about the jobs challenge are growing by the day. It is difficult to move around Lusaka and not hear the ill-fated words "Nipemphako nchito!" [I am asking for a job] pass the lips of one of the youth. The frustration of young people is particularly acute. Earlier this year, six former University of Zambia students gathered at Arcades shopping complex in Lusaka to protest about unemployment in Zambia. They were arrested for what was described as unlawful assembly.

These and other numerous cries for employment seem to suggest that Zambia faces a much bigger unemployment problem than the official statistics indicate. But Zambia also faces the problem of underemployment. It is estimated that 94% and 69% of the labour force in rural and urban areas respectively, hold informal sector jobs and the majority of these are unpaid family workers. They are the working poor; underemployed and uncompensated.
What this means is that Zambia faces a battle on two fronts: it must create more jobs to match population growth but it also has to create better quality jobs too.
Zambia's paradox is that while the country continues to record impressive economic growth rates averaging 7.8% over the last decade, 60% of the population still lives below the poverty line. It is widely acknowledged that to the extent that employment can give citizens a decent wage, it can also offer them reprieve from poverty. But in order to achieve this, Zambia needs not just more, but better jobs.

But where will these jobs come from? And how can the existing jobs be improved to offer employees decent wages and working conditions? Is it Government's role to create employment through the Industrialization and Job Creation Strategy? Should it be youths through entrepreneurship? Or perhaps it should be the private sector by expanding their businesses and employing more people?

All these questions are complex and need answers. In thinking about the role of the State for instance, historically, the Zambian Government has played employment creation roles that varied from one political era to another. Following independence, Zambia adopted a socialist approach in which the State dominated the economy and was by far the biggest source of employment, with controlling interests in most of the industries including mining, manufacturing, wholesale and retail trade, energy, transport, finance, hotels and restaurants, and agricultural services and marketing.

But with the liberalization and extensive public sector reforms that ensued in 1991, the role of the State changed drastically. Public sector participation in economic activities quickly reduced and employment was limited to public and civil services necessary for the provision of public goods and services. The private sector thus became the desired frontrunner in employment creation and has also often been heralded as the engine of economic growth. In fact, statistics indicate that private businesses or firms in Zambia employed more than half of the total 5.5 million employed persons in 2012. Nevertheless, businesses face challenges which inhibit their productivity, profitability and consequently, limit their ability to employ more workers.

From the foregoing, the challenges of job creation in Zambia abound and different surveys and studies have considered, in piecemeal, some of the underlying sources of these challenges. Improving the quality and productivity of formal and especially informal jobs will be critical for Zambia to realize its employment, inclusive growth and sustainable development aspirations.
But it will only stem from a closer look at these issues. As such, these issues are exactly what ZIPAR's new Flagship Project on More and Better Jobs is exploring. The project, launched at the end of June by the Permanent Secretary of the Minister of Labour and Social Security, Mr. Trevor Kaunda, has involved representatives from the private sector, government and civil society in a substantive way. It will help provide answers to one of the biggest challenges that Zambia faces – how to reduce both unemployment and underemployment.

On the Importance of Evidence and Coherence in Job Policies and Strategies

By Caesar Cheelo

Sometimes employment policies and strategies do not yield the desired effects and outcomes, not because they are ill-meaning, but because they are not informed by evidence, are not designed coherently in terms of consistency with and alignment to other policies and strategies, and also because they are poorly delivered. They are potentially doomed from the start because of the way in which they are conceived and/or deployed.

The 2013 Industrialization and Job Creation Strategy (IJCS) may be a case in point. Undoubtedly, when the Government devised the strategy it sincerely intended to support the creation of 1,000,000 new formal sector jobs in five years (i.e., by 2016), a rate of 200,000 new jobs per year. But as we reach the halfway point of the IJCS it is clear that the IJCS is a long way off from realizing this ambitious goal. For example, the preliminary results of the Labour Force Survey (2014) – publish by the Central Statistical Office (CSO) during the 2015 Agricultural and Commercial Show (ACS) – reveal that between 2012 and 2014 only 96,780 new formal sector jobs were created. This works out to 48,390 jobs or a 6% increase per year during the period. This was a dismal performance relative to the 16% per year increase in formal employment outcomes achieved during 2008-2012 (when 336,082 new formal sector jobs were created). Moreover, at this rate, out of the targeted 1,000,000 new formal sector jobs, only 241,950 jobs will have been created by 2016 under the IJCS. This will be an achievement of only 24% of the target, leaving a large deficit of 758,050 jobs by the end of 2016.

To understand why the IJCS is falling so far behind on its objectives it is instructive to take stock of the inherent design flaws that existed from the beginning, which we could aim to avoid in the future. Worryingly, however, it looks like the recently launched Action Plan on Youth Empowerment and Employment could run the risk of repeating some of the mistakes associated with the IJCS. But so we do not get caught up with looking at the risks of repeated mistakes, let's stick to the IJCS.

Implementation of the IJCS wan estimated to cost K47.9 billion for programmes selected in four priority sector, namely agriculture, tourism, construction and manufacturing (with metal fabrication and agro-processing included in manufacturing). Four supporting interventions were also selected, notably infrastructure, education and skills development, term financing and business environment (with a fifth element on transport and logistics, which is sporadically mentioned on occasion in the IJCS). In terms of sources of finance: about 51% of the budget was to come from public resources (grants, concessional loans, and budgetary allocations); 45% from the so-called Public Private Partnership (PPP Framework); and 4% from private sector (local investment and Foreign Direct Investment (FDI)).

The structures for coordinating and implementing the IJCS were well elaborated as: (i) a Committee of Minister at the top, the Secretary to the Cabinet (SC), and a Job Creation Coordination Office under the SC to coordinate and monitor the implementation of programmes by line ministries, statutory bodies, and the private sector.

Much of this was sensible. However, a number of design flaws also existed: firstly, the IJCS did not include a monitoring and evaluation framework nor did it explicitly describe the different line ministries, statutory bodies, and the private sector assigned the responsibility to implement the various programmes of the Strategy.

In addition, the IJCS did not clearly elaborate the relationship between its programming of public resources and the programming in the Medium Term Expenditure Framework (MTEF) and national budget. Likewise, the mechanisms for financial mobilization and execution of the resources earmarked to come from the public sector, the PPP Framework and private sector were not described.

The IJCS also made some very strong assumptions, including that strong political leadership and adherence to free market based policies would continue to obtain during the implementation period of the Strategy. These are empirical issues that are yet to be determined. For instance, the extent to which the Committee of Ministers assumed ownership of the Strategy and exercised political leadership or stewardship in reviewing and governing its implementation is yet to be established. Similarly, the extent to which Zambia has adhered to free market based policies in the recent past is a cornerstone assumption that is yet to be checked.

Moreover, other that the overly optimistic requirement that the economy should register 8% real GDP growth on average per year during the implementation period in order for industrialization and job creation to happen as envisaged, the IJCS did not make any assumptions (or risk assessments) about macroeconomic stability.

As such, the current macroeconomic instabilities such as the fiscal liquidity constraints, mounting fiscal deficit in 2015 and GDP growth forecast which the MTEF recently slashed to 5% were not anticipated. The implication is that mitigation measures to avoid disruptions to the implementation of the Strategy could not be instituted.

Clearly, the IJCS offers a wealth of lessons and insights about how internal design shortcomings of the Strategy and external disruptions (such as macroeconomic instabilities) can potentially adversely affect programme implementation. Despite these lessons and insights, which have not yet been fully harvested and harnessed to improve the articulation and implementation of future strategies, Zambia extended its job creation ambitions. On Thursday 13 August 2015, the country launched the Action Plan on Youth Empowerment and Employment. Ironically, the Plan reportedly took three years to formulate and yet anecdotal claims indicate that it aims to implement its programmes and deliver 500,000 new formal sector jobs within one year (i.e., by 2016). It is also not clear whether this new target replaces the 1,000,000 jobs expected under the IJCS or is in addition to it or a subset of it.

Zambia seems to have launched yet another plan – the Action Plan on Youth Empowerment and Employment – without taking the time to review and learn from previous efforts. If Albert Einstein's suggests that insanity is doing the same thing over and over again and expecting different results is true, then Zambia may want to consider pursuing different, more deliberate approaches for formulating and implementing its employment creation policies, strategies and plans. Drawing on evidence-based policymaking and strategic planning as well as ensuring policy coherence – in terms of consistency with and alignment to concurrent policies and strategies – will be crucial.

Where do JOBS come from?

By Caesar Cheelo and Mwanda Phiri

"Nifunako Nchito ba-Boss banga!" (I want a job, my Boss!)

"A job is what you are hired and paid to do; whether you bring any tangible solutions to this planet or not. Work on the other hand, in what you are born and gifted to do in generating solutions to the problems of human existence on earth."

Once I heard someone respond by saying: "Iwe, don't ask me! Ask the Government. They are the ones who said they will create 1 million new formal jobs by 2016; their Job Creation Strategy is very clear. So go and ask them, not me! Maybe they can give you one of those million jobs!!"

But where do jobs come from and who is responsible for creating them? What are we to say to the six former University of Zambia students who gathered at Arcades shopping complex in Lusaka to protest about unemployment? Or to the nine year old girl Chewe, whose affection for her father, James, who lost his job, came to national attention earlier this year? What we can say is that there is no single source of jobs for James or the UNZA students who are searching for work. So many factors determine job creation. Howard Hyde, an economist who writes for the Website "American Thinker" put it this way: "No one gives you a job because you deserve one. No one gives you a job because you need one. Not because you are a good person, not because you are breathing, can fog a mirror, and/or are entitled… You get a job because someone needs some work done and is willing and able to pay you for it". Howard stresses that: "The 'free market' doesn't mean you get stuff for free", the point being that free market economies will award jobs those that are economically relevant. And Zambia is a free market economy…

Makweti Sishekanu so eloquently said it in the Zambia Daily Mail earlier this year in April: "A job is what you are hired and paid to do; whether you bring any tangible solutions to this planet or not. Work on the other hand, in what you are born and gifted to do in generating solutions to the problems of human existence on earth." An emphasis on relevance to society and a de-emphasis on entitlement mentality is evidence in Makweti's sentiments.

All this points to the fact that, at least in part, the solution to creating more and better jobs lies in expanding those elements or activities in the economy that lead to the hiring of people or the establishment of opportunities for people to create their own work. Creating own work means employing oneself as an entrepreneur, a business developer or ultimately, an industrialist. That is where jobs really come from. They come from expanding labour-intensive economic activities, usually through the modernization and industrialization of the different sectors of the economy; hence the notion of industrialization and job creation.

But for jobs to be created, our own skills and attitudes must be right, others in society must be willing, able and empowered to work with us, work for us or hire us, and the environment underpinning our economic activities must be supportive. The extent to which these factors are right in Zambia is currently unclear. More detailed research and policy analysis is required if we are to unravel the mysteries about where more and better jobs will come from now and in the future in Zambia. As a society, Zambia has to choose its balance between looking to the public sector machinery and looking to self for jobs and prosperity.

Government concerned with skills mis-match between colleges and industry

By Euphrasia Mapulanga-Ilunga

Youths from diverse backgrounds sharing experiences in entrepreneurship and employment. L-R: Lubi Simamba -Youth Farmer, Mawano Kambeu- Managing Director Dot.Com Zambia, Nelson Nayunda- School Leaver

Government is concerned with the mis-match between the skills required by the industry and those supplied by graduates from tertiary and other institutions.

Addressing stakeholders at the ZIPAR and the International Development Research Centre (IDRC) Youth Consultative Forum, Deputy Minister of Youth, Sport and Child development Hon. Ronald Chitotela said there was need to change the mind-set of young people and institutions offering tertiary education.
Mr. Chitotela observed that there was need to find solutions to address the skills mis-match in order to close the labour skills gaps.
Mr. Chitotela said: "Graduates in accountancy, law and economics are complaining that there are no jobs, but mines are looking for artisans and fitters who are not readily available since colleges do not offer these courses and yet when offered young people shun craft courses."

The Deputy Minister stated that according to the 2012 Labour Force Survey, 16.3 per cent of the Youth were unemployed representing the highest unemployment rate amongst all age groups.

He added that where Youth were fortunate to find jobs, 84.8 per cent of these were in the informal sector usually employed as casual workers.
Mr. Chitotela observed that leaving the Youth secluded had been the greatest barrier to the attainment of significant reduction of poverty levels in Zambia. He added that this was evidenced by the higher prevalence of social ills such as high illiteracy levels, unemployment, crime, substance abuse and early marriages.

He noted that consequently Youths had been indifferent towards issues of national development and lack of faith in institutions coupled with low literacy levels and poverty had resulted in Youth being unprepared for taking up employment and empowerment opportunities.
The Minister stated that Government was aware that isolated and uncoordinated short-term interventions were not the answer to dealing with the serious challenges facing the youth.

Mr. Chitotela said: "It is for this reason that outlined targets and strategies have been developed in the revised 2015 National Youth Policy and the Action Plan for Youth empowerment and employment. These are practical, coordinated and long-term approaches that will lead to Youth empowerment and job opportunities".
And speaking earlier, ZIPAR Executive Director Dr. Pamela Nakamba-Kabaso said improving the prospects of Youth finding a place in the economy was one of the ZIPAR Flagship project's main concerns.

Dr. Kabaso said: "Through the Flagship project on 'More and Better Jobs', ZIPAR will invest significant time in providing new knowledge to help the Government have a greater understanding of the issues relating to improving the economic status of our Youth through entrepreneurship and employment".

And speaking during the same forum, the IDRC Senior Program Specialist, Dr. Martha Melesse said a country that invests in its Youth invests in its future.
Dr. Melesse said: "It is estimated that by 2040 Africa will have the largest workforce in the world surpassing both China and India. So we are endowed with a very young and growing population, which undoubtedly can be one of Africa's greatest assets to help stimulate sustained economic growth."

The ZIPAR and IDRC Youth Consultative Forum under the theme "Exploring Youth Preparedness in benefiting from Employment and Empowerment Opportunities in Zambia" was held on 28 and 29 September 2015 at Taj Pamodzi Hotel in Lusaka.

"Through the Flagship project on 'More and Better Jobs', ZIPAR will invest significant time in providing new knowledge to help the Government have a greater understanding of the issues relating to improving the economic status of our Youth through entrepreneurship and employment".

Hon Ronald Chitotela Deputy Minister Youth, Sport and Child Development delivering his speech at the ZIPAR-IDRC Youth Consultative Forum on 29th September 2015. On his left is Mr. Charles Mweshi Chief Planner Ministry of Youth and right is Dr. Martha Melesse Senior Programme Specialist IDRC

Zambia's Jobs Challenge: listening to the private sector

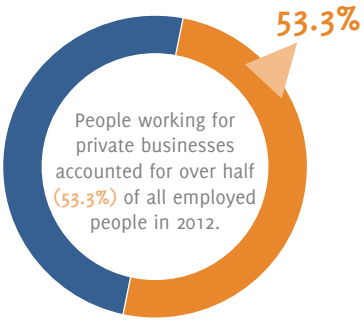
GUEST WRITER

By Hilary Hazele

Recently the Permanent Secretary, Ministry of Labour and Social Security, Mr. Trevor Kaunda, launched the ZIPAR Flagship project called 'More and Better Jobs'. The Executive Director for the Zambia Federation of Employers (ZFE), Mr. Harrington Chibanda, sits on the Advisory Group which will guide this project in the next 18 months. Along with others from the private sector, representatives from civil society, academia, government – including the Ministry of Finance and the Cabinet Office are part of the flagship project advisory group.

One key aspect of ZIPAR's project is its desire to reach out to business to help find solutions to some of the greatest challenges that Zambia faces: high levels of unemployment and low productivity among the employed.

No one can deny the scale of the unemployment challenge in our nation, currently averaging 8% and rising considerably. For businesses, low levels of productivity and underemployment is also a big issue. Left unchecked, the problem is bound to get worse. As a nation we can only compete internationally if the jobs created are more productive. In a paper published on the launch of the More and Better Jobs project, ZIPAR argues that 'business as usual' will see the number of unemployed grow to over three quarters of a million by 2030.



There is no doubt that the private sector is essential to responding to this challenge. It is the engine of economic growth and the primary source of job creation. People working for private businesses accounted for over half (53.3%) of all employed people in 2012. The majority of the remainder – around four in ten – was engaged in private household employment while Central Government accounted for a meager 4.3% of the employed population. Without listening to the concerns and ideas of business, Zambia will fail to respond to the jobs challenge.

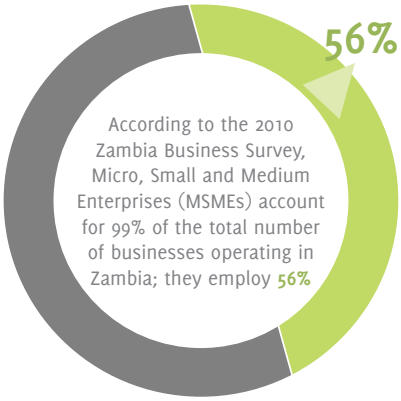
The good news is that our country has a growing number of innovative and ambitious business leaders and entrepreneurs. Many are already expanding successfully and taking on more employees. But most would also agree that there is potential to do more. They are anxious to become more profitable and be a big part of the solution to creating more and better jobs. However, it is very important to remember that even these local entrepreneurs will not create jobs for the sake of solving the problem. Jobs created by them will have to be products of their businesses growing as they endeavour to take advantage of the increasing opportunities to expand their profits.

The employers we represent often face challenges in trying to grow their businesses. Whether it is limited access to finance, the constraints created by poor infrastructure, onerous labour market regulations or the low skills of many young Zambians, they understand the issues better than anyone. They have witnessed many attempts by policy makers to solve these problems in the past and they have important insights into what has worked or not and why.

Importantly, it is necessary to understand the perspectives of different forms of business; the challenges faced will differ according to sector, location and size of the company. The policy ideas and strategies developed must be tailored to respond accordingly.

For example, larger established companies are vital; Zambia needs more of such because they employ workers in the formal sector and have the potential to create more productive and better quality jobs. But the particular barriers they face need to be addressed. A past survey by ZIPAR found that manufacturing, construction and mining industries listed the cost of in-house training to upgrade the skills, the level of legislated severance benefits, and the minimum wage all acted to reduce the likelihood that they would take on more unemployed youths.

The obstacles faced by smaller enterprises are different. According to the 2010 Zambia Business Survey, Micro, Small and Medium Enterprises (MSMEs) account for 99% of the total number of businesses operating in Zambia; they employ 56% of total full-time employees; and generate 35% of annual national business turnover. They too face challenges around access to finance and skills. But particular issues include the cost and ease of formalization. One underlying question is whether existing policies for small businesses are based on a sound understanding of the nature of self-employment in Zambia.



Responding to the jobs challenge means understanding the perspective of the private sector - whether it is larger companies eager to expand into new markets or innovative small enterprises looking to grow. Combining the practical experience of business with the analytical rigor of an organisation like ZIPAR promises to help generate a set of ambitious and practical policy proposals. That is why it is gratifying that ZIPAR will be listening to business as its project develops.

There are few bigger challenges for our nation than giving every Zambian the opportunity to fulfil their potential in a decent job. But we anticipate that we will play our part as this important ZIPAR project identifies potential solutions for creating more and better jobs.

ZIPAR-Shanghai Institutes MoU Key to China-Zambia Relations-Chinese Ambassador

By Euphrasia Mapulanga-Ilunga

ZIPAR's Caesar Cheelo and Chairman Yang Jiemian Shanghai Institutes for International Studies shake hands after signing a MoU for Cooperation on 8th October 2015. Looking on (centre) is Chinese Ambassador His Excellency, Mr. Yang Youming.

The Chinese Ambassador to Zambia, His Excellency Mr. Yang Youming says the signing of a Memorandum of Understanding (MoU) for cooperation between ZIPAR and the Shanghai Institutes for International Studies (SIIS) is essential for the China-Zambia relations because the two countries need experts to address issues that will foster their cooperation.

Mr. Yang said he was glad to have witnessed the historical MoU signing between the two institutions because the relationship between China and Zambia which dates back to 51 years has continued to expand in various fields that include economic, trade, political, education and health sectors.

He added that the expanded cooperation between China and Zambia was bound to encounter certain issues that needed expert analysis and policy recommendations.

Mr. Yang said: "It took us 51 years to have our two institutes to sign an MoU. It is a good start for the institutions of our two countries to sit together and discuss issues because with this relationship which is expanding we are bound to face issues that need expert solutions. We need experts to address weak points and see how to expand strong points so that we can cooperate better in the future".

Speaking earlier, the Head of the SIIS delegation, Dr, Yang Jiemian said China and Zambia were at the best time of cooperation and the signing of an MoU with ZIPAR marked the first important step in the life of the two Institutes.

Dr. Yang said: "The signing of the MoU for further cooperation reminds me of two sayings, one African and one Chinese. The African saying goes, 'a person walking alone may walk faster, but people walking together can reach far'. A 10,000 miles journey starts with the first step and today we have started our very important first step. According to the MoU, we will have joint projects, conferences and staff exchange programmes".

Addressing the SIIS delegation, ZIPAR Acting Executive Director Mr. Caesar Cheelo said ZIPAR and SIIS share many values and aspirations in common and he looked forward to a lasting friendship that will enable the two organisations to contribute towards the social and economic development of Zambia and China.

And in a news release on the occasion of the MoU signing Mr. Cheelo said ZIPAR was building a relationship with SIIS at a time when Zambia and China needed the think tanks most. He stated that the Chinese economy was the second largest in the world and what happened in China affected the world economically, politically and socially.

The Acting Executive Director observed that in July 2015, the Chinese stock market came under severe strain, with stocks falling by 30% on average. For a time, share trading and new Initial Public Offers (IPOS) were suspended, and the world felt the strain. He added that concerns emerged, with the International community wondering whether the stock market crisis in China was symptomatic of a short-term problem to do with speculation in the market or a deeper general slowdown in Chinese demand and economic growth.

Mr. Cheelo said: "As they say, "when china sneezes, the world catches a cold". In Zambia, we are worried that any slowdown in Chinese demand for commodities would affect international copper prices and would further reduce our already fragile export earnings, public revenue and ultimately, economic development prospects. We are also worried that Chinese firms would reduce their investments in African and Zambia in particular, with developmental implications for our economies".

He added that the dynamics in the Chinese economy came at a time when Zambia was facing its own domestic "headwinds". Zambia was facing the worst electricity shortage in the country's post-independence history, mainly because for over 20 years the country neither made the right investments nor created the right environment in the energy sector to alley the crisis.

The Acting Executive Director stated that Zambia was also experiencing an alarming fiscal deficit emanating from ambitious public expenditure programmes on infrastructure and public administration. He noted that after years of trade surpluses, Zambia now had a trade deficit, mainly because the country's economic structures were never transformed remaining highly dependent on a single commodity, copper, for exports, growth and development.

Mr. Cheelo said: "My focus is not on painting a gloomy picture about China or Zambia. The point I am trying to make is that all these happenings emphasise the rapidly changing nature and interconnectedness of our world today. As such, those of us charged with monitoring and evaluating the economic, political and social systems of our countries and with using the evidence to inform our countries must remain vigil".

The Acting Executive Director added that the two Institutions must be committed, creative and collaborative in efforts to gather the evidence and to place it in the right hands for the betterment of the two countries and the global community at large.

Mr. Cheelo said: "For ZIPAR, this is what the relationship and understanding we are forging here today symbolizes: a commitment to work together and be creative and comradery in our pursuit of evidence-based policy and strategic solutions. Solutions on how to foster China-Zambia relations and China-Africa relations, bearing in mind also the new global agenda on development as reflected in the sustainable development goals".

Zambia must take action now to reduce the risk of defaulting on Eurobonds

ZIPAR launches "A Cautionary Tale of Zambia's International Sovereign Bond Issuances"

The Zambia Institute for Policy Analysis and Research (ZIPAR) cautioned in a report published on 10 June 2015 about the risks associated with repaying the existing Eurobond loans.

ZIPAR argue that borrowing from international markets can be beneficial if invested wisely, and are important to plugging the financial gap now that Zambia, as a lower middle income country, is less able to access low interest loans from donors. Eurobonds strengthen transparency and macroeconomic discipline because Zambia now faces scrutiny from international investors and credit rating agencies. However, ZIPAR says that action must be taken now to avoid the risk of defaulting on the Eurobonds, which would have a very detrimental impact on the economy and affect Zambia's standing among international investors.

The Zambian government borrowed US$750 million in 2012, US$1 billion in 2014 and US$1.25 billion in 2015 from the international financial markets. Each year, interest payments on the three Eurobonds will gobble up US$240 million (or ZMW1.8 billion) a year. The report draws attention to the fact that, because the bonds are denominated in US dollars, the recent depreciation of the Kwacha has made the interest payments even more expensive.

ZIPAR also point to the challenge of having to repay the loans in full within a very tight period between 2022-2024 for the first two Eurobonds and 2025, 2026 and 2027 for the third Eurobond when the bonds mature. Significant repayment risks will arise if there are adverse changes in the domestic or international market conditions before these dates. Such risks are already on the horizon:

- Zambia's exposure to currency volatility is high because of its heavy reliance on copper for foreign exchange and recently the price of copper on the international market has declined owing to weak demand from major consumers such as China.
- The recent depreciation of the Kwacha against major international currencies has increased debt servicing costs, which may crowd out social sector spending.
- The reverberations of the recently-reversed mining tax regime are still being felt by various stakeholders and has affected mining output during the first half of the year.
- The fiscal deficit as a result of the reversal of the 2015 mining tax regime may be a lot higher than the projected K2.3 billion due to the forward and backward linkages of the mining sector. The country may have to borrow further to plug this deficit.

The report points out that Zambia is on a learning curve and has only limited experience in managing Eurobonds, a market-based form of financing. To help it continue to learn the report recommends a number of policies designed to reduce the risk of default:

- Achieving fiscal discipline: To reduce the need to borrow more, government must broaden its tax base, strengthen revenue collection and contain expenditure

ZIPAR Research Fellow Mr. Shebo Nalishebo preparing to answer a question during a debate on Eurobonds during the launch of the Sovereign Bond report. On his right: Mr. Andrew Simpasa –Jesuit Centre for Theological Reflection, Mr. William Kabwe, Ministry of Finance & Mr. Tobias Rasmussen-IMF Resident Representative. On Mr. Nalishebo's left is Moderator Mr. Ben Kangwa

- Consider setting up a "Sinking Fund" to help repay bonds in 2022 and 2024: putting aside funding each year into a sinking fund for the two Eurobonds will insulate against future adverse macroeconomic conditions.
- Refinancing the second Eurobond, but only at the right time: The second bond was obtained on relatively unfavourable terms and could be replaced with another bond with lower interest rate and longer maturity. This is only likely to be possible once the overall fiscal position improves.
- Improve existing institutional and legal bottlenecks in debt management including the finalisation of the Medium Term Debt Management Strategy and the reorganisation of the debt office to enhance its risk portfolio monitoring and analysis.

Shebo Nalishebo, ZIPAR Research Fellow, said:
"The Zambian government's use of Eurobonds has some advantages. The borrowed funds have mainly been invested in the energy and transport sectors. These are infrastructure projects that, it is hoped, will help increase economic growth, job creation and increase government tax revenues in the future. However, Zambia also needs to manage the risks of greater borrowing. Looking at countries around the world which have defaulted on their sovereign debt shows just how damaging this can be. Tough decisions will need to be taken to ensure that Zambia manages the risks. These include measures to reduce the high fiscal deficit and setting up a sinking fund.

Mrs. Pamela C. Kabamba, Permanent Secretary Budget and Economic Affairs launching ZIPAR's "A Cautionary Tale of Zambia's International Sovereign Bonds" in Lusaka.

Zambia on a learning curve

"ZIPAR Eurobond report has highlighted pertinent recommendations which Government appreciates and will critically consider"

By Euphrasia Mapulanga-Ilunga

Government is aware that even though the Eurobonds were successfully issued on the international capital market, Zambia is still on a learning curve from concessional and non-concessional borrowing to a more market-based financing.

Speaking during the ZIPAR launch of "A Cautionary Tale of Zambia's International Sovereign Bond Issuances" on 10th June 2015, the Ministry of Finance Permanent Secretary (PS) for Budget and Economic Affairs, Mrs. Pamela C. Kabamba, said expert knowledge was key in ensuring that financing for development decisions were backed with evidence-based research.
Mrs. Kabamba said Government appreciated the contribution of think tanks such as ZIPAR in providing checks and balances on Government policy pronouncements and implementation, thereby guaranteeing utilisation of resources is on projects with high economic returns.
The PS commended ZIPAR for pulling off the sovereign bond study whose recommendations would be valuable in sharpening measures to mitigate the would be risks associated with repayment of the Eurobonds.

Mrs. Kabamba said: "the report has highlighted pertinent recommendations which Government appreciates and will critically consider. These include, among others, the need to strengthen revenue mobilisation and rationalising expenditure; strengthening of existing institutional and legal framework in order to address bottlenecks in debt management."

Other pertinent recommendations she cited include enhancing supportive Parliamentary oversight role on loan contraction and establishment of a sinking fund for repayment of bonds in order to insulate against future liquidity and foreign exchange risks.

Earlier, ZIPAR Executive Director Dr. Pamela Nakamba-Kabaso said Eurobonds enabled the Government to raise money for development projects when domestic resources were wanting, and cushioned the budgetary deficits in an environment in which donors are not willing to increase their overseas development assistance.

Dr. Kabaso however, pointed out that the Eurobonds were not without pitfalls as they increase the country's external debt, and require strict fiscal management to ensure that the Government is prepared to pay back.
She stated that the report highlighted structural issues surrounding sovereign bonds as well as the institutional and legal frameworks in place to address the challenges in the management of debt. It examined the opportunities and benefits for economic development as well as the costs and risks of default. It further proposed strategies for the mitigation of the vulnerabilities associated with the costs and risks of the bond issuance.

Dr. Kabaso added: "The report also addresses the questions about whether the monies obtained from the Eurobonds are being spent in a way that will promulgate growth. What is most interesting is the comparison of other countries that have defaulted and the lessons that Zambia can learn."

Increased interest payments on Zambia's third Eurobond risks reducing vital social spending

The Zambia Institute for Policy Analysis and Research (ZIPAR) has pointed out that the latest US$1.25 billion Eurobond issue by Government will increase total interest payments on the three Eurobonds taken out so far from about US$125 million a year to over US$240 million (or ZMW1.8 billion) a year.

While the third Eurobond should provide some respite for the weakening Kwacha, and is also expected to reduce the reliance on short-term expensive domestic debt, ZIPAR warns that higher interest payments on Eurobonds are likely to crowd out public investment and social spending. For example, interest on all external debt – that is debt owed by the Zambian government to international lenders which include Eurobonds alongside other borrowing – were budgeted at ZMW2.4 billion in 2015, but this will rise to about ZMW3.8 billion. Coupled with domestic interest payments currently budgeted at ZMW2.9 billion, total interest payments on public debt may rise to over ZMW6 billion from 2016. This is higher than the ZMW4.5 billion allocation to the health sector and the ZMW5.6 billion allocation for roads construction in the 2015 budget.

ZIPAR observes that the latest US$1.25 billion Eurobond came in the wake of a depreciating Kwacha which is about one-fifth less its value in January 2015; a much higher-than-budgeted fiscal deficit; a widening trade deficit reflecting falling export revenues due to lower copper prices; challenges with the mining tax regime; and declining non-traditional exports. Other challenges include 30-50% drop in electricity supply, which have reduced production and productivity. This has led government to revise the economic growth for 2015 downwards from the initially projected 7% to 5.8% at the beginning of the year and further down to 5% during the mid-year budget performance review.

With all this economic malaise, it is therefore not surprising that the third Eurobond, at an annual interest rate of 9.375%, was more expensive than the 2012 and 2014 Eurobonds whose interest rates were 5.375% and 8.5%, respectively. This means Zambia will pay US$117.2 million annually in interest until 2025 on this new Eurobond alone. Between now and 2022, interest payments for the three Eurobonds will increase from US$125 million to over US$240 million annually.

ZIPAR reiterates that commercial borrowing from international markets can be beneficial if the proceeds are invested wisely. Hence, the Zambian Government should formulate credible spending plans, which should be publicly announced for transparency and accountability, with clear and strengthened project selection processes that prioritise capital spending on viable, high economic return projects.

Government also needs to improve tax administration and should in particular tap into new high-economic-return projects. It will also be prudent for Government to rationalise spending on non-priority areas. Government should also avoid the temptation and pressure for fiscal spillages as the borrowing has come at a time when there are so many headwinds and when we are about to enter an election year. In addition, the establishment of the sinking fund approved by the Minister of Finance for the first two Eurobonds should be fast-tracked and extended to the third Eurobond. Through the sinking fund, Government will set aside funds annually, which would be used to make payments against the principal.

Mr. Shebo Nalishebo, ZIPAR Research Fellow, said:

"When funding is invested well there can be benefits to international borrowing. However, the risks also need to be managed. One such risk is the cost of paying the interest on a growing debt and how that can reduce government investment in services such as health and education. To manage that risk, government should, amongst other things, put more funding aside into a sinking fund with funds generated from domestic revenue receipts. Due to issues of fungibility – the possibility that funds are used in ways not intended - the sinking fund should be set up as a bond buy-back scheme rather than a reserve fund. Government should also update its Debt Sustainability Analysis – a vital tool for effective debt management."

The last Debt Sustainability Analysis (DSA) was conducted in June 2014. Some of the baseline macroeconomic assumptions that were used no longer hold. For example, the 2014 DSA assumes no issuance of Eurobonds in the short to medium term after the 2012 and 2014 issuances. Therefore, the third Eurobond changes the debt dynamics upon which the 2014 DSA was premised. A new DSA will enable the country assess the vulnerabilities of the current debt portfolio. This will be key for coming up with a medium-term debt management strategy and annual borrowing plans consistent with fiscal policy, monetary policy and current macroeconomic conditions. Sound debt management will help the government to reduce its exposure to interest rate, currency, refinancing, and other risks.

In July 2015 Zambia successfully issued a US$1.25bn at a coupon rate of 9.375% with an average life span of 11 years with three equal redemption payments in July 2025, 2026 and 2027.

Interest payment breakdown is as follows:

- In 2025, a principal repayment equivalent to one third of the total issue will be made. This amounts to US$416.7 million
- Interest on the balance (US$1.25 billion less US$416.7 million) will be made in 2026; this amounts to US$78.1 million. Further, US$416.7 million principal payment will be made;
- In 2027, interest will be paid on the remaining US$416.7 million; this amounts to US$39.1 million. Further, the last principal repayment of US$416.7 million will be made.

Developing the Derivatives Market can Mitigate Foreign Currency Risks of Eurobonds

By Malindi Msoni and Shebo Nalishebo

The Zambian government has to-date issued three Eurobonds: one worth US$750 million in 2012, another for US$1 billion in 2014 and for US$1.25 billion this year (2015). While Eurobond issuances present several potential benefits for the country, notably increased financing for infrastructure development, they also expose the country to significant risks. Because they are denominated in US Dollars, Eurobonds are susceptible to losses resulting from adverse fluctuations in the exchange rate, commonly known as currency risks.

The Kwacha has continued to depreciate against the US Dollar, falling by more than two-thirds since January. This has among other things, increased the debt servicing costs of the Eurobonds in Kwacha terms. Managing the risks arising from the Kwacha depreciation is crucial especially that experts expect the currency to remain under pressure, against the background of growing domestic demand for the US Dollar, a strengthening US Dollar trend, falling copper prices and a slow-down in the Chinese economy. One way in which the Zambian Government can manage currency risks is through derivatives.

Derivatives markets offer important opportunities for Governments to reduce the losses resulting from negative movements in exchange rates. As its name suggests, a derivative is a financial instrument that derives its value from the value of an underlying asset, such as equities, foreign currencies and commodities. The value of a derivative instrument is then determined from the corresponding equity prices, exchange rates or commodity prices. Derivatives allow investors to protect their investments against currency risks – this is what is known as 'hedging'.

There are several derivative instruments that public debt managers can use to reduce the currency risk exposure of Government portfolios. However, long-term foreign currency debt such as Eurobonds should be hedged using what are called "options" or "swaps". Currency options give the holder the right, but not the obligation, to buy or sell a particular amount of currency at a predetermined exchange rate at a specified future date. Currency swaps are financial operations during which two parties agree to exchange a certain amount of currencies for a stated period of time. Emerging countries such as Brazil, India, Mexico and Argentina use derivative instruments to hedge currency risks.

With the recently issued Eurobond, Government will now have to pay annual interest in excess of US$240 million. Annual interest payments on the first two Eurobonds are made in two instalments; US$21.1 million on 20 March and 20 September, and US$42.5 million on 14 April and 14 October. Government will also make two interest payments on the third Eurobond annually.

To illustrate the impact of currency risks, the 20 September annual interest payment on the US$750 million Eurobond cost the government K111.4 million in 2013 and K130.6 million in 2014 when the Kwacha was trading at K5.28/US$ and K6.19/US$, respectively. However, a similar payment cost the Government K211 million on 20 September 2015, when the Kwacha was trading at K10.00/US$. This amounts to currency losses of about K100 million between 2013 and 2015, on the US$750 million Eurobond alone.

Exposure to currency risks in Zambia is worsened by the country's heavy reliance on copper exports for foreign exchange, notwithstanding other sources of external vulnerabilities such as US monetary policies. Copper accounts for two-thirds of Zambia's total exports. In the absence of policy intervention by the authorities, it is likely that the Kwacha largely responds to international prices of copper which, although higher than historical levels, have been falling in the last few years. Copper prices have fallen by more than 20% since January, reaching a record low of US$4960.00 per tonne on 28 September 2015. This saw the Kwacha falling to a record low of US$11.61.

While borrowing on the sovereign bond market is agreeably cheaper than borrowing domestically, ultimately, it is likely that the cost of Eurobond repayment will depend largely on the evolution of the exchange rate over the life of the three bonds. Unmanaged, the weakening currency could greatly increase future external debt servicing costs. Also, currency risks may add pressure for the Government to increase taxes or to borrow domestically to service the Eurobonds. With a much weaker Kwacha, interest payments on Eurobonds become relatively more expensive than repaying domestic debt. Domestic borrowing risks putting upward pressure on interest rates and crowding out the private sector. Eventually, Eurobond borrowing could stifle the very growth it was meant to foster.

Moreover, currency risks are historically a dominant cause of debt crises. In the early 1980s, the debt-servicing burdens of some Latin American, Southeast Asian and African countries were severely hurt by the dollar appreciation, rising international interest rates and falling commodity prices. For example, the deterioration of the Peso against the US dollar meant that Argentina owed huge quantities in Peso terms. Faced with this, a widening fiscal deficit, and rising interest rates, Argentina accumulated unsustainable levels of debt which eventually led to an unprecedented default.

In view of the risks associated with foreign currency exposure, Government should consider using derivatives to reduce its exposure to currency risks. Currency options in particular are more ideal for developing countries, as they provide cover against currency risks without giving up the benefits of an exchange rate appreciation. However, reducing Government's exposure to currency risks is a gradual one as it relies on the development of hedging instruments. Currently, the derivatives market in Zambia only trades futures contracts. Nevertheless, in the short-term, Government should continue to support efforts to make institutional arrangements that provide appropriate incentive structures for debt management as well as technical expertise and systems. Government's efforts to set up a sinking fund are commendable in this regard.

Zambia has a difficult history of debt and it would be prudent to avoid a repeat of past debt crises. Eurobonds have possibly brought benefits to Zambia, but there are risks, such as those associated with the depreciating Kwacha. Continued enjoyment of these benefits relies on what measures we take now to reduce these challenges.

INDUSTRIALIZATION

By Joseph Simumba

Since 2013, the Kwacha has lost more than forty percent of its value on the back of falling metal prices and legislative drawbacks. As it is well known, Zambia's exports strongly depend on metals: copper and cobalt. About three quarters of foreign earnings still accrue to metals, a feature that has amplified the exposure of the country to global fluctuations. Zambia can achieve remarkable economic growth that can reduce poverty and create decent employment by industrializing. Recent renewed interests towards industrialization by the Government and SADC are laudable.

But accelerating industrialization depends on competitive production and exporting of high quality manufactured and agro-processed products. The World Bank estimates that the cost of production and trading are much higher in most SADC countries. Costs are especially high in landlocked Zambia: for instance the cost of exporting a standard 20-foot container is twice that in South Africa, Malawi, Namibia and Kenya and a third higher than in Congo DR and Zimbabwe. The global shifts in the relative costs of manufacturing pose further challenges given Zambia's weak domestic production, rising energy shortages, high cost of credit, adverse currency fluctuations, skills mismatch, unstable taxes and low innovation.

A large number of potential producers and exporters fail to participate in high value supply chains and more than half of all exporters suffer 'infant' mortality as they fail to export beyond their first year.

This begs the question: what must Zambia and SADC do in order to boost industrialization and improve their share of export trade?

There are several answers but four stand out. The first reflects the work of Nobel laureate Paul Krugman and others á la monopolistic competition. The main idea is increasing returns to scale or competitive advantage. This relates to specialized expansion of industrial production for new product varieties, new systems and organization structures and enlarged markets.

The practical wisdom offered by this work is that new products and enlarged markets naturally capture monopolistic 'profits' that accrue to differentiated products and gains due to intellectual property protection for new discoveries. These gains accrue beyond those from traditional comparative advantage.

History confers that the 'great' industrial revolutions in Europe, Russia, United States, and Japan in the nineteenth century were reinforced by new manufacturing processes and the invention of efficient energy sources that enhanced product variety. This reinforced a rapid rise in employment, output, capital and average incomes.

Zambia and SADC require serious concerted efforts of Government(s), the private sector and cooperating partners to stimulate innovation and enlarge product markets. However, markets in Zambia and SADC suffer 'market failure'. Market prices often diverge sharply from private marginal costs due to three reasons at least: (i) There is uncertainty about new products that can be produced profitably and ways to produce them (ii) public inputs notably infrastructure, legislation, transport and accreditation tend to be inadequate, if not missing (iii) there is a failure to sequence and coordinate private and public investments in a manner that supports product development and market enlargement. Earlier attempts to correct market failure relied on prohibitive tariffs and excessive subsidies. These measures are, however, now forbidden under international treaties governing fair production and trading.

An alternative approach is to invest in Research and Development (R&D). Admittedly, only very large firms can fund R&D activities under suitable legislative assurance and fiscal incentives. R&D amounts to investing under uncertainty. Huge sums of money need to be invested in laboratories and personnel without any sure guarantee of future profits. Globally, R&D is a heavily subsidized industry and as it is predominated by universities and specialized research laboratories that dominate patent ownership. They earn large royalties paid by businesses that acquire rights to use their discoveries. Most countries in SADC lack equivalent public-financed innovation foundations that can anchor original scientific discoveries and propagate value addition which has now become knowledge intense.

South Africa's has invested in a public National Research Foundation currently valued at over US$200 million; The US National Science Research Foundation received $7.3 billion in 2015 US Appropriations Act while the Science and Innovation Network in the UK received £5.8 billion from the national treasury in 2015 and it has already developed 8,500 new food and drink products under the "the Newton Plan for Science and Innovation".

There is still good scope for Zambia and much SADC to adequately invest in R&D. First, Zambia and SADC need to affirm funding targets. It is not unusual to find 3% of Gross Domestic Product committed towards funding R&D. A competitive funding mechanism is required to accompany R&D disbursements. Zambia can benefit better R&D investments within the agriculture, food and beverages and wood and paper products sectors, for a start. Infrastructure is the second issue for Zambia and SADC. A better balance between 'soft' and 'hard' infrastructure is required. The gains from trade facilitation continue to be limited by weak trade promotion. The abolishment of administrative and border delays have occurred without accompanying support to abolish barriers that constrain firms to initiate exporting in the first place.

Thirdly, financial lending is concentrated in shorter term high interest yield products that are inappropriate for financing the expansion of productive capacity. Public initiatives that offer affordable long-term finance like the Development Bank of Zambia (DBZ) and the Citizens Economic Empowerment Commission (CEEC) are inundated by politics. Zambia needs a competitive long-term capital market that is transparent, predictable and independent.

One niche is to strengthen and align the Industrial Development Corporation (IDC), DBZ and CEEC so that IDC fosters industrial capabilities towards new product and process development while DBZ and CEEC can deal with large corporate and SME financing, respectively. This can balance and coordinate investments at the downstream, upstream and horizontal levels.

Lastly, Zambia and SADC require vertical specialization strategies. High value production has evolved since the eighties and now involves a complex sequence where production occurs across several countries. The iPhone and Samsung Galaxy that have evolved in testimony of the supremacy of new product development for industrial growth serve as classic examples. Therefore, SADC countries require developing robust regional value chains that induce economies of scale and tangible benefits.

On Think Tanks

"This interview originally appeared on the On Think Tanks website, which can be found here: http://onthinktanks.org/

By Daniel Boyco on September 23, 2015

ZIPAR Executive Director Dr. Pamela Nakamba-Kabaso delivering her remarks during the launch of the Flagship Project on "More and Better Jobs" on 25th June 2015 at the Radisson Blu Hotel in Lusaka.

The On Think Tanks interview: Pamela Kabaso, Director of the Zambia Institute for Policy Analysis and Research – ZIPAR

[Editor's note: This is an On Think Tanks interview with the Executive Director of the Zambia Institute for Policy Analysis and Research – ZIPAR, Pamela Kabaso, on why impact & influence requires more relevance and how to deal with one of the loneliest jobs in the world – being director of a think tank. It was conducted by Will Paxton, co-Director of Kivu International.]

The Zambia Institute for Policy Analysis and Research has been making waves in Zambia in recent months. At the start of June they published an influential report on government debt and borrowing which led to tangible policy impact and at the end of the month they had a high profile launch of a major new 'flagship project' on More and Better Jobs.

Here, Executive Director, Pamela Kabaso, talks about what has led to this impact and how being a think tank director can be a lonely business.

The interview was conducted by Will Paxton, co-Director, along with Guy Lodge, of Kivu International, an organisation which supports local institutions such as think tanks to improve the policy making process in developing countries. Kivu International has been working as part of the Zambian Economic Advocacy Programme (ZEAP) in Zambia for the past eighteen months.

Will Paxton: You have been at ZIPAR for a few years now; how would you describe the main challenges that you have faced in this time?

Pamela Kabaso: Everyone was keen to establish ZIPAR, but the institution's biggest challenge has been how to create a relevance that was real and practical. I think people thought: "okay, we need something like this, but how exactly?" But no one was clear exactly what ZIPAR should do. It was up to us to show that we were relevant, to ensure that everyone said "yeah, this is what we have been waiting for". There was no role model; no Zambian think tank we could copy. We had to navigate unchartered waters and to some extent we have had to trust our instincts – a feminine instinct on my part – which, so far, has worked.

People now feel that Zambia has a think tank worth supporting. You know that you are being highly relevant when even the likes of the Governor of the Bank of Zambia, who I met recently, is supporting our cause; when government is coming to you asking for advice and when even the development community recognise the role we are playing.

This increase in our profile has been achieved by choosing to work on issues which matter to policy makers and then combining policy relevant research with good communications. A question I often challenge the researchers with is "what's the story?" Even if a researcher carried out great analytical work it is useless, and irrelevant, if they cannot explain to people what it means. Our output is now so much better on this front. In the past you could see there was potential, with good analysis, but too often researchers used to waste their opportunity to tell a good story. Today, though, our researchers realise how powerful they can be with the information they have.

Overall, ZIPAR as an institution is now operating at a higher level. People used to look at us more like a project which could be closed down, but now we are more than a project and I don't think that anyone would want to close ZIPAR down. If we did go quiet for a year, people would miss us. That means the stakes are high: we need to retain the same high standards we have set in recent months.

Will Paxton: Can you give an example of a project which has seen ZIPAR increase its relevance and impact?

Pamela Kabaso: Probably the best recent example is a project on commercial government debt issued internationally, or "Eurobonds". The report dealt with a salient issue for Zambia: it was one that the Ministry of Finance were already looking into. It was well researched and was very informative, not just raising questions, but also offering potential solutions. The report, which my colleague Shebo Nalishebo led on, made clear what the risks of further borrowing are, but also gave policy options for how to mitigate these risks. In the past, government just wanted the money and did not think enough about issues such as repayment, but – in large part as a result of ZIPAR's work – they will now pay attention and make sure they do not put themselves in the corner. One specific proposal we made, which looks likely to happen, was for money to be put aside in a 'sinking fund' which could help repay debt in the future. (The Zambian Ministry of Finance recently issued a pre-budget paper which confirmed that this policy will be enacted.)

As well as being on a salient topic and policy relevant, the report was also very easy to read: it passed my "what's the story?" test. The paper has been sold out: 500 copies within a month of launching and people still want more. It was harder for Government to ignore because the argument was clear and well communicated.

Will Paxton: How did you balance the use of the media with more "insider" approaches to advocacy on this project?

Pamela Kabaso: This is not easy. Zambian society is a bit conservative. 'Big people' in particular do not want to be talked to through the media. That is why we basically make sure that the message gets to the influential people first, so they feel that they have been considered. But after this we do then talk to media for the sake of everyone else who you want to bring on board and who are also part of the debate. So it is a delicate balance, but combining the use of the media with an inside track increases the chances that recommendations will be taken up.

There is a broader point here as well: I think we are still building trust and confidence as the culture in Zambia changes slowly. The country is not yet so used to having the kind of evidence that think tanks provide – research that focuses on creating public debate and developing solutions to difficult policy problems. This is different to the kind of data which the Central Statistical Office publishes. It is also different to what civil society does: the relationship between civil society and government always blows hot and cold, with civil society often mainly lobbying for a particular interest, rather than using research and evidence.

In contrast, ZIPAR is operating in a different environment where we don't want to alienate people and we want government to listen. So we need that trust and respect. I think the culture is changing. In fact, ZIPAR's recent success is an important part of this shift and we are increasingly confident that even if ZIPAR has a strong message, government will listen to us and respect us.

Will Paxton: It is interesting that you see ZIPAR as being part of this wider shift in the nature of public debate in Zambia. How can you best guarantee this for the future?

Pamela Kabaso: We do need, however, to continue to strengthen the institution that we have created. ZIPAR must outlive those who pass through here. That is why in the coming year we are actually proposing to change our registration status. We are registered as a "society" which is really limited, especially in providing independence, but as an institution we now plan to register under the Companies Act. This will lock in independence with a legal status as strong as if we are a company. We just want to consolidate the gains we've made and then go onto bigger things.

Will Paxton: You talked earlier about the need to maintain your recent high standards, but in some ways you are being even more ambitious. You recently launched a "flagship project" on employment issues; can you say a little more about this?

PK: What we are looking at is one of the big challenges that the country is facing: the need for more and better jobs. Because the issue transcends political parties, we feel that everyone will want to tap into it. You are right that the project is ambitious: it will run for 18 months and will involve working in partnership with a whole host of other organisations from business to civil society and from Multilateral Institutions to Zambian government ministries. A few things are

ZIPAR Senior Research Fellow Mr. Caesar Cheelo making a presentation during the launch of the Flagship Project on "More and Better Jobs" on 25th June 2015 at the Radisson Blu Hotel in Lusaka

worth highlighting:

First, we want to add value by bringing coherence to a complicated and big picture issue. Most of the stakeholders are trying to tackle employment issues, but ZIPAR coming on board will provide a platform to create a more consistent and comprehensive approach to what needs to be done. We are trying to bring sanity to a confused and difficult policy area, so that we can develop some concrete polices and strategies so that we start to see some results.

The other thing is that this flagship project is not a process which is owned and being driven from outside Zambia. I have seen so many processes which fizzle out: international people are invited and then they leave and no one left to keep pushing. This is different though. An organisation like ZIPAR can bring the key people together to strategise and develop solutions, but it can also continue and ensure that recommendations made stay on the table for years to come. It is not something which is a once-off, but it is something that becomes institutionalised.

Will Paxton: Personally speaking what would you say are the biggest challenges you face in your job? Where do you get the support you need?

PK: It is the most lonely job. In the initial days of running the organisation – putting the basic systems in place – I did learn from others. But when it comes to the working of a think tank, it is different. Unless there is another organisation that you can talk to it is just you, alone. You know, for example, that if you mess up, the fall will be quite big. Everyone is looking at what you are doing and if you mess up and misstep then everyone will just say how you messed up such a good thing. So you always think about it. You have to take risks and you weigh the risks and the opportunities.

Will Paxton: What might be useful in terms of support for you as a leader of a think tank?

Pamela Kabaso: If anything here in Zambia I am providing more advice to upcoming think tanks, such as PMRC. We are becoming someone who everyone is looking up to. But when it comes to me personally there is no one to go to. One thing I would say is that any link up with another think tank director is very personal. So even if I knew there was another woman in another think tank I couldn't necessarily just send an email. It maybe, for example, that there is a generational gap, or the organisations are just too different. I did have a good relationship with the former Executive Director of IPAR-Rwanda, Antonia Mutoro. It felt like we faced the same kinds of challenges and understood each other, but she then moved on.

That is why more often, at the moment, I look internally for support rather than externally; I ask some of my staff and we brainstorm and we say here is the issue. This helps because it gives you back the power to take charge.

Will Paxton: ZIPAR has been receiving support from a programme called the Zambian Economic Advocacy Programme. What role has this played in some of your recent progress?

Pamela Kabaso: The whole ZEAP programme has contributed significantly, but especially to the communications and advocacy side of things – the generation of the outputs there. With other funders it was almost assumed that good communications and advocacy would happen automatically. For instance the ACBF budget was not strong on policy engagement and it was assumed that it would come and happen naturally. But of course it didn't. It needs additional effort, skills and has cost implications. Just to get your arguments on the table you have to generate something, you have to increasingly get in people's faces and it just doesn't happen automatically and it has to be planned for. This is one thing that ZEAP has been very helpful with. The other thing is that the advice and support has come from people who understand how think tanks work – the researchers at ZIPAR listen to the advice and trust it because they know that it is coming from people who have faced similar challenges to them, not someone who has little idea what a successful think tank project looks like.

Eng. Charles Mushota Executive Director National Construction Council and Mr. Caesar Cheelo Senior Research Fellow ZIPAR shake hands after the MoU signing in Lusaka. Looking on from the left is Mr. Christopher Kasaro ZIPAR Finance and Administration Manager

ZIPAR and NCC sign MoU to address information gaps in construction industry

The National Construction Council (NCC) and the Zambia Institute for Policy Analysis and Research (ZIPAR) signed a three years Memorandum of Understanding (MoU) to carry out research and provide evidence based information on the Zambian construction industry to inform policy decisions by Government.

Speaking during the MoU signing ceremony on 14th May 2015, NCC Executive Director Eng. Charles Mushota observed that in the last decade Zambia witnessed increased investment in rehabilitation and construction of social infrastructure but little research was done on the socio-economic impact of these developments.

He added that the increase in the number of construction-related service providers had raised the demand for reliable information on the sector to enable effective and efficient regulation of the industry. The provision of evidence-based information to key stakeholders such as policy makers, planners, and investors is crucial to enhance effective decisions in the industry.

Eng. Mushota said: "I am aware that gathering such information requires concerted effort and expert input to maintain credibility and quality of the data collected. NCC therefore finds ZIPAR a complementary associate to achieve this noble task of information provision to the construction sector".

And ZIPAR stated that in order to tap into the growth and employment potentials of the construction industry there was need for robust policy analysis and research.
In remarks delivered by Senior Research Fellow Mr. Caesar Cheelo, ZIPAR echoed the critical data gaps that constrain policy analysis in some aspects of the construction industry. ZIPAR is eager to combine efforts with like-minded institutions towards generating requisite information to support the policy process.

Mr. Caesar Cheelo said: "We are confident that this partnership will go a long way in shaping the policy landscape of the construction industry and contribute to the broader growth and development goals of our nation."

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ZIPAR co-hosts Econometric Society Africa Regional Training Workshop 2015

Dr. Denny Kalyalya, Governor, Bank of Zambia delivering his speech during the official opening of the Econometric Society Africa Regional Training Workshop in Lusaka, Zambia on 24th July 2015

ZIPAR co-hosted the 2015 Africa Regional Training Workshop on "Advances in Econometrics Versus Policy Challenges" with the Econometric Society, African Economic Research Consortium (AERC), Bank of Zambia (BOZ), University of Zambia (UNZA), University of Lusaka (UniLus), University of Birmingham and New York University from 22nd to 24th July 2015.

Addressing the workshop during the official opening, BOZ Governor Dr. Denny Kalyalya said the Central Bank was delighted to be associated with the event as it enhanced the local institutions' ability to address complex economic problems methodically.

Dr. Kalyalya said: "As you may be aware, a good understanding and application of econometric methods is a very useful tool for decision-making. For policy makers, a solid exposition to econometric methods combined with an application-oriented approach provides them with an opportunity to formulate and implement responsive polices."

The Governor asked the Econometric Society Africa Region Standing Committee to consider extending the structures of the Society to country level to enhance participation and broader information sharing.

The workshop attended by "giants" in econometrics from across the globe provided researchers an opportunity to learn frontier research tools with some applications to the African context from a group of leading scholars. ZIPAR Senior Research Fellow, Mr. Caesar Cheelo and Associate Researcher Ms. Malindi Msoni presented a paper on "Testing the EMH for the Stock and Foreign Exchange Markets in Zambia." Mr. Cheelo was also a discussant during the presentation of a paper on "The Role of Non-Traded Goods in Current Account and Exchange Rate Determination in South Africa by Ms. Christine Makanza and Amos Peter. He was also a panelist on a Roundtable discussion on the urgent training needs for Econometricians who inform policy in Africa.

The Econometric Society is an International Society for the Advancement of Economic Theory in its Relation to Statistics and Mathematics.

L-R: Ms. Malindi Msoni ZIPAR Researcher, Mrs. Edna Litana-Guest & Mr. Caesar Cheelo ZIPAR Senior Research Fellow following proceedings during the Econometric Society Conference in Lusaka.

ZIPAR-ZCAS Joint Research Symposium

Following the signing of the MoU with the Zambia Centre for Accountancy Studies (ZCAS), ZIPAR held a Research Symposium on 2nd June 2015. The purpose of the symposium was to enlighten and engage ZCAS lecturers on research with a view to help the learning Institution appreciate processes involved in conducting policy analysis and research.

The ZIPAR Researchers made presentations on "A Cautionary Tale of Zambia's International Sovereign Bond Issuances", Used Motor Vehicle Imports and the Impact on Transportation in Zambia, the Flagship project on "More and Better Jobs" and the High Trade Costs in Zambia and measures to reduce the costs.

The symposium strengthened linkages and opportunities for collaboration on research between the two Institutions.

NEWS

Visiting Research Fellow

Prof. Munacinga Simatele, an Economics Professor at the University of Fort Hare in South Africa visited ZIPAR from 3rd to 19th August 2015, to mainly give technical support and mentorship to the Macroeconomics Unit. Prof. Simatele is a development economist with extensive experience in teaching, research and hands on involvement in development related areas.

Currently, she holds the Nedbank Chair in Economics at the University of Fort Hare. She holds several visiting research and teaching fellowships and related research grants and awards. She has a PhD in Economics from the University of Gothenburg in Sweden and a Masters in Learning in Teaching in Higher Education from the University of Hertfordshire in the United Kingdom. Her research interests lie in the area of Monetary Policy and Development.

While at ZIPAR, Prof. Simatele provided technical support particularly on two studies being carried out by the Macroeconomics Unit on Foreign Exchange Rate Microstructures, Interest Rate Setting Behaviour and Interest Rate Spreads. Prof. Simatele had this to say about her stay at ZIPAR:

"I had the privilege of visiting ZIPAR in August 2015. I had visited the premises before to see the CEO but never had the opportunity to see the whole unit. It is surprisingly spacious inside. I was impressed by the breadth of scope in research areas covered by the Institute. My main interaction was with the Macroeconomic group. Despite my limited interaction with other groups, it was wonderful to be included in the email communication about current research. There is a very good collegiate spirit in that individuals do not only share their own research but also the papers they review and read. This is good for keeping researchers focused in different areas abreast of what is happening in other areas. The interconnections between the different sectors necessitate a coordinated look at research and I think the Institute is well set up to that.

I was so glad to be in a place where there was electricity the whole time, apart from the last few days when ZIPAR was also affected. I am glad to be associated with the Institute because I think it is a great addition to the Zambia policy landscape which is in so much need of informed policy formulation."

LABOUR DAY 2015 AWARDS

ZIPAR like in the past year took a moment on 8th May 2015 to thank the employees and emphasize how their efforts have helped in turning the Institute into the premier think-tank of Zambia. To increase motivation to work extra harder, ZIPAR honoured two researchers and two support staff in Awards for the Most Hard Working staff. The four staff received prizes as follows:

Most Hard Working Researcher

Mwanda Phiri, Associate Researcher received a Certificate and a Water Dispenser.

"The experience is nice and humbling. Actually it is a result of team work. I give credit to the Research Units especially the Trade and Investment team for my success."

Most Hard Working Researcher

Zali Chikuba, Research Fellow received a Certificate and Washing Machine

"This experience is the most humbling in life. I thank God and all the staff because all the improvements in my work and career have happened because of your support."

Most Harding Working Support Staff

Gabriel Zulu, Driver received a Certificate and Home Theatre System

"Thank you to all the staff for showing confidence in me. It has encouraged me to work even harder because the challenge is to keep the work graph going up."

Most Hard Working Support Staff

Vivienne Kapulu, Office Assistant received a Certificate and a Carpet

"I have run short of words!!!!!!!!"

PHOTO FOCUS

ZIPAR's Caesar Cheelo and Chairman Yang Jiemian Shanghai Institutes for International Studies signing an MoU for Cooperation on 8th October 2015. On the right a toast between the two parties, looking on (centre) is Chinese Ambassador His Excellency, Mr Yang Youming.

His Excellency Kiyoshi Koinuma, Japanese Ambassador conversing with ZIPAR Executive Director Dr. Pamela Nakamba-Kabaso flanked by Researchers during an interactive dinner to discuss Zambian Economic Trends on 30th April 2015. On the right: Some of the ZIPAR Researchers pose for a group photo with Diplomatic staff at the Japanese Embassy after the interactive dinner.

ZIPAR Exhibited at the 89th Agriculture and Commercial Show in Lusaka from 30th July to 3rd August 2015. Left: Ms. Tamara Billima administering a questionnaire on Casualisation to visitors to the stand. On the right Mr. Mwiinga Cheelo, Research Assistant explaining ZIPAR reports to show goers

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