

ECONOMIC PARTNERSHIP AGREEMENTS (EPAs) –CAPACITY BUILDING  
PROJECT FOR EASTERN AND SOUTHERN AFRICAN (ESA) COUNTRIES.

DEVELOPMENT ISSUES IN ECONOMIC PARTNERSHIP AGREEMENTS (EPAs)  
FOR ZAMBIA

Paper presented by

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**1.0 INTRODUCTION**

1. The Economic Partnership Agreements (EPAs) being negotiated between the African Caribbean and Pacific (ACP) countries and the European Community (EC) are seen as tools for developing the ACP and integrating them into the world economy. However, unlike the Lome convention, the framework for these negotiations has to be in line with World Trade Organisation (WTO) regulations, implying reciprocal free-trade agreements between the two parties to the agreement (Cotonou Partnership Agreement).
2. This is a major departure from the Lome convention where ACP countries enjoyed non-reciprocal free trade with the EC. While this may seem to disadvantage the ACP countries, as they will be asked to open up their markets, it offers them an opportunity to put forward their development agenda as part of the negotiating process.
3. The EPAs are being negotiated in six negotiating clusters of; market access; agricultural and fisheries agreements; trade in services; trade related issues; development cooperation issues and legal issues. This paper is a thematic paper on development cooperation issues. Unfortunately Zambia is yet to undertake a study on development issues to ascertain what to put forward on the negotiating table but based on several studies that have been previously done by the Government and donor organisations coupled with Government development plans, it was possible to come up with a framework of what development issues to put forward.
4. It is clear from the onset that the EC negotiating position will be to have the ACP countries open up their markets to EC goods and services. Currently Zambia has not fully utilised the “Everything but Arms” (EBA) Initiative that allows duty and quota free access to the EC markets. This has the implication, keeping all things

constant, that the EPAs may simply result in EC countries gaining market access to the Zambian market. That means Zambian exports would not substantially increase to the EC market but EC goods and services will increase into the Zambian market competing with high valued poor quality Zambian products (this because Zambian companies face supply side constraints which increases their cost of production). Thus the thrust of these negotiations would be to ensure that Zambia addresses its shortcomings and bottlenecks such that when it opens its doors to the EC countries, its private sector is in a position to compete favourably.

5. Further, it is important to note that Zambia like most poor countries earns a substantial amount of revenue from customs duty. Therefore, reducing or removing of duty on EC goods would have a substantial negative effect on the budget and hence Government has to find alternative means of sourcing revenue mainly through Value Added Tax (VAT) and or direct taxes. The danger is that without alternative sources of revenue, the social sectors (such as education, health) would receive less funding thereby escalating the poverty situation. In addition the loss of this revenue through loss of customs duty may imply that VAT and other direct taxes may be increased for Government to raise revenue. This would make the Zambian people worse off.
6. Given this background, what Zambia should expect with the EPAs as a tool for economic growth and poverty reduction is that EPAs will foster development through addressing the supply constraints, infrastructure development, investment promotion, capacity building, debt and financial support.

## **2.0 DEVELOPMENT COOPERATION ISSUES - ZAMBIA**

Zambia's strategy for economic development and poverty reduction is export promotion and developing and promoting the private sector. These are the two main pillars for sustained and increased economic growth. But the success of this depends on tackling a number of structural and policy issues which impede the growth of the economy. Zambia should thus use EPAs to tackle these bottlenecks and impediments. Inherently as a small landlocked least developed country, Zambia displays a number of characteristics that render its socio-economic situation difficult. These include:

- (i) Zambia is a small least developed economy - With a population of about 10 million people and Gross Domestic Products (GDP) of USD 4.3 billion. The GDP per capita is about US\$ 395. This implies that Zambia is a small player on both the supply and demand side. Thus Zambia is a price taker for both inputs and outputs. In addition Zambia has insufficient productive capacity and a small domestic market with low purchasing power. Therefore Zambian companies or enterprises tend to produce small quantities and are therefore disadvantaged in sectors based on economies of scale. This translates into difficulties in penetrating foreign markets.
- (ii) Zambia is a large country– In terms of land area Zambia is a large country with scattered population among the nine provinces. Hence production units are small and

highly fragmented throughout the country. Furthermore collection of decentralised inputs or goods for further processing or exporting generates additional transaction and transportation costs. However, Zambia, with this huge land resource has a comparative advantage for production which is land intensive such as agriculture.

- (iii) Zambia is a landlocked country and far away from major world markets - Zambia is landlocked therefore has no access to the sea. Transport is costly and there are few reliable routes to seaports in Tanzania and South Africa. The transport infrastructure is poor which adds to the cost and unreliability. Therefore, perishable goods have to be airlifted (costly) to get to the major markets, while voluminous goods are often delayed because of poor and inadequate infrastructure. Air transport is inadequate and costly while rail and road transport to major seaports are extremely inefficient. Because of the inefficiencies in transport infrastructure, Zambian enterprises, therefore, have to tie up a good amount of their working capital into stock to cater for the possible delay of inputs that are being imported. Currently the physical infrastructure is developed to link Lusaka and the Copperbelt only to the seaports. This leaves the rest of the country without reliable road and railway links. Therefore smallholder participation in the production of high value cash crops such as fresh vegetables and cut flowers is curbed.
- (iv) Zambia's exports depend on only a few commodities - like many poor developing countries, Zambia is heavily dependent on a limited number of primary commodities and raw materials. Some, in mining (copper and cobalt) and agriculture, are of strategic importance for the Zambian economy. In such a situation, external factors such as the movements of copper prices on the international market and variations in rainfall are critical. There is no significant domestic downstream activity which would result in value addition to commodity products hence the bulk of the exported goods have little value addition.
- (v) Zambia's infrastructure is poor - telecommunications and energy infrastructure are inadequate, unreliable and at high costs. This affects the productivity of the manufacturing sector. The reliance on hydropower has resulted in failure to meet electricity demands especially when the country experiences droughts. Some companies are forced to purchase backup generators to ensure continued supply of power so as not to disrupt production. This increases the cost of doing business in Zambia.
- (vi) Macro-economic stability - the performance of the Zambian economy has been poor during the past thirty years. Although Zambia adopted a comprehensive program of macro-economic and structural reforms to transform a heavily protected economy with large-scale government intervention the performance has not yielded the desired results. The Government undertook fiscal, monetary and financial reforms and liberalised the foreign exchange regime to stabilise the macro-economy. Notwithstanding these policies, full macro-economic stability has proved elusive. Zambia needs to improve on macro-economic management to bring the inflation down to a single digit, streamline the business environment, improve the delivery of physical and human infrastructure services, coordinate donor funding and foreign exchange reserve management to reduce volatility of the exchange rate and streamline the trade policy.

- (vii) Quality and Safety standards – Zambia is required to meet the food safety and agricultural health standards in the major markets including the EC. Therefore to benefit from EPAs, it is imperative that Zambia has in place necessary infrastructure as regards quality and safety standards. Meeting quality standards presents challenges to the whole supply chain from the sourcing of inputs through to the delivery of the finished products. The suppliers must be able to prove conformity with the requirement of the markets and technical regulations. The standards infrastructure in Zambia is dominated by the public sector and offers a poor service to traders. Zambia does not have adequate testing services and the quality and range of testing services is too narrow. Furthermore the price of testing services is high in comparison to other countries in the region.
- (viii) Business environment – there is a need to streamline procedures for company registration and licenses, immigration and land acquisition, simplify tax and customs administration, amend the labour laws to make it less costly for employers to manage their labour force, improve partnership with the private sector and governance and accountability. It is hoped that this will encourage investment into the country.
- (ix) Debt – Zambia by 2000 had accumulated over US\$ 6 billion dollars in multilateral and bilateral debt. In the early 1990s when the economy was liberalised, the debts that were due then were rescheduled for another 10 to 15 years which brought relief on the Government finances. For most of the 1990s Zambia paid annually debt servicing of about US\$200 million but when the rescheduled debts became due this debt service was to increase to US\$400 million. With this debt service Zambia was not able to meet its debt obligations to the multilateral and bilateral donors. The only option for Zambia was to qualify for the Highly Indebted Poor Countries (HIPC) initiative which would reduce Zambia's debt stock to about half and reduce the debt service level to less than US\$100 dollars.

### **3.0 RECENT DEVELOPMENTS AND CHALLENGES**

#### **3.1 Recent Developments**

The Government has had to implement a number of structural and policy reforms to stimulate economic growth. The PRSP identified many structural/policy actions required to facilitate growth and poverty reduction. However, it is important to elaborate progress on the identified key structural/policy reforms in support of the PRSP. These are; (i) Public Expenditure Management and Restructuring of the Public Service (ii) Financial Sector Reforms (iii) Private Sector Development, and (iv) Legal, Regulatory and Administrative reforms.

##### ***A. Public Service Reform Programme (PSRP)***

The Public Service Reform Programme (PSRP) to reduce operational costs in the public service was at an advanced stage by June 2004. Central Government, except three ministries and provinces, was restructured. However, the objective of the programme to

have a lean, efficient and cost-effective civil service had not been achieved. This was due to a number of challenges that included weaknesses in the management of the establishment register and payroll. Notwithstanding the above, there was a need for continued recruitment in the health and education sectors.

In order to address these challenges, Government undertook positive steps, which included developing an interim Establishment Register, cleaning up the payroll and implementing a new Payroll Management Establishment Control (PMEC) system. In addition, Public Service Commission Regulations were revised, new Terms and Conditions of Service developed and engagement of new staff suspended.

The objectives of the PMEC system were to improve payroll management, provide better data and control mechanisms, accuracy of the payroll and tighter budget control. It also focused on aligning the size of the civil service with resource availability. By June 2004, Personal Emoluments (PE) releases were based on the PMEC system.

### **B. Financial Sector Development Plan**

The Government working closely with the Bank of Zambia and other stakeholders embarked on a project to draw up a Financial Sector Development Plan (FSDP). The vision of the plan is to develop a stable, sound and market based financial system that will support efficient mobilisation and allocation of resources necessary for economic diversification, sustainable growth and poverty reduction. The FSDP was subjected to comments by the stakeholders and approved by Cabinet in June 2004. The FSDP identified ten critical areas which required policy reform. These are accounting and auditing, banking, financial markets, macro-economic issues, legal regulatory infrastructure, payment systems, taxation, non-bank financial institutions, contractual savings, and human resources. In 2005, ten committees comprising of relevant stakeholders were formed to tackle issues in the ten areas. The committees monitor and implement the FSDP.

### **C. Private Sector Development Initiative**

The government working with the private sector and other stakeholders, prepared and launched in June 2004 a Private Sector Development Initiative (PSDI) aimed at improving the environment for private sector growth. The key elements of the PSDI are revision of business regulations and licenses and the development of a new policy on tax incentives to remove obstacles to investment in agriculture, tourism, gemstone production, telecommunications and energy. The process of implementing the PSDI was envisaged to take two years and an action plan was developed by June 2004.

Government action to streamline business regulation has been the proposed establishment of the Zambia Development Agency (ZDA). The ZDA is a response to the streamlining of registration and licensing procedures by merging five statutory bodies under the Ministry of Commerce, Trade and Industry. The statutory bodies include Export Board of Zambia, Zambia Investment Centre, Zambia Export Processing Zones Authority, Zambia Privatisation Agency and Small Enterprise Development Board. It is hoped that this will reduce the time to formally set up a business in Zambia, thereby encouraging foreign

direct investment into the country. Further this one agency would improve the regulatory framework in the country allowing the private sector more room to make business decisions, thus improving their innovativeness. The government with the help of the United States Government hopes to implement the ZDA by the end of 2006 as was presented in the 2006 budget by the Minister of Finance and National Planning.

#### **D. Legal, Regulatory and Administrative Reforms**

During the review period, the government embarked on reforms with the overriding policy of minimising the need for direct regulatory determination for effective private sector participation and sustained large-scale investment. These included the coming up with rules and regulations of the Gemstone exchange, the amendment of the Electricity Act and the Energy Regulation Act, and the Water Resources Management Act. Furthermore, Government commenced the development of the communication transport policy, revised the Telecommunications Act and commissioned a study on the private sector participation on the international gateway.

#### **E. Other Cross Cutting Issues**

- (i) Closely linked to creating an enabling environment, the Government has in the last two years managed to stabilise and reduce inflation from its high of 18 percent to the current level of 12 percent. This has been a result of prudent fiscal management, where government fiscal deficit has been kept within control. The exchange rate has seen the Kwacha appreciate by close to 20% in the last six months. This appreciation implies that the Zambia's demand on the world market has improved even though only slightly. However the appreciation also means that Zambian exports have become more expensive and thus less competitive on the world market. Therefore, Zambia still needs to stabilise its macro-economic indicators to stimulate exports.
- (ii) The stabilisation of the inflation and the exchange rate has to be credited mostly to Zambia reaching the HIPC completion point, which has resulted in the freeing up of resources meant for debt to other sectors of the economy. Due to its dependence on foreign assistance, Zambia's total foreign debt had accumulated to US\$6.5 billion, or than 200% of the GDP in the year 2000. In order to reduce foreign debt, the primary objective of the government was to access the Enhanced Heavily Indebted Poor Countries Initiative (HIPC). In December 2000, the Breton-Woods Institutions approved Zambia's HIPC status. Zambia reached the HIPC completion point in 2005 and has since been pardoned from more than US\$3.8 billion of its external debt. Zambia has over the last one year had its debt cancelled by both multilateral and bilateral donors. More recently Japan and the United Kingdom cancelled Zambia's debt. The currently debt service amount is about USD 80 million dollars.
- (iii) In the last 15 years since it liberalised its economy Zambia has seen a considerable amount of investment but most of this came through the privatisation of state owned companies. Compared to the region Zambia is expected to attract at least US\$300 million annually but trends show that in fact the investment inflow into the country is declining. Based on this, Zambia is amending the Investment Act, to include incentives that would attract FDI. Critical issues that have been identified as affecting

investment include land tenure (customary land tenure system does not allow investors to secure land rights and long term investments in land development), cumbersome tax administration, lack of rule of law and commercial justice, licensing procedures and a labour law that disadvantages employers. Some of these issues are being handled in other clusters.

- (iv) Recently the Government released a draft Commercial Trade and Industrial (CTI) policy, which will replace the 1994 commercial trade and industrial policy. This is in response to the decline in the industrial sector, investment and trade that the country has experienced in the last ten years. The new CTI is more sector specific clearly identifying the constraints in each sector and proposing policy options. The CTI proposes to establish development fund from which the private sector can borrow. It also plans to attract FDI to rural areas by giving incentives to all enterprises that set up business in the rural areas. Further the CTI has proposed to streamline and enhance the duty draw back scheme and the manufacturing under bond. These schemes have not been as effective as had been planned.

## **3.2 Challenges**

- 3.2.1 Diversifying the economy is considered the key to reviving the Zambian economy. Exports of Non Tradition Exports (NTEs) grew rapidly during 1994-1997 but have been essentially stagnant since then. Broadening Zambia's export base has become one of the key issues on its national policy agenda.
- 3.2.2 While there have been many efforts towards addressing the constraints that Zambian businesses face there are still many challenges, which have not been considered. One such challenge is the terms of trade. While Zambia has clearly identified that its strategy to development and poverty reduction is export and private sector development no attempt has been made to improve Zambia's terms of trade with the world market. Zambia clearly states that it plans to diversity it export commodities but all the commodities identified are agricultural products. Tobacco, cotton, paprika, fresh vegetables, cotton yarn, leather products, fresh flowers and oil cakes are identified as the products where Zambia has considerable comparative advantage. But these products do not cost as much as the products Zambia imports, mostly machinery and petroleum products. While machinery will continuously cost more and more with the passage of time, the agricultural products prices will continue to fluctuate and be influenced by external factors. For instance the cost of a motor vehicle has continuously gone up since it was first produced. Therefore, from this point of view Zambia is already disadvantaged in the terms of trade. Zambia shall need to develop capacity in other products which fetch more on the international market and will continue to do so for a long time.
- 3.2.3 Secondly, the ten products that Zambia has identified as potentially good exportable products have declining world market demand. Tobacco, while it has good international prices, has a declining demand and increasingly faces more stringent rules and restrictions based on health. Therefore it is clear that in ten years time the demand for this

product will not be what it is today. The same can be said about cotton and coffee, but not about paprika and cut flowers.

- 3.2.4. The third challenge is to liberalise further the telecommunications sector to allow for more players in market of landlines which would effectively bring competition in the market and hence lower consumer prices. Closely related to this is the development of infrastructure in energy and transport. Government does not have the finances to build the necessary infrastructure and thus would require the participation of the private sector. In some cases, Zambia may have to enter into agreements with the private sector in other neighbouring countries because it is landlocked. As such transport issues in other regional countries affect the performance and competitiveness of the Zambian private sector.
- 3.2.5 Implementation of programmes has continued to be a big problem for Zambia. While the PRSP was claimed to be a very good document, the implementation structures were not put in place so very few programmes have actually materialised. It is clear that there is a need to strengthen the capacity of the local administration in districts and provinces for effective impact of programmes.

#### **4.0 DEVELOPMENTAL OPPORTUNITIES UNDER EPAS FOR ZAMBIA**

Zambia, to gain market access to the EC markets, does not need the EPAs because it is a least developed country and therefore qualifies for the EBA initiative. This initiative complies with GATT XXIV of the WTO under the enabling clause. It should also be noted that while Zambia can go “safe” by not entering into an EPA it would effectively be protecting its industry from world competition. History has shown that such protection usually ends in local companies failing to employ efficient methods of production and remaining vulnerable to external shocks and international competition. But again entering in to an EPA without leveling the playing field between EC companies and local companies would be detrimental to the economy. Thus the policy decision to use an EPA to correct and enhance the business environment that may lead to lower cost of production and enhance competition, innovativeness and efficiencies may be the correct one. Zambia has chosen to enter into an EPA because it would want to use an EPA as a tool for development to accelerate the removal of bottlenecks that inhibit it from participating and or integrating into the global market. Thus an EPA would be preferred to the EBA initiative should press for the following:

- 4.1 **Telecommunications infrastructure:** EPAs would be used to solicit support in to provide telecommunications to rural areas and to link up rural schools, hospitals and businesses in general to the Internet and other telecommunications services. This will enable delivery of information to the rural areas, encourage investment and open up opportunities for economic activities.
- 4.2 **Transport Infrastructure:** Zambia could negotiate for more support to the development of the transport infrastructure within the country and the region. Since

Zambia is a landlocked country having efficient roads within its borders is only half the job done because to export to world markets it requires the logistical chain to be efficient from feeder roads to international roads. The feeder roads and the trunk roads will open up the rural areas and integrate them into the national market, providing an opportunity for the rural population to participate in high value crop exports. In addition, the social welfare of having such roads would reduce poverty and open up the areas to investment and economic activity.

The railways are another sector within the transport sector, which is vital especially for bulk movement. Currently Zambia still depends on copper and cobalt exports and will continue to depend on them for some time. Therefore, for quick access to the world markets reliable railways are necessary. With the ending of civil wars in Mozambique and Angola, Zambia has the option to build railines to the two countries because the distance is shorter to sea than going to Dar-es-Salaam in Tanzania or Durban in South Africa. Further there has to be logistical efficiency (including customs procedures etc) to ensure that there are no unnecessary delays for cargo coming or leaving Zambia. An EPA may be used under the ESA configuration to provide support to a regional railway transport system.

Another area in the transport sector that requires support would be the airlines sector. Having considered that Zambia has a potential to export high valued agricultural products such as fresh vegetables and fresh flowers, airfreight is the only way to get products to markets on time. At the moment only very few companies are able to export to Europe because of limited space on cargo planes. An EPA could be used to invite the private sector to form a joint venture with the local aviation industry to set up a national airline.

4.3           **Energy Infrastructure:** In the energy sector, an EPA would be used to solicit for support in developing storage tanks for fuel and upgrading the Indeni refinery. The upgrade would be to produce cleaner fuel at lower cost which will have an impact on the cost of doing business in Zambia and also on the environment. The EPAs could also be used for the development of more hydro power stations which would result in Zambia exporting to East and Southern Africa. There is an increasing demand for power in Africa and the current capacities are not able to meet the demand. Zambia has the potential to produce 100,000 mega watts but only produces less than 5000 mega watts of power. An EPA can also be used to develop other sources of energy which are not commonly used in Zambia such as solar power and wind power.

4.4           **Business support infrastructure:** Zambia should press for finance to the private sector through the European Investment Bank. Many Zambian companies fail to upgrade their equipment and methods of production because of the high cost of credit. Therefore they continue with outdated modes of productions, which are costly and environmentally harmful. An EPA could be used to negotiate for specific packages for the private sector to obtain low cost credit to enhance their production capabilities. In addition an EPA could be used to encourage joint ventures between EC companies and Zambian companies thereby leading to transfer of human and mechanical technology.

Where the private sector is unable to enter into such joint ventures, the government may participate with the aim of eventually selling its shares to the Zambian public either through the stock exchange or by privatisation.

In addition to joint ventures, investment agreements can be made where EC countries encourage their companies to set up in Zambia. Zambia currently has a problem of exporting goods with little or no value added. This is because of weak or nonexisting downstream inter-sectoral linkages: Support to set up downstream companies to add value through investment promotion and joint ventures should be key in the EPA negotiations.

The negotiations should also be used to support business associations that represent various interest groups in the private sector (including civil society). Business associations such as Zambia Association of Chambers of Commerce and Industry (ZACCI), Zambia Chambers of Small and Medium Businesses and Zambia Association of Manufacturers, Zambia National Farmers Union, and other private sector groups represent different interest groups in the Zambian economy. All these groups have a role to play in the running of the economy and they can only do so, if they understand national and world issues such as the WTO and EPAs. As such support to train and build capacity in the private sector is essential. Support can be channeled through their respective associations.

- 4.5           **Commodity dependency:** Zambia should negotiate to have support to carry out studies that could identify products that could be manufactured in Zambia away from the agricultural products. One resource that Zambia has in abundance is land. However apart from utilising this resource fully through agriculture and tourism, efforts should be made to build capacity in Zambia that it acquires a comparative advantage. For example India used education in computer programming to develop a comparative advantage in this field and is now a world centre of call centres for many international banks. An EPA should be used to bridge the gap between learning institutions and the private sector such that human resource development tailored to industry demand.
- 4.6           **Investment promotion:** Investments in Zambia have been declining. An EPA could be used to streamline the investment code in the country and support reforms that would encourage investment inflows. Support could be provided to review the customary land tenure and labour laws. The Government is already handling the tax administration and the business registration.
- 4.7           **Aid** – Having achieved a HIPC completion point which has resulted in debt cancellation, an EPA must ensure that Zambia knows how to manage its debts. Further training in fiscal management at the Ministry of Finance and National Planning and the Bank of Zambia would have to be undertaken to ensure that Zambia does not find itself again with debts which it cannot manage. Therefore an EPA should encourage good governance ensuring necessary checks and balances.

## 5.0 POLICY PERSPECTIVE

### Government Objectives

The Government has several policy guiding principles, which serve as the foundation for the development of economy:

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

i. **Environmental protection:** This current policy also supports the growth of environmentally friendly industries in Zambia, in order to ensure sustainable development.

## ***6.0 POSSIBLE POLICY INTERVENTIONS***

- 6.1 Policy interventions should be aimed at reducing the cost of doing business in Zambia and or making the business environment conducive for innovation and entrepreneurship.
- 6.2. There is need for immediate policy intervention in the transport sector especially in rural areas where feeder roads and trunk roads needs to be constructed. The budget allocation for this activity is usually too little so effects are consequently not felt. A lot of areas are still not linked to the national road grid. Further with the heavy rains experienced this year, a number of bridges have been washed away and yet budgetary allocations remain low. Rural areas thus remain isolated from the national economy.
- 6.3 There is also a need to create irrigation systems. In addition to this is a need of finance to support agricultural systems. Zambia is reported to have 40% of fresh water in the Southern African Development Community (SADC) region but it does not fully utilise this resource. It has continuously relied on rain and hence depends on agricultural seasons. With the development of irrigation systems, the agricultural sector would be productive throughout the year.
- 6.4 There is a need to reduce the cost of energy in Zambia. Fuel prices are high making Zambian businesses cost of production high, while electricity is erratic and expensive. Liberalising the electricity sector would allow for more distributors and generators.
- 6.5 Quality and Safety Standards – There is a need to upgrade the laboratories at ZABS, Ministry of Agriculture and the Food and Drugs Laboratory to increase the range of testing. In addition, these three institutions should be harmonised. Further EPAs can be used to encourage investment from EC private sector to set up in Zambia or through a joint venture with Zambian companies.
- 6.6. Widen the tax base. – Zambia needs to widen the tax base. Currently only five hundred thousand people pay tax while more than 2 million people are engaged in income generating activities. This is very difficult and it is likely that the tax system will concentrate more on VAT and direct taxes. It is possible that these taxes will go up to bridge the gap left by the revenue loss from customs duty. With an EPA and the proposed reciprocity, Government will loose a substantial amount of money which came through customs duties. Other sources of revenue require to be found or the social sectors will suffer.

## ***7.0 ZAMBIA'S NEGOTIATING POSITION ON DEVELOPMENT ISSUES***

From the foregoing it is clear that there are a number of issues that have to be addressed for Zambia to greatly benefit from an EPA. However not every item discussed above has to be a negotiation tool as some of the issues can be addressed by the Government administratively and internally. The following are some of the policy prescriptions that the Government can take up. The priority areas for negotiations should be as follows:

- Infrastructure development - from the discussion in the paper it is clear that transport infrastructure is a priority because of Zambia's land size and its position as a landlocked country. Transport facilitates effective trade and lower cost of trade and enhances competitiveness. Another area under infrastructure development is the development of irrigation systems to stimulate the agricultural sector. Zambia could seek development assistance to create a reliable transport system in Zambia both on roads and railways. The EPA negotiations should also be used to seek assistance to develop irrigation systems. Irrigation systems are an effective way to reduce poverty, as they will empower rural people involved in agriculture to engage in agricultural activity throughout the year.
- Diversification of the economy so that it does not rely only on mineral products. While the agriculture has been identified as an alternative, it is clear that this is a short-term measure. When compared to the developed world agriculture has increasingly become a small contributor to GDP. Thus Zambia should look at other sectors which it can explore and build capacity in e.g. the computer sector. It should be noted that world demand for some agricultural products is declining. Zambia should seek for assistance to carry out research studies that would identify other areas of competence.
- Capacity building – While Government officials will require capacity building in trade negotiations and fiscal and debt management, they will also need to build capacity to ensure that programmes and national plans are implemented. Development assistance will be required to build capacity at national and at least provincial levels of government. But in order to ensure good governance and accountability there is also a need to develop and build capacity in the private sector and civil society. Specifically, the private sector and civil society need to be active in multilateral and bilateral trade arrangements, regional trade agreements such as Common Market for East and Southern Africa (COMESA) and SADC. Further, capacity needs to be built on trade initiatives that are granted by the developed world such as the EBA and the AGOA to ensure that such facilities are fully utilised.
- Technical education and Research and Development (R&D) – EPAs should be used to seek development assistance in the area of technical education and research and development. EPAs would be used to solicit for funds to fund Zambian technical colleges such that they streamline their programmes to those required by industry. Further studies (R&D) by technical colleges could be funded by the EU countries in areas where Zambia could gain comparative advantage. Such programmes are expected to develop human resources and instill a sense of entrepreneurship in technical schools and also create a link between the school curriculum and the private sector (industry).

- Macro-economic stability. Zambia still needs to continue with fiscal discipline to ensure that inflation is brought to a single digit, the exchange rate is stabilised and that the tax system is streamlined and not cumbersome. The EPAs negotiations have to consider that for Zambian companies to perform and compete favourably they have to operate in an enabling and stable environment. Zambia still suffers from huge budget deficits and will require development assistance in terms of direct budget support. In addition Zambia will have to come up with a framework that offers checks and balances to ensure that resources are well accounted for. Apart from a stable macro-economic environment the Zambia investment code must be streamlined to encourage investment in Zambia. Zambia could use an EPA to resolve the bottlenecks that have been identified as the cause of low investment into the country that is funding to review the labour laws and streamline the tax administration and review the customary land tenure system.

## **8.0 WHAT ZAMBIA CAN OFFER TO EU**

With the coming into effect of an EPA, it is expected that EU companies will have access to the Zambian market. However because Zambia has low purchasing power, Zambia may be required to offer more to receive the development assistance it is requesting. Zambia could consider tying the opening up of its markets to the development assistance it will receive from the EU. That is, if the EU agrees to fund the infrastructure development in transport and telecommunications, Zambia could then lower its tariffs by 40% to EU companies.

Zambia may also offer to look at the EU's request to liberalise its telecommunications sector and use this as its last offer for the development assistance requested. However, before liberalising this sector, studies to help verify the impact of such an action are needed.

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