An Assessment of the Zambian Diagnostic Trade Integrated Study

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CUTS Africa Resource Centre (ARC), Lusaka
Plot 6078/A Northmead, Greatest Road, Lusaka, Zambia
Telefax: +260-211-294 892, E-mail: lusaka@cuts.org
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Abbreviations and Acronyms

AfT	:	Aid for Trade
AGOA	:	African Growth and Opportunity Act
COMESA	:	Common Market for Eastern and Southern Africa
CSOs	:	Civil Society Organisations
DTIS	:	Diagnostic Trade Integration Study
FDI	:	Foreign Direct Investment
EBA	:	Everything But Arms
EDF	:	European Development Fund
EIF	:	Enhanced Integrated Framework
EIFTF	:	Enhanced Integrated Framework Trust Fund
EPA	:	Economic Partnership Agreement
EPZ	:	Export Processing Zone
ESA	:	Eastern and Southern Africa
EU	:	European Union
GATS	:	General Agreement on Trade in Services
GATT	:	General Agreement on Tariffs and Trade
GDP	:	Gross Domestic Product
GSP	:	Generalised System of Preferences
HIPC	:	Heavily Indebted Poor Country

IF	:	Integrated Framework
IMF	:	International Monetary Fund
IPRs	:	Intellectual Property Rights
ITC	:	International Trade Centre
JITAP	:	Joint Integrated Technical Assistance Program
LDC	:	Least Developed Country
MATEP	:	Market Access, Trade and Enabling Policies Project
MCTI	:	Ministry of Commerce, Trade and Industry
MFNP	:	Ministry of Finance and National Planning
MTS	:	Multilateral Trading System
PRS	:	Poverty Reduction Strategy Paper
PSD	:	Private Sector Development
SADC	:	Southern African Development Community
SEED	:	Support for Economic Expansion and Diversification
SMEs	:	Small and Medium Enterprises
TRIPs	:	Trade-related Intellectual Property Rights
UNCTAD	:	United Nations Conference on Trade and Development
USAID	:	US Agency for International Development
WTO	:	World Trade Organisation
ZACCI	:	Zambia Association of Chambers of Commerce and Industry
ZAMTIE	:	Zambian Trade and Investment Enhancement Project
ZBF	:	Zambian Business Forum
ZEGA	:	Zambia Export Growers Association
ZIC	:	Zambia Investment Centre
ZIPAR	:	Zambian Institute for Policy Analysis and Research

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Abstract

Introduction

Integrating better into the world economy, through more trade, could help Zambia grow faster and reduce poverty. Such has been the example of successful developing countries that took advantage of the rapid growth in international trade as a poverty reduction strategy. For many years, developed countries have provided incentives in the form of market access and aid to facilitate the integration of developing countries, particularly the least developed countries (LDCs), into the multilateral trading system (MTS), so that they could take advantage of the growth and development opportunities offered by international trade. However, very little has been achieved over the years. Despite the immense potential that trade has for accelerating poverty reduction, it was always ignored in the poverty reduction strategies and national development plans.

As a result, there has been a greater recognition of the supply-side constraints faced by the LDCs and, hence, an equal, if not more, emphasis on increase in Trade-Related Technical Assistance (TRTA) to enable LDCs overcome the supply side-constraints and mainstream trade in poverty reduction strategies, in addition to the offers of better market access.

One of the initiatives that was launched in 1997 is the Integrated Framework (IF). The IF provides LDCs the chance to identify their TRTA needs and products of comparative advantage, constraints and ways of promoting these exports to accelerate poverty reduction, through the Diagnostic Trade Integrated Study (DTIS). The identified needs are prioritised in action matrices that are ideally supposed to be integrated into national development plans and Poverty Reduction Strategies (PRSs) funded by donors and government.

However, some policy makers and civil society organisations (CSOs) have criticised the DTIS as being not comprehensive enough and also lacking local

ownership. Cognisant of these criticisms and inherent weaknesses, the IF was enhanced to provide for more co-ordination and resource predictability. In addition, the EIF structures were improved in benefiting countries, through setting-up of effective partnership among national stakeholders, donors and the IF agencies.

Objective of the Study

The overall objective of the study is to make an assessment of the DTIS in Zambia under EIF and its relevance to building trade capacity and eventually lead to poverty reduction.

Findings

The study observes that the DTIS provides enormous potential for Zambia to diversify its export base and accelerate national development. The assessment has shown that the proportion of non-traditional exports in total exports has reduced over the years, despite increasing in absolute terms. The performance of non-traditional exports has remained below the potential and has grown at the same rate as the traditional exports. Moreover, most of the identified prerequisites to effective implementation of the DTIS recommendations have remained unresolved.

Capacity building in trade among policy makers, CSOs and the private sector has remained a challenge. Despite the efforts that are being made to improve the DTIS under the EIF, the assessment reveals that it is not in tandem with the national development plans and lacks local ownership. The assessment shows that the DTIS could be strengthened by including more areas that are identified, based on, among others, their comparative and competitiveness advantages, employment generation potential and ability to promote domestic trade.

The following policy implications are identified:

Policy Implications for Government

- Include more areas in trade, based on the above or improved criteria. The areas identified, among others, include absence of trade in services, mainstreaming of gender, livestock, honey, Intellectual Property Right (IPR) sector, etc.;
- Include promotion of domestic trade as a means of attaining economies of scale necessary for improving competitiveness and foreign market penetration;
- Engage more stakeholders in updating the DTIS so that that more relevant sectors and innovations are included and ownership ensured;

- Build up a database of required information to strengthen envisaged updating of the DTIS. In this regard, institutions like the Central Statistical Office have to be involved to provide necessary information;
- Explore the One-Village-One-Product (OVOP) concept for specific products like soya beans, wood and wood processing. The civil society could play a big role by using its large network to research this area;
- Enhanced mainstreaming of trade in the national development plans;
- Promote trade as a potential tool for poverty reduction among various policy makers;
- Provide TRTA to exporters in order to improve their quality of products for export;
- Identify champions to lobby for political will to mobilise resources for trade promotion;
- Advocate for increased funding towards trade-related capacity building for government, private sector and CSO officials;
- Streamline the National Working Group on Trade, focusing on sectoral sub-committees and enhance the capacity of the trade expansion sub-committee of the Private Sector Development (PSD) Steering Committee to deal with policy issues. In addition, these committees must include people from provinces;
- Government could further improve donor co-ordination through the EIF steering committees; and
- Continue improving the trade facilitation infrastructure that comprise, among others, road network, transit facilities at the borders and telecommunication.

Recommendations to CSOs

- Continue lobbying and advocating for communities with export potential that have been excluded from the MTS and the EIF, in particular;
- Strengthen the campaign for policy flexibility and an end to coerced liberalisation. This is crucial for defending Zambia's producers; and
- Continue strengthening the research and information dissemination network to all stakeholders in the various provinces. This will increase awareness of trade and EIF among various stakeholders and possibly facilitate their participation.

1 Introduction

There is broad consensus among economists and development planners that, above aid and debt relief, trade has the potential to reduce the share of the world's poorest in global prosperity. The development experience of Western countries, and more recently Asian and some Latin American developing countries, suggests that no country can successfully develop without engaging in international trade and attracting foreign direct investment (FDI) capital. While trade is not an end in itself, it can enhance a country's access to a wider range of goods and services, technologies and knowledge. Moreover, trade stimulates the entrepreneurial activities of the private sector that foster job creation and vital learning processes. It attracts private capital and increases foreign exchange earnings. Above all, it generates the resources for sustainable development and the alleviation of poverty (Page, 2007).

1.1 Rationale of the Study

Despite the well-documented nexus between trade, economic growth and poverty reduction, trade has traditionally not been factored into the national development plans and poverty reduction strategies in most low income countries. Often, poverty reduction strategies have focused on social spending. For instance, efforts to alleviate poverty through PRS mooted by the international financial institutions during the late 1990s advocated for increased and ring-fenced social sector spending on health, education and other social sectors. Trade liberalisation and piecemeal conditional market access offers that were introduced earlier could not help LDCs to move their countries out of poverty, leading to most development practitioners acknowledging that free trade is not a magic wand.

Although trade may be necessary for sustained industrial development, but it is not sufficient. In the right circumstances, trade liberalisation creates opportunities for development, but other factors determine the extent to which those opportunities are realised. Gross welfare gains from trade liberalisation need to be balanced against its associated adjustment costs. In many cases, LDCs lack the necessary exporting infrastructure (e.g., efficient ports, adequate roads, reliable electricity and communications), technology and knowledge to meet product standards prevailing in high value markets. To benefit from liberalisation, developing countries also require public investments in infrastructure and institutions as well as private investment in productive capacity (Stiglitz, J. 2006).

The realisation that trade liberalisation alone cannot integrate LDCs in the MTS and achieve the goal of sustainable economic growth has generated consensus that complementary aid for trade for developing countries is important to enhance their trading capacity and overcome the supply-side constraints. As a result, the IF was established in 1997 as one of the donor initiatives to support LDCs to identify their trade development priorities. The main purpose of the IF is to generate a broad-based policy agenda for trade and growth, consistent with a country's development strategy, and prioritise capacity building needs to which bilateral and multilateral donors respond. Participating LDCs are required to identify TRTA needs through DTISs. The identified needs are prioritised in action matrices that are ideally supposed to be integrated into national development plans and PRS funded by donors. By 2008, 25 out of 50 LDCs, including Zambia, had completed their DTIs.

As in most LDCs, the IF in Zambia has been riddled with many challenges, among which is lack of country ownership and limited engagement in the in-country stakeholders, especially the civil society and the private sector during the development of the DTISs. In addition, the original design of the IF was considered to be unresponsive the needs of the LDCs. As a result, the IF was revised and enhanced, resulting into what is called the Enhanced Integrated Framework (EIF). Presumably, lack of ownership and limited participation by stakeholders under the IF resulted in the gaps in the current DTIS. In this regard, the Consumer Unity & Trust Society conducted this study to assess the Zambian DTIS under the EIF.

1.2 Objectives of the Study

The overall objective of the study is to make an assessment of the DTIS in Zambia under the EIF and its relevance to building trade capacity and eventually lead to poverty reduction. Specifically, the study seeks to:

- explain what the EIF is;
- identify gaps in the DTIS;
- identify implementation constraints; and
- provide recommendations for improvement of the 2005 DTIS.

1.3 Methods and Data

The evaluation was carried out as “desk study”. Thus, it relied more on literature reviews which were supplemented by limited stakeholder interviews within the government and private sector organisations. Interviews with stakeholders sought to determine their perception of the DTIS implementation and potential areas for inclusion within the EIF. As part of the survey on the global financial crisis, specific questions on export promotion, the DTIS process and implementation were included.

Among the institutions that were interviewed include Civil Society for Poverty Reduction, Ministry of Finance and Economic Planning, Ministry of Mines and Mineral Development, the Zambia Development Agency and the Zambia Chamber of Commerce and Industry. In addition, the paper benefited from the various presentations made to the EIF sensitisation workshop organised by CUTS in January 2009.

1.4 Organisation of the Report

The rest of this report is organised as follows: Section two discusses briefly the position of Africa in the MTS and the evolution of EIF, Section three provides the status key contents of the Zambian DTIS. Section four identifies gaps in the current DTIS that could be improved. Sections five and six, outlines the opportunities that the EIF provides and the conclusions respectively.

2 Africa in the Multilateral Trading System

Given the importance of trade in the development process of a country, efforts in the international trading system have focused on providing special and differential trade policies to LDCs. The earliest measures encouraged an import-substitution strategy, while the offer of special market access encouraged exports. Article XVIII of the General Agreement on Tariffs and Trade (GATT) has, since 1947, allowed developing members to protect imports and use domestic policy to develop some sectors[1] .

The export side received more attention in the 1970s. The GATT, in 1971, allowed preferences, as an exception, to the most favoured nation (MFN) treatment, through a waiver. Individual developed countries implemented their own access arrangements. This was reinforced by the adoption of the enabling clause in 1979. The enabling clause authorised not only preferences for developing countries but also additional special treatment of LDCs. Despite the host of preferences that LDCs have enjoyed in the MTS, the extent to which they have accelerated development and poverty reduction remains mixed.

While some countries have been able to transform their economic structures through diversification of their economies, a host of LDCs have remained poor and highly undiversified (Page, 2007, UN, 2004). Their share in global trade remains low and has been declining over the years. Particularly Africa's share has declined by half between 1980 and 2007. Africa's share of the global trade is now approximately 3.1 percent, a decrease of one-half since 1980, when it was approximately six percent (See Table 1). Europe and Asia dominate world trade.

Table 1: Percentage Share in Global Trade 1980-2007						
	1980	**1990**	**2000**	**2005**	**2006**	**2007**
Africa	5.9	3.1	2.4	2.9	3	2.9
South and Central America	5.5	4.1	5.7	5.5	5.7	5 . 5
Asia	17.9	16.9	23.7	27.7	28.6	29.1
North America	14.5	15	16.4	12.1	11.8	11.4
Europe	43.9	47.3	40.2	43.3	41	40
Developed Asia	6.7	8.6	7.9	6.1	5.7	5.5
Oceania	1.4	1.4	1.2	1.2	1.2	1.2
Source: UNCTAD, 2008.						

2.1 Constraints to Export Growth

In spite of the market access preferences that LDCs have been accorded, they are ill-equipped to take full advantage of existing opportunities. They face a number of supply-side constraints that are impeding sustainable growth of the export sector. The major binding constraints are in trade capacity, economic infrastructure and institutions needed to meet standards in export markets, or simply knowledge about market opportunities and how to access them, productive capacity in the export sectors and issues related to Trade-Related Adjustment Assistance. These have been compounded by a decline in certain agricultural commodity prices and tariffs, subsidies and other trade barriers in export markets. Muchimba et al (2009) identify the following three broad specific constraints to LDCs' diversification and increasing of their exports:

Trade Policy Capacity: Most of the LDCs lack the capacity to formulate, design and implement trade policy to suit its own specificities. Furthermore, the understanding of trade issues among government and private sector and civil society has remained limited.

Export Capacity: It is a major area of concern among companies reducing non-traditional products. In most cases, companies lack the capacity to produce enough to export, while in some cases, inadequate finance, knowledge and technical know-how is lacking. In the Zambian case, a number of firms that produce export products are not export ready. This constraint is more pronounced in the small and medium sectors that ought to play a role in job and wealth creation.

Economic Infrastructure: The major economic infrastructure constraints arise from poor roads, railways, air transport, telecommunications and energy supply and generation. These deficiencies are especially binding for LDCs like Zambia that are landlocked. Exporters have to endure long routes to international ports impacting negatively on the competitiveness of export products.

3 Evolution from Integrated Framework to Enhanced Integrated Framework

The IF was originally established in 1996 to increase the effectiveness of trade-related technical assistance to LDCs. It stemmed from the observation that the LDCs lagged behind the more developed countries in trade integration, which is viewed as a powerful instrument for growth and poverty alleviation. Participating agencies, comprising the International Monetary Fund (IMF), the International Trade Centre, the United Nations Conference on Trade and Development (UNCTAD), the United Nations Development Programme (UNDP), the WTO and the World Bank, combined their efforts with those of LDCs and their other development partners to respond to the trade development needs of LDCs, to enable the beneficiaries participate in the MTS.

In spite of enrolling over 40 LDCs by 2000 on the "needs assessment" for technical assistance in trade as a first step of the IF process, the implementation remained marginal and enough money was mobilised from the donors. As a result, the six participating agencies reviewed the progress in 2000 and adopted a number of recommendations and implemented a number of institutional changes to revamp the effectiveness of the programme. Two principal objectives were adopted for the revamped IF. These were to mainstream trade into the LDCs' national development plans or PRS and to assist in the co-ordinated delivery of trade-related assistance.

Thus, bilateral donors were urged to pool their resources through the programme. The revamped IF governance structure comprised of a steering committee overseeing the programme and a working group managing the IF.

The committee provided policy direction and assessed the progress. Furthermore, a secretariat, housed at the WTO, was established to manage the day-to-day activities of the IF. The UNDP managed the trust fund.

Following the recommendations by the Development Committee of the World Bank and meetings in 2005, an IF task force, comprising representatives from LDCs and donors, was established at the WTO to provide recommendations to enhance the IF. The WTO Hong Kong Ministerial Conference endorsed the three elements that constitute the EIF, which consists of:

a) Providing increased, predictable and additional funding on a multi-year basis;
b) Strengthening the IF in-country, including mainstreaming trade into National Development Plans (NDPs) and PRSs; more effective follow ups to DTIs and implementation of action matrices; and achieving greater and more effective co-ordination amongst donors and IF stakeholders, including beneficiaries; and
c) Improving the IF decision-making and management structure to ensure an effective and timely delivery of the increased financial resources and programmes (WTO, 2007).

3.1 Governance Structure

The adoption of the above recommendations restructured the global and national governance of the IF. It has become a partnership between LDCs and bilateral development partners and the six participation agencies at the national level. The EIF implementation structures were improved in benefiting countries through setting-up of effective partnership among national stakeholders, donors and the IF agencies.

At national EIF structure has been improved through the establishment of:

National Steering Committee: These are supposed to comprise of members from various national ministerial, the private sector representation, civil society and a lead donor representative. The committee approves a five-year implementation plan; and supervises EIF process and implementation. Multiple membership is supposed to ensure that all stakeholders participate in trade policies and strategies together.

Focal Point (FP) and National Implementation Unit (NIU): It implements the five-year implementation plan, with focus on mainstreaming and preparation of priority projects to develop trade capacity.

Donor Facilitator: The donor facilitator supports the FP and the NIU to find development partner funding for priority projects to supplement the small Enhanced Integrated Framework Trust Fund (EIFTF) allocation for priorities.

At the global level, a governance structure has been put in place. There is an EIF board in which all partners are represented. In addition, a new secretariat has been set up. The secretariat is headed by an executive director. Among other responsibilities, the secretariat will provide support to governments in managing the IF process and also provide assistance to national focal points and NIUs.

3.2 Implementation of EIF

According to the WTO (2007), the implementation of the IF comprises four stages, ensuring country ownership, defining the demand side and subsequently bridging demand and response. These include:

- Awareness-building on the importance of trade for development;
- Preparation of a DTIS to identify constraints to traders, sectors of greatest export potential;
- Plan of action for better integration into the global trading system – the "Action Matrix" and integration of the plan of action into the national development plan, such as the Poverty Reduction Strategy Paper (PRSP); and
- Implementation of the action plan in partnership with the development partners.

3.3 EIF Disbursement Mechanisms

Funding of the trade priorities flowing from the diagnostic comes from two sources: the multilateral IF Trust Fund and resources mobilised by the country, typically from bilateral and multilateral donors. The IF Trust Fund has two financing windows referred to as Tier 1 and Tier 2.

a) Tier 1 is meant to finance building the human resource capacity of the IF national implementation arrangements (NIAs); provide operational support to the NIAs, including some local running costs and equipments; prepare and/or update the LDCs' DTIS; and facilitate and support trade mainstreaming in planning processes.
b) Tier 1 funding is accessed through proposal initiation by the NIU, approved by the Board in consultation with United Nations Office for Project Services (UNOPS) and Peruvian Ministry of the Interior (ES). The disbursement is made direct to the government or appropriate project implementing institution or agency identified by recipient country. The funding for Tier

1 could be obtained from the Institute for the Future (IFTF) or Bilateral partners.

c) Tier 2 is aimed at providing bridging funding to jump-start project-related activities identified and prioritised in the DTIS and its update. The Tier also covers costs related to small priority project preparations, project development activities and feasibility studies and seed projects. Other activities include: preparatory support for infrastructure and large project implementation; and development of national export strategies and their implementation.

Funding for this Tier could be accessed from IFTF and bilateral regional and multilateral donors.

4 The Diagnostic Trade Integration Study in Zambia

Export diversification through expansion of non-traditional exports (by reducing reliance on copper and cobalt) and PSD are the two main pillars for sustaining increased exports and economic growth in Zambia. With 64 percent of the population living on less than US$1 a day in 2006, Zambia's domestic market is too small to support the sustained high growth in production and employment necessary to make a marked reduction in poverty. In this regard, Zambia has acceded to a number of global initiatives aimed at enhancing the capacity for export promotion. One such initiative is the integrated framework auspices of the IF for TRTA.

Zambia became a beneficiary of the IF for TRTA to the LDCs (IF) initiative in 2004. Upon being enrolled as a beneficiary in 2004, Zambia went through the four stages of implementing the IF. The country developed the DTIS report in 2005, based on the standard methodology. The report highlighted the country's trade policies and performance, the potential areas of export diversification and the constraints to exports promotion. Furthermore, the DTIS identified some of the requirements for effective implementation of the trade strategy. These elements are discussed in detail.

4.1 Potential Products For Export Diversification and Greater Integration

During the development of the DTIS, the assessment of the trends in exports revealed that Zambia is still depended on copper and cobalt for its export earnings. The two accounted for over 60 percent of Zambia's foreign exchange. However, it was also noted that that the country had established a convincing track record of diversifying its exports away from copper. The study showed that the share of the NTE in total exports increased from eight percent in 1990 to 38 percent in 2003. The study encouraged further diversification to increase Zambia's share of exports in the global market by taking advantage of both regional and international export opportunities.

Furthermore, the DTIS observed that Zambia has immense potential to increase her exports, especially of natural resource and labour-intensive activities such as agriculture, agro-processing, tourism, textiles and garments and light manufacturing as areas with greater potential for export diversification and poverty reduction. These areas were supported by export opportunities within the region and in the international market abound for most of the identified products. The specific products/crops and markets identified are:

- Cotton was regarded as Zambia's largest cash crop for smallholders. It was noted that by planting cotton, smallholders gain access to credit through the distributor system for purchasing inputs and also benefited from a guaranteed market for cotton. The export markets identified were South Africa and the European Union (EU).
- Tobacco offered an agricultural opportunity and accounted for 10 percent of total agricultural exports (1995-2001). The bulk of the tobacco is sold through Zimbabwe and Malawi, where there are established auction and processing facilities.
- Coffee, the DTIS noted, was a low cost coffee producer. The product accounted for about six percent of total agricultural exports and is grown by large commercial farmers. Furthermore, the industry benefited from financial support from the World Bank's Coffee II funds and the EU's Export Development Programme. Export markets were the EU, South Africa, the US and Japan.
- The Study noted that paprika had great potential and is mainly produced by commercial farmers with irrigation facilities. The country supplied two percent of world demand for paprika and has the potential to increase production.
- Floriculture and fresh flowers, which are mainly grown on approximately three dozen farms in an irrigated area of 5,000 hectares close to Lusaka's international airport, were identified as potential foreign exchange earners.

The two accounted for 38 percent of total agricultural exports. Europe is the largest market, accounting for 80 percent of total output.

- Processed and Refined Food sector is one of the robust NTE sub-sectors. It constitutes a broad range of exportable products such as white spoon sugar, wheat flour, high protein cereal foods, vegetable and seed oils, stock feed, wheat and maize bran. Others include molasses, beverages, vinegar, fruit juices, tea, cereal maize, honey and orange concentrates. While some sugar is exported to the EU, virtually all the processed foods were sold within eastern and southern Africa, with the Democratic Republic of Congo (DRC) being the largest single destination.
- Tourism was prioritised by the government in 1997. The sector was earmarked for increased government expenditure and international promotion.
- Zambia is one of the world's three-largest producers of emeralds and has large quality reserves of tourmalines, aquamarines, amethysts, citrines and garnets. Despite the huge potential, the sector is riddled with illegal mining activities which have served to depreciate the reputation of Zambia as exporter of gemstones. The government established the Zambia Gemstone Exchange whose aim is to provide an equitable marketing system and seeks to stabilise the sector.
- Engineered metal products sub-sector is divided into three specific groups comprising semi-finished and finished non-ferrous metals, finished metals and other engineering products. Products include bare wire, copper rods, copper wire, aluminium cable wire, flat metal sheet, drums, building wire, power cables and steel wire. The successful privatisation of the mining sector was expected to improve efficiency in mining and strengthen the competitiveness of this sector. Most of the production is destined for regional markets and is traded under either Common Market for Eastern and Southern Africa (COMESA) or Southern African Development Community (SADC) rules. The rest is exported to Europe.

4.2 Pre-requisites to Effective Implementation of Trade Strategy

A number of pre-requisites to the success of the export promotion and trade strategy were identified the DTIS. The prerequisites included:

High Level of Political Commitment – The report noted that achieving an export-oriented growth led by the private sector requires political commitment at the highest level. Backed by government's development strategy oriented towards economic diversification and private sector driven development, a forum was held in Livingstone in June 2004 to discuss and endorse the Private Sector Development (PSD) Programme in attendance of the President. The forum assigned the responsibility for overseeing the implementation of the agreed action plan to the Domestic Business Council (DBS), chaired by the President.

Mainstreaming Trade Policy – The DTIS noted that export promotion should be placed at the centre of Zambia's development and poverty reduction strategy and be reflected in the main policy documents of the government. It further called for the government to make export-oriented private sector-led growth the overriding objective of its economic policies and incorporate this objective into the new PRSP and the NDP.

Co-ordination within the Government **–** It was noted that various ministries and agencies share the responsibility of formulating and implementing trade policies. As such, the report advocated for interagency co-ordination with each ministry dealing with a different aspect of trade policy.

Effective Public-private Partnership – It is highlighted as essential to the creation of an enabling environment for the planned re-orientation of the economy. The PSD Strategy, prepared in close cooperation with the private sector, was expected to maintain the momentum of the public-private partnership (PPP) through the DSB, the PSD Steering Committee and the National Working Group on Trade (NWGT), which were established to deal specifically with trade issues.

Enhancement of Trade Capacity – It was isolated as the greatest challenge of the government and other stakeholders in coping with the growing set of trade policy issues and negotiations. The DTIS called for the strengthening of trade capacity within and outside the government.

Donor Co-ordination – The DTIS observed that Zambia receives donor assistance for trade from a variety of bilateral and multilateral sources. The study called for aid for trade (AfT) to be integrated into the Harmonisation in Practice (HIP) Action Framework that Zambia signed with the donor community. Further, the study recommended that IF Programme plays a co-ordinating role with DTIS findings providing the basis for identifying priorities and determining the division of labour among donors in mobilising resources to support Zambia's export-oriented private sector-led development strategy.

4.3 Improving Trade Facilitation and Capacity

A number of elements were identified as crucial to improving trade facilitation. Nsumpila (2009) highlighted the main trade facilitation elements as:

- Improving efficiency in customs administration through upgrading the customs infrastructure that include equipment, human and physical infrastructure and procedures;
- Creation of single clearing and payment window for all border agencies that include Agriculture, Bureau of Standards, Health and Zambia Revenue Authority;
- Improving transit and clearance procedures and establishing a fast track facilities;
- Reducing transport costs through augmenting capacity in transport industry with training in regulations, logistics, financial management and marketing; and
- Improving standards act.

In addition, the study further identified the need to improve the capacity to formulate, negotiate trade agreements and coordinate and implement trade policy. Specifically, the report identified the following as critical:

- Establishment of trade policy analysis unit in Ministry of Commerce, Trade and Industry (MCTI);
- Expansion and training of staff engaged in trade in and outside government;
- Establishment of the Zambian Institute for policy analysis and research with a dedicated trade economist; and
- Incorporate trade issues into inter-agency policy formulation and implementation mechanism.

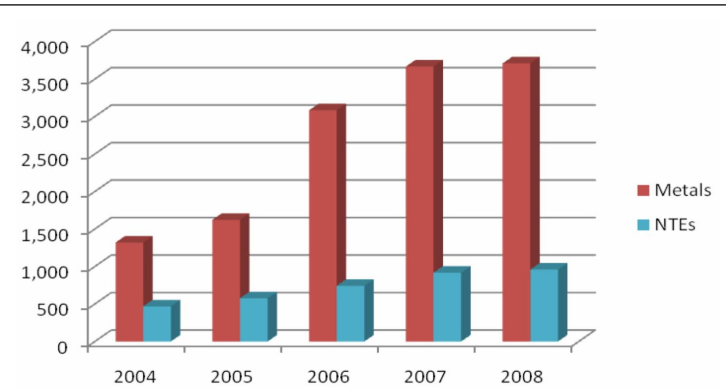
5 *Highlights of Achievements*

The DTIS in Zambia was developed at a time when several programmes were already on-going in most of the identified areas. For example, the tourism policy was introduced in 1997, while tobacco and cotton producer associations and loan schemes in floriculture and gemstones had already been introduced by some co-operating partners, such as the United States Agency for International Development (USAID), through Zamtie project and the European funds. The efforts, however, may not have been fully co-ordinated. This makes it difficult to isolate programmes that could have been implemented purely from the formulation of the DTIS. However, the general trends in exports are as follows.

5.1 Assessment of Export Performance

Total exports quadrupled from US$1,084mn in 2003 to US$4226mn in 2007. Most of the growth in exports has been driven by copper and cobalt exports.

Figure 1: Trends in Exports



On the whole, the value of NTEs doubled from US$484,917,000 to US$826,586,790 in 2003 and 2007. The share of NTEs drastically dropped from 40 percent in 2003 to 20 percent in 2007 (Figure 1).

The rapid growth in copper exports resulted from the increased investment and production in the sector accompanied by high copper prices on the global market. The country has not been able to diversify its export base away from copper. The export performance of selected NTEs identified in the DTIS is discussed. These are presented in Table 2.

Cotton

Cotton is mainly produced by small-scale farmers under various out-grower scheme management by multinational corporations such as Dunavant, Lonrho and Chipata cotton. Apart from cotton farming, small-scale farmers also grow other crops such as maize, tobacco, soya beans and groundnuts. This makes the cotton as a crop very sensitive, as its production levels largely depend on the prices offered by these sponsors.

In the 2006-07 production season, there was a massive decline in the national production of cotton from 118,426 metric tonnes recorded in 2005-06 production season to a meagre 54,886 metric tonnes in the year under review. The drastic reduction in production levels is attributed to adverse events that occurred in the Eastern province where majority of the farmers opted to grow other crops because sponsors offered unattractive prices that were unprofitable (ZDA, 2008).

As a result of reduced production, the combined export earnings of cotton lint and cotton yarn exported declined by almost half from US$80mn in 2005 to US$49.5mn in 2007 and US$42.9mn in 2008. The decline in cotton exports is explained by the reduction in response to the anticipated unfavourable prices arising from the appreciation of the Kwacha between 2005 and 2007.

Tobacco is the largest export earner under the agriculture sub-sector. Export earnings declined from US$70.0mn to US$63.2mn in 2006 and 2007, respectively. The earnings increased to US$74.6mn in 2008. The fall in national production is attributed to reduced hectarage, especially by small-scale farmers, who largely depend on sponsors for inputs and chemicals to produce.

Table 2: Performance of Selected NTEs								
	2005		2006		2007		2008	
	Value	**Share**	**Value**	**Share**	**Value**	**Share**	**Value**	**Share**
Copper Wire	106.5	19	175	23.1	195.4	23.6	163.5	17.6
Cane Sugar	67.8	12	54.3	7.2	74.4	9	60.7	6.5
Burley Tobacco	60.3	11	70.5	9.3	63.2	7.6	74.6	8
Cotton Lint	55.9	10	62.3	8.2	37.1	4.5	35.4	3.8
Electrical Cables	48.5	9	103.7	13.7	150.5	18.2	54.5	5.9
Fresh Flowers	32.1	6	34.7	4.6	38.3	4.6	23.7	2.6
Cotton Yarn	24. 1	4	18.9	2.5	12.4	1.5	7.5	0.8
Fresh Fruits & Vegetables	21.3	6	25.3	3.3	24.6	3	27	2.9
Gemstones	19.5	3	18.1	2.4	28.6	3.5	32.4	3.5
Gasoil/ Petroleum Oils	9.8	2	10.3	1.4	20.9	2.5	25.9	2.8
Electricity	3.8	1	7	0.9	7.3	0.9	3.3	0.4
Other	105.29	19	161.5	21.3	265	32.1	445.5	48
Exporter Audit Adjustor	NA	NA	15.6	2.1	-91	-11	-26.3	-2.8
Total	**565.69**	100%	**757.2**	**100**	**826.6**	**100**	**927.6**	**100**
Source: Ministry of Finance and National Planning, 2009.								

Coffee

The country is well suited to irrigate coffee production with ample land and water resources. The sub-sector remains critical as a major foreign exchange earner. According to ZDA (2008), the amount of exports declined by 31 percent in 2007 to 3222 metric tonnes from 4,676 metric tonnes in 2006. Exports in 2007 declined by 12.76 percent to US$7,973,043 from US$9,139,157.77 recorded in 2006. In 2008, the exports increased to US$9.4mn. The decline in exports is explained by the decrease in national production, mainly driven by the liquidation of Mubuyu farms, while the second-largest producer, Mpongwe Development farm, abandoned the production of coffee and switched to the production of other crops such as soya beans and maize. There is overwhelming demand for Zambian coffee in the international market.

Amid these adverse occurrences, the Zambia Coffee Growers Association (ZCGA), has been trying to promote the production of coffee at a small-scale level. The UTZ Kapeh released funds in 2007 to the ZCGA to help fund and train small-scale farmers grow coffee. The farmers are trained in production skills, recording and agronomical practices. Trained farmers are certified.

Floriculture – Cut flowers

This sector is associated with cut flowers and summer flowers. The main varieties, summer flowers, exported from Zambia include hypericums, solidago, rudbekia and liatris. The flower growers are concentrated within Lusaka for ease of access to the international airport through which they are exporting flowers. The floricultural sector contributes both to foreign exchange earnings and poverty reduction through its creation of employment opportunities. In 2007, over 6,000 people, of whom more than 50 percent are women, were employed. These women are widely engaged during picking, grading and packing stages of the chain.

The value of cut flowers increased from US$32.1mn in 2005 to US$38.3mn in 2006, before dropping to US$23.7mn in 2007. The total cut flower exports increased to US$26.9mn in 2008. This increase is mainly attributed to increased investments in the sector, thus resulting in increased export quantities and earnings. Part of the growth is attributable to the increase in the production hectarage of the existing farmers, who are trying to take advantage of expanding opportunities in the EU markets as well as the South African Market. The Netherlands is the main destination of the Zambian cut flowers. It absorbs about 80 percent of these exports. Additional significant markets in order of size were Great Britain, Germany and South Africa, US, Norway New Zealand and Switzerland.

Processed Foods

The export of processed foods has continued to increase over the years. The exports increased by an annual average of nine percent between 2006 and 2009. The earnings increased by 11 from US$103.57 in 2006 to US$114.43 in 2007 and by seven percent to US$122.94mn in 2008. The growth in the export trend has continued to be attributed to wider market access in both regional and international markets which have continued to benefit the country, especially for sugar export. Zambia's exports of sugar to the EU under the Fair Trade Arrangement was over 20,000 metric tonnes of the expected 30,000 metric tonnes for the year under review (ZDA, 2008).

Engineered Metal Products

One of the goals of the Zambian diversification programme is to transform primary commodities into manufactures through value addition. Production of engineered metals provided a good opportunity to transform raw metals into intermediate and final goods. During the period between 2005-2008 the sector recorded export earnings amounting to US$302.82mn in 2008 after a 27.6 percent decline to US$210.49mn 2007 from US$ 288.60mn in 2006. The sector's contribution to total NTEs dropped to 25.47 percent compared to 38.11 percent in 2006.The sector has remained the highest contributor to total NTEs on account of increased production and favourable international prices. The specific products include bare wire, copper rods, copper wire, aluminium cable wire, flat metal sheet, drums, building wire, power cables and steel wire.

The major export markets include South Africa, which continues to be the largest principal market for cables, copper rod and aluminium, followed by Kenya, Tanzania, Zimbabwe, Malawi, Botswana, Namibia and DRC. Other markets were Uganda, Philippines, Switzerland, Hong Kong, India, Mauritius and Mozambique. Kenya has remained the biggest market for engineering products amongst the COMESA member states.

Tourism

The tourism sector is the government's third priority sector, after mining and agriculture. The government has provided a number of investment incentives and promotion activities in a bid to promote tourism exports, employment generation and poverty reduction. As a result of the government's commitment, the sector experienced some unprecedented growth between 2005-2007. Using restaurants, bars and hotels, the sector grew by 14.2 percent from US$0.02bn in 2006 to US$0.228bn in 2007. Earnings increased from US$176.7mn to US$188mn during the same period. This growth rate is reflected in both tourist arrivals and bed occupancy rates.

The room occupancy rate increased by 2.0 percentage points from 59.1 percent in 2006 to 61.1 percent in 2007. Similarly, bed occupancy rates rose marginally from 51.0 percent to 53.5 percent in 2006 and 2007, respectively. Sectoral employment increased from 19,652 in 2005 to 22,756 in 2007.

The government has since embarked on improving the sector's performance through opening up other tourist attraction areas, especially the Northern corridor, through provisioning of the basic infrastructure.

Table 3: Selected Indicators for Tourism Performance 2005-2008			
	2005	**2006**	**2007**
Number of Rooms	5,521	5,682	5,549
Number of Beds	9,417	9,425	9,660
Room Occupancy Rate	57.2	59.1	61.1
Bed Occupancy Rates	49.0	51.0	53.5
Revenue (US$ millions)		176.70	188.0
Employment	19,652	21,204	22,756
Source: MoFNP 2006, 2007 and 2008.			

5.2 Assessments of Pre-requisites to Effective Implementation

High Level of Political Commitment – Most successful trade reforms and export diversification promotion strategies in the world have benefited from high level political support. This is because implementation entails co-ordination between different government agencies, new practices need necessary resources and get full support of the private sector. Top-level political support needs to be enunciated and followed up by the creation of a high level Steering Committee to guide the process to efficiently implement its resource mobilisation from both the national budget and donor community.

The government has shown some political commitment to trade promotion through a number of initiatives that include, among others, the creation of the Domestic Business Council (DBS), supposedly chaired by the President, and facilitation of private sector participation in international fairs for investment and trade, especially in India and China. For instance, with the full support of the cabinet, the MCTI invited ZDA to facilitate the participation of companies at the 11th and 12th China International Fair for Investment and Trade (CIFIT) and to also be part of the official delegation during the Minister's tour, as part of his official duties in China.

Beyond these initiatives, the interviewees observed that the high political offices needed to be more proactive in export promotion and help co-ordinate exporters through the domestic business council which has not been functional since its creation. Special incentives, with political backing, could be given to exporters that meet certain targets that could be set under the collaboration of the private and public sector players. Thus, the implementation of the DTIS in Zambia lacked the high level political backing.

Co-ordination within the Government – Most of the exporting in Zambia is undertaken by the private sector. However, various government agencies and ministries are responsible for establishing an adequately favourable export promotion environment that includes a stable macroeconomic environment, a competitive exchange rate that entails a sustainable fiscal environment and efficient trade facilitation. The existing trade promotion agents and structures need to be strengthened, by inclusion of other government units, whose activities affect export competitiveness, to ensure that the overall incentive framework is appropriate. The all-inclusive co-ordination unit should function as an antenna within the government. The unit could ensure that the overall government operations are supportive of exports and that bilateral and international agreements to which Zambia is a signatory are monitored.

Although the current structures are open to most of the critical institutions, they have remained unrepresentative, as some institutions, such as the Bank of Zambia that is in charge of the monetary and exchange rate policies, are not fully represented. The absence of critical institutions such as Ministry of Finance and Bank of Zambia that could help the promotion export diversification has adversely affected the competitiveness of exports. Due to macroeconomic instability, the NTEs sector was adversely affected in 2005 and 2006. See Box 2 for an example of the need to include all key players, including monetary and fiscal policy authorities.

Public-private Partnership is highlighted as essential to creation of an enabling environment for the planned re-orientation of the economy. The PSD Strategy, prepared in close co-operation with the private sector, was expected to maintain the momentum of the PPP through the Domestic Business Council, the PSD Steering Committee and the Trade Expansion Working Group (TEWG), which were established to deal specifically with trade issues.

Enhancement of Trade Capacity was isolated as the greatest challenge of the government and other stakeholders in coping with the growing set of trade policy issues and negotiations. The DTIS recommended the strengthening of trade capacity within and outside the government.

The Ministry had inadequate staff, with a high rate of staff turnover. The scanty staff has a heavy burden of day-to-day responsibilities and frequent international meetings, with limited capacity to analyse policies and a chance to co-ordinate their implementation of programmes. This scenario is compounded by inadequate independent units outside of the government, which has the necessary expertise to conduct in-depth studies and serve in an advisory role

Box 2: Impact of Exchange Rate Instability of Exports

As a result of the increased copper export earnings and reduced debt servicing after the country attained the HIPC completion point, the Zambian Kwacha appreciated from ZK4755.35 in January 2005 to ZK 3200 December 2005. The rapid appreciation of the currency reduced the competitiveness of NTEs to an extent that some companies closed down, while others downsized their operations. The Bank of Zambia study on the impact of the appreciation of the currency revealed that a number of exporters were impacted negatively. Out of the 400 major exporters, 149 companies were surveyed. The following were the major findings:

The appreciation of the kwacha hurt over 73 percent of the exporting companies, seven percent gained from the appreciation, while 20 percent were not hurt. Most of the firms that were adversely affected exported 80 to 100 percent of their output, with less than 30 percent of imported inputs. The negative result of the appreciation led companies to, among others things, stop exporting or close down (26 percent), as was the case in the cotton sector, lay off workers (tourism), reduce output, increase local sales, changed invoices of local suppliers from dollars to kwacha and hoard exports.

Further, it showed sectors were affected differently. In agriculture, 83 percent of the firms were adversely affected, three percent favourably affected and 14 percent were not affected. In tourism, 78 percent of the firms were adversely affected, three percent favourably and 19 percent were not affected. All gemstone exporters noted that they were adversely affected. In manufacturing, 57 percent were badly affected. Most of the exporters noted that the adverse effect of the appreciation of the kwacha was exacerbated by higher inflation, which stood at 15.9 percent in December 2005, and interest rates at an average of 27 percent. Clearly, the study shows that, if the government is to maintain export diversification, employment generation and generally increase exports and economic growth, it has to pay attention on increased macroeconomic stability.

to both government and business/civil society. Apart from limiting the content of the DTIS, has continued to limit the participation of key stakeholders such as CSOs, the private sector and other critical Ministries. Capacity building remains a major challenge to CSOs and other government departments/units.

As recommended in the DTIS, the Zambia Institute for Policy Analysis Research (ZIPAR) has been established. However, it is not yet operational and its impact is yet to be felt.

Mainstreaming Trade Policy into National Plans: Although trade has, for a long time, been recognised to be an effective tool for poverty reduction, it has traditionally been neglected in the national development plans and poverty reduction strategies. The FNDP's broad policy objectives for the trade sector are as follows:

- Transform Zambia's economy into a diversified and competitive one, which is well integrated into the international trading environment;
- Stimulate and encourage value addition activities on primary exports;
- Stimulate investment flows into export-oriented production areas in which Zambia has comparative and competitive advantages;
- Formalise, monitor and regulate domestic trade activities; and
- Assist domestic firms to increase their levels of efficiency.

Although the IF encouraged mainstreaming trade in NDPs, it is noted that was not sufficiently mainstreamed in the Zambian case. The co-ordination between the PSD reforms, DTIS Action Matrix, the IF process and the FNDP has not been effective, leading to duplication of resources. There is need to align PSD reform priorities with the broad policy objectives of the FNDP and enhance resource allocation to the Ministry of Commerce, whose mandate has been increasing over time. Moreover, the DTIS has largely been seen as a donor document set in stone. This has limited government funding for most of the areas in the DTIS, as its expenditures are guided by the NDP.

Furthermore, an interview with MoFNP officials in the budget and planning Directorates revealed that they were not aware of the existence of the DTIS. Mainstreaming trade in NDPs and increased inter-agency interaction on trade issues could provide an opportunity for discussions and adaptation of trade policies that enhance poverty reduction.

Donor Co-ordination : The DTIS observed that Zambia receives donor assistance for trade from a variety of bilateral and multilateral sources. The study called for AfT to be integrated into the Harmonisation in Practice (HIP) Action Framework that Zambia signed with the donor community. Further, the study recommended that the IF Programme plays a co-ordinating role with DTIS findings, providing the basis for identifying priorities and determining the division of labour among donors in mobilising resources to support Zambia's export-oriented private sector-led development strategy.

Prior to the adoption of the EIF, Simumba T, 2008 observed that, after many years of neglect, trade has become a popular field among donors. However, there is a risk that the lessons learned only slowly in other sectors will have to be reinvented in the trade field. Donors involved in trade and private sector development have not traditionally co-ordinated as a group with the public or the private sector and do not pool resources together. With the increase in donor projects now starting, or under development, the government needs to ensure that they address priorities in a co-ordinated way. The donors need to assist the government in establishing a sense of priorities, from the perspective of its development goals, to channel their financial and technical support accordingly and to promote sustainability by building long-term capacity. This is now being done for PSD and initiatives under the EIF, where the lead donor has been identified to assist co-ordinate donor efforts and align them to government priorities. Generally, there is an urgent need to improve donor co-ordination in the area of trade capacity-building and promotion. The Zambia Development Agency (ZDA) identifies the main donor programmes that have been active in the country. They include:

a. *Zambia Export Development Fund – ZEDEF (Export Development Programme II- EDPII)*

   This is a EUfinanced Export Development Loan Fund, managed by the ZDA. The objective of the fund is to assist in the expansion of the Zambian Non-traditional Exports. The ZEDEF was born out of the conclusion of the second EU-funded Export Development Programme (EDPII), which ran from January 2003 and concluded on December 31, 2007. Therefore, the ZEDEF is a result of the transfer of the Export Finance Facility from EDPII to ZDA. EDP I was a US$7.5mn revolving fund for selected producer associations in tobacco, horticulture, coffee, high value-added crops and textile sectors. The EDPII is a US$3mn fund with the same purpose, which assisted a total of 28 producer associations to expand market knowledge and contacts, to develop exports, increase management capabilities, increase employment and improve access to capital and finance. From EDPII, approximately US$47mn in incremental exports were generated and 4,095 jobs were created.

b. *Production, Finance and Technology (PROFIT)*

   This is a five-year USAID-funded programme that targets production, finance and improved technology as a means of fostering increased economic growth and reduced poverty in rural Zambia. PROFIT takes a three-pronged, industry-based approach to fostering increased growth and poverty reduction that includes:

   - improving linkages within industries in which large numbers of Medium and Small Enterprises (MSEs) participate and might benefit;

- fostering firm/industry level capacity to respond to market demands both in the short and the long run; and
- increasing the breadth and depth of benefits at the industry, firm and household levels.

The project offers capacity building, grants and inter-firm cooperation.

c. *Market Access Trade and Enabling Policy (MATEP)*
The MATEP project is a five-year USAID economic growth project designed to increase Zambia's exports of agricultural and natural resource products and tourism services into regional and international markets. The initiative recognises that local demand, beyond basic food needs, is limited and only by exporting will Zambia be able to raise the incomes of its rural population. The MATEP has five closely interlinked components to achieve its export objective. These are: market access, private sector trade and enabling policy, tourism, finance and HIV/AIDS programmes.

d. *Other Aid for Trade Projects and Programmes*
Zambia has also received and participated in several activities and programmes by bilateral and multilateral donors and institutions to build trade capacity in the economy. The major programmes are Joint Integrated Technical Assistance Programme (JITAP) and IF.

JITAP was established to mobilise expertise and to help African countries participate in the WTO, integrate into the new MTS and take advantage of new trade opportunities in the global market. JITAP has improved capacity on WTO issues through seminars, workshops and training and has established reference centres and national enquiry points in Zambia. The programme has also strengthened national dialogue on trade, through the establishment of inter-institutional committees, bringing together the government, the private sector and the civil society over trade issues.

Zambia became a beneficiary of the IF for TRTA to the LDCs (IF) initiative in 2004. This is supported by the IMF, the ITC, the UNCTAD, the UNDP, the World Bank and the WTO.

Trade Facilitation: The government, with assistance from regional and international donors, has implemented a number of trade facilitation programmes. The programmes are aimed at simplifying the "border issues and border in issues". The Customs Department has installed the Automated System for Customs Data (ASYCUDA) to facilitate clearance at the borders.

Furthermore, a number of export procedures are being simplified. Notable efforts include among others:

- The government, through regional trade facilitation arrangements, has embarked on constructing one-stop border post with neighbouring countries. These border posts also house various trade facilitating agents such as customs, health, agricultural and bureau of standards officials together.
- The paper flow of different parties that intervene in the process of clearing goods has been streamlined. Goods are being exported following Pre-Shipment Inspection.
- Introduction of greater selectivity in customs control has led to the introduction of Green Channel targeting, profiling, random, but minimal, physical inspection and a Red Channel physical inspection. The time spent by truckers at Chirundu border, where this initiative has so far been introduced, has drastically been reduced. The remaining challenge is to extend the service to other borders.

However, a number of constraints to trade facilitation still persist. Most of the "border issues" are being addressed at only one border.

6 Constraints to Exports Diversification and Increased Exports

Apart from failing to meet most of the prerequisites identified in the DTIS, a number of constraints have continued to limit the exports diversification and promotion in Zambia and attainment of its objectives. Among the constraints that hamper the effective implementation of the DTIS recommendations in Zambia are:

Poor Infrastructure

The weak and poor state of internal transport infrastructure inhibits exporters from taking full advantage of the global market opportunities. While road and railway lines exist, connectivity to sea ports and other key production areas is not adequate in the country. At the moment, railway transport continues to be beset by frequent derailments, low wagon availability and longer turnaround times that makes road transport more competitive. The limited facilities at border entry and exit points also have been identified as bottlenecks in boosting efficiency in cross-border trade. In addition, the water transport, telecommunications and airways have remained largely poor and costly.

Lack of Local Participation and Ownership

One of the main challenges of the implementation of the DTIS, however, remains lack of genuine country ownership towards making trade a key tool of economic development. Generally, ownership is in everyone's interest because this sets up the base for implementation and adaptation of diagnostic outputs to country requirements. Generally, the civil society respondents observed that they were not involved in the development of the DTIS. Moreover, the DTIS was undertaken by foreign consultants with little or no local participation. The limited local participation has been blamed for the absence of some trade themes in the DTIS such as IPRs, gender, services and trade-related investment measures.

Inadequate Data on Given Trade Themes at National Level

Appropriate data is essential for the formulation and facilitation of the prioritisation of specific trade policies. In Zambia, the DTIS does not provide detailed and disaggregated information on some key issues such as the employment and quality of wages, the distribution of gender and age of actors in the identified sub-sectors. This is essential in designing polices targeted at addressing and mainstreaming specific national poverty problems such as rural poverty, urban poverty and gender.

Lack of an Export Strategy

Although export diversification promotion activities have been implemented in Zambia since the mid 1980s, the country does not have a well-defined and politically-backed export strategy that aims at lifting export constraints and, more generally, fostering export performance. To enable its exports to reach their potential, Zambia needs to define a coherent export development programme which is given high political support. The programme should set out clear priorities, allocate the implementation responsibilities to well-identified institutions and actors and put in place a well-defined mechanism to monitor progress, motivate all involved and hold them accountable. As most constraints facing exporters are not directly trade-related, but have to do with supply issues, the strategy should be sufficiently broad to deal with these "behind the border "issues.

Furthermore, the ZDA identified the following as key the constraints to export diversification in general.

Financial Constraints

Low supply of and difficult access to development finance constrained growth in the export sector. Loan financing conditions in most banks are still unsustainable for long term projects. The high lending rates at banks, collateral conditions and charges constituted make it difficult for exporters to acquire long term loan financing for equipment and technology upgrades. The high levels of lending interest rates have also been attributed to the escalating cost of doing business, affecting commercial bank operations. These include costs relating to telecommunications, statutory reserves and staff costs that are relatively high.

Quality Standards

Exporting firms continue to be constrained by the absence of suitable testing laboratories with services that are accredited, thereby making quality assurance for export products very difficult. Zambian products, therefore, face a major challenge in accessing export markets with stringent quality standards and regulations and sanitary and phyto-sanitary (SPS) requirements, due to lack of accredited quality seals.

Export Capacity

Export capacity has been observed to be a major area constraint to increased export of non-traditional products. In some cases, it is an issue of production capacity, while in other cases, where production capacity exists, it is inadequate finance, knowledge and technical know-how that is lacking. A number of firms that produce export products are not export ready. This constraint is more pronounced among the small and medium enterprises (SMEs) that ought to play a role in job and wealth creation. The government has continued to work diligently, with institutions supporting business management and entrepreneurships skills, in order to build individual export commodities like flowers, cotton etc

Inadequate Supplier Diversification

The lack of supplier diversification has continued to constrain expansion in the non-traditional export earnings. Investment in non-traditional export sector to diversify the country's production base through value addition has been low. Currently, Zambia's exports are dominated by raw materials, whose price is determined by global trends, making export earnings vulnerable to shocks.

Favourable Metal Prices

The favourable metal prices impacted negatively on NTEs in two ways. First, the high inflow of foreign export earnings led to the appreciation of the kwacha, reducing the competitiveness of the NTEs. Second, an interview with the Ministry of Finance's Permanent Secretary revealed that policy makers in the Ministry shifted their attention from NTEs to metals because they expected copper prices to be sustained at the then obtaining high levels. However, with the fall in metal prices, government is emphasising diversification to NTEs.

7 Gaps in the Diagnostic Trade Integrated Study and Potential Areas of Improvement

Although the DTIS highlighted a number of areas that can be promoted to diversify the exports, the study ignores several sectors that cannot only accelerate diversification of Zambia's export base but also accelerate poverty reduction, which is the ultimate goal of the EIF and the AfT initiative. Moreover, the DTIS did not present any new export product innovations and promotion strategies to trade diversification, apart from what has existed since the late 1980s. Most of the agriculture-based products identified have long been on national export priorities, through the export board. As noted earlier, this could be due to the limitation of the World Bank standard template, use of foreign consultants and insufficient data used in the development of the DTIS.

Cognisant of these potential limitations of the DTIS, the EIF has provided for inclusion of new products. In addition, Tier 1 has funding for revision of the DTIS. Zambia has an opportunity to improve its DTIS. It can generally be buttressed by including emerging trade initiatives, critical elements to global trade and products that have a huge export and poverty reduction potential. In addition, any process of revising the DTIS under the EIF must ensure local ownership through stakeholder participation and consultations.

7.1 Identification of New Products and Methodology

A baseline diagnostic study to inform new DTIS needs to be undertaken to identify the products and opportunities that have the potential for social and economic development of each district[2]. Such a baseline study should be based both on quantitative information (including trade statistics and market access data) and qualitative information. This information should not only cover big enterprises or corporations but also SMEs. The domestic trade and export potential of a product group should be defined to include both those sectors that already have a proven track record (existing export capacity) and to those that do not yet export, but fulfil many of the necessary supply conditions. Based on the methodology employed by WTO/UNCTAD/ITC in 2005, the potential should be gauged by examining several broad dimensions, including:

- The characteristics of the international environment, such as growth of world demand and Zambia's access to international markets;
- The current export performance of Zambia, such as its world market share;
- The domestic supply capacity, such as the quality of products or the efficiency of supporting industries;
- Cost of initiating or expanding production to exportable levels; and
- The potential for employment generation, especially in rural areas and among women.

These criteria embrace all the requisites of international competitiveness and comparative advantages. Using these criteria, a number of commodities could be identified. For instance, some obvious products missing in the DTIS that could be included are the following[3] :

7.1.1 Trade Services

While the country has promoted tourism since 1997, the DTIS of 2005 does not include any other service for promotion, despite the huge potential that the sector presents to the country. Globally, trade in services has become an important source of foreign exchange and a tool for poverty reduction. In countries like Ghana, Nigeria, Cuba and Djibouti, the export of services constitutes a key source of foreign exchange and employment, which is a pre-requisite to poverty reduction. In addition to tourism, Zambia could explore the potential of exporting labour services.

Labour Services (Trade in Mode 4)

The export of labour has been an important option for reducing poverty and improving household livelihoods in many African and Asian economies. Usually two types of labour services are identified. These are semi-skilled and skilled labour. There are no estimates of unskilled labour migration from Zambia to other countries. However, there is evidence of skilled labour, especially teachers and medical professionals leaving the country for better conditions of service. The demand for skilled medical personnel in the region and internationally is high. Interviews revealed that some regional countries, such as Namibia, are willing to import health personnel from Zambia. Zambia could exploit this opportunity by increasing investments in training and export of medical personnel. This will help solve some of the employment problems that the country is facing.

In addition to employment generation, remittances from export of workers can be an important source of foreign exchange earnings for Zambia. The available data shows that the amount of remittances by Zambian in the Diaspora has increased from US$57.7mn in 2006 to US$59.3 and US$68.2mn in 2007 and 2008, respectively. While these remittances may come at some considerable cost, in terms of family disruption, there are long term benefits, in the form of developing skills, contacts, business networks and linkages to markets and information. Furthermore, Zambia could explore opportunities of exporting semi-skilled workers in seasonal employment opportunities that open up in developed countries.

In this regard, Zambia technically could be assisted to establish bilateral cooperation with the countries that absorb the majority of its health professionals (such as UK and South Africa) to manage cross-border flows of health service providers. This could be in the form of host countries compensating Zambia through assistance agreements or ensuring that the latter's health professionals return after serving a fixed period. Among the areas that could be strengthened under such arrangements are the training of the human resources, equipping of training schools with qualified tutors (from both Zambia and the host countries), relevant literature, equipment and adaptation of the syllabi to meet the professional requirements of the host countries. The migration could then be managed through special visa schemes and recruitment programmes for overseas health professionals (Mudenda, 2008).

Call Centres for Firms in Developed Countries: Outsourcing of Services

With improved infrastructure, in terms of telephones and electricity, Zambia could explore the potential for business outsourcing for call centres. Zambia has a large pool of trained and convertible youths. Unlike India and other West African countries, Zambia has comparative advantage in a clear English ascent that is essential for provisioning of services associated with call centres. There is need to explore the potential that such call centres have in generating employment and remain competitive, compared to other countries.

7.1.2 Other Products

a. *Agricultural Sector*

The long term solution to poverty reduction through trade while diversifying the economy is to adopt trade policy strategy that focuses on commodities that can be produced and be exported by the poor. Some of these areas include:

Livestock and Livestock By-products

Zambia's livestock sector contributes in a major way to incomes in rural areas (especially Eastern province, Southern Central and Western Province.

Box 3: Exploring the One Village One Product (OVOP) strategy

The "OVOP" strategy has been implemented in a number of countries as strategy to promote exports from rural areas that have adopted export-oriented growth and poverty reduction strategy. The initiative aims at stimulating local economies through a participatory process. Each village or town drives the process by identifying, developing, and promoting a specific product or service in which it possesses comparative and competitive advantages. The role of local authorities or trade promoting agencies is to support those local entrepreneurs and enterprises developing the necessary capacities to innovate, develop brands and link their products to markets. The core objective of the project is the empowerment of rural communities so that they are able to initiate and manage their own community-based development process and participate in domestic and international trade. The OVOP projects have proved successful in poverty reduction through export promotion. In addition, they have already been tested by the donor community. This could make resource mobilisation easier. Examples OVOP projects are that have been funded and proved useful are:

Case in Philippines:

OVOP projects in Nueva Ecija Province in the Philippines, supported by the Japan International Cooperation Agency (JICA) have "generated almost 2,000 new jobs and provided community-based employment for about 195 small communities." Japan has recently embarked on a five-year (2005-2010) capacity-building project.

The EIF in Zambia could adopt similar initiatives to help micro, small and medium enterprises to produce or manufacture, offer and market distinctive products or services through the use of locally available materials and local skills and talents. In Zambia, the potential products include among others:

Cassava, rice, ground nuts and soya beans – could be promoted in most rural areas such as Luapula, Eastern and Western provinces.

Contd...

Wood and Wood Products – Zambia posses' huge potential in Western, Copperbelt and Northern provinces. Localising industries in these areas could expand Zambia's export base. Organic Honey production remains immense in Northwestern and Central provinces.

Japan has made the OVOP movement an integral part of its "New Development Initiative for Trade" which was presented at the WTO Ministerial Conference in Hong Kong n 2005 and focused on three areas of trade development support, namely, supply-side support ("PRODUCE"), distribution and export support ("SELL"), and market access for LDCs ("BUY"), with duty-free and quota-free market access (DFQFMA) for essentially all LDC products. The Initiative, which is a part of Japan's development package announced at the G8 Gleneagles Summit, aims to provide US$10bn over the by 2010, as well as an exchange of a total of ten thousand trainees and experts during the implementation period.

The potential remains immense in Luapula and Northern Provinces. The sector is over-represented among the poor. However, its export performance and potential are insufficiently recognised.

The sector is not well integrated in the national economy and for a long time has been relatively neglected. Interviews with Ministry of Agriculture and Co-operative revealed that production of livestock could be efficient, given the national resources and rainfall. Exporting could be an economically profitable activity, even though the fertility and weight of the livestock is rather low, when compared with production in some neighbouring countries such as Namibia and Botswana. The existing export potential appears unexploited. Careful policy action could better bring this potential to the fore. In addition to the potential export of beef, the sector has other by-products, such as milk and cheese processing and hides, that could be produced and exported to both international and regional markets. The priority sector study identified beef and cattle products, like cheese and hides, as having a favourable international market.

In this regard, the sector would require technical assistance in elimination of cattle diseases that threaten the industry as well as capacity building among herders to upgrade the quality of the livestock to the standards, as demanded by buyers. Although the Ministry of Agriculture and Co-operatives has a live stock development department in charge of revamping sector, the department is constrained by inadequate financial resources and staff for extension services. This area has a huge potential as animal husbandry is part of life in many local communities.

Other Agricultural Products
In addition to the identified areas, agriculture generally presents a huge opportunity for Zambia to diversify its exports, especially to the regional markets. One advantage of regional markets is that the entry requirements are less stringent and cross-border trade tends to be prominent. The JITAP Priority Sector study identified a number of products that have huge export potential. These include honey and bee wax, maize and soya beans, rice and cassava. With the huge agriculture potential, Zambia could adopt the one-village-one-product initiative to promote the production of enough quantities that can meet the demand of given buyers without difficulties (Box 3).

b. *Handicrafts*
Handicrafts offer considerable potential in the context of a pro-poor trade strategy. In addition to the dedicated producers and traders of handcrafts, their production can be organised through household units to fit around the timing of seasonally driven activities such as crop planting and harvesting. The rich tradition of handicraft production in many parts of Zambia has yet to be brought to the attention of international buyers. The potential for the export of these handcrafts remains immense, considering the burgeoning tourism trade and open markets in the US, under African Growth and Opportunity Act (AGOA) initiative and the EU, under the Everything But Arms (EBA). Some crafts being sold in the Zambian tourist markets are actually being imported from East Africa. For producers to be able to take advantage of new economic opportunities and capture new markets, they need assistance to expand their production capacity and upgrade the quality of their products to the standards demanded by buyers.

The export market to other international markets still remains unexploited. The challenge for technical assistance here is to facilitate the building of relationships and systems which enable people to work out of small production units and households to produce products to a specification and identified demand. In addition, the use of Information and Communication Technology (ICT) could be used to convey market information and foster transactions of handcrafts produced in rural areas.

7.2 Further Areas of Improvement

a. *Gender Mainstreaming into Trade*
Given the overall objective of the EIF of mainstreaming trade into national policies, as a tool for poverty reduction, it is important to note that poverty has a gender dimension. In Zambia, studies have shown that there are more

poor female-headed households than male headed ones. Whereas 75 percent of the female households were classified as poor in 2006, only 63 percent of the male households were identified as such. The gender patterning of poverty requires policy responses that address them.

Consensus among economists is that trade and trade liberalisation policy have a pervasive effect on women's lives: it has a direct impact on their income earning capacity (as employees or entrepreneurs), it also influences government policies to provide services to women and, ultimately, it can change women's role in society (UNCTAD, 2003).

In this regard, improving women's access to resources is imperative, if they are to take advantage of new employment and market opportunities stemming from trade expansion. Trade policy formulation and implementation has to be re-evaluated to accommodate not only market access and growth impacts but also the gender dimension. The government needs to develop trade policies and incentives that target at meeting the special needs of women. These include land title and ownership, credit and other financial services, technology and market information. The challenge is for international financial institutions, the national government, NGOs and the private sector to co-ordinate efforts and scale up programmes to reach larger portions of the population. For such an approach to be successful, there is need for better sex-disaggregated information on the gender impact analyses of trade reforms. From the foregoing, any baseline study and eventual revision of the DTIS under the EIF must take into account export-oriented sectors that have a full presence of women as entrepreneurs or employees[4] .

These sectors should deliberately be encouraged by giving them priority in seed trade skills and capacity building. Examples are floricultural sector, cross-border trade (in terms of border infrastructure for women traders) and women in mining. By using bilateral and multilateral donors, the EIF should promote creation of SMEs' producers associations that have greater women representation, in terms of entrepreneurship and employment.

b. *Trade-related Intellectual Property Rights* (TRIPs)

One of the main areas of concern for Zambia and sub-Saharan Africa (SSA), in general, has to do with implementation of the TRIPs agreement by 2016. The agreement entails that the creation of knowledge and the ability to adopt and adapt to the changing world conditions will become the basis of competitiveness, growth and development. It is envisaged that its implementation will have impact on the price of imports of patented products and the level of trade flows and their balance of payments. In theory, the effect of the IPR regime on prices and trade flows is ambiguous. The result depends on the relative importance of the market power and expansion effects. Stronger IPR could lead to a larger effective market for patented products as the ability of local firms to imitate the product is reduced. There could also be a cost-reducing effect, if firms have to devote fewer resources to discouraging imitation in the particular market. This market expansion effect could lead to an increase in exports to the market with stronger IPR.

Despite the importance of TRIPs in the MTS, the current DTIS does not address it. It is essential that IPR implementation issues are addressed to ensure that Zambian trade is not derailed in 2016. The DTIS could provide the IPR needs assessments and legislative reviews necessary to align the country with international developments.

c. *Information Communication Technology (ICT) in Trade Promotion*
ICT is increasingly becoming the backbone of trade facilitation. It plays a crucial role in facilitating trade through information transmission between countries and urban and rural areas. While telecommunication has improved over time, more needs to be done to reach the poor. Moreover, E-commerce, or trading using internet, has not fully taken off in Zambia, due to lack of facilities and an enabling legislation. The credit card utilisation, which is a pillar for customers to engage in E-commerce transactions, is non-existent. This is partly due to lack of a coherent policy framework.

d. *Monitoring and Evaluation Mechanism*
Given the objectives of the EIF and the identified expected development results, stakeholders have to set up and/or strengthen the countries' monitoring and evaluation systems, in order to track progress being made under the programme.

8 Addressing Some of the Constraints and Available Opportunities

In a bid to make the EIF deliver, a number of activities have been undertaken. Firstly, the framework programme has identified six components that include: trade policy, trade capacity and policy co-ordination, trade facilitation, market access and penetration, aid for trade and standards, quality and metrology. Some of the programmes and projects being pursued within the EIF include, among other activities, the following:

First, the NIU has been established and the focal point adviser and national trade expert have been recruited. This has largely eased the co-ordination of the trade activities within the EIF.

Second, the DTIS matrix has been and can still be reviewed and amended to include other potential areas. Under the EIF, the NIU has facilitated the undertaking of the value chain analysis for livestock and honey sub-sectors.

Third, capacity building activities are being undertaken in various areas such as IPRs, investment promotion and trade negotiations

Trade policy and discourse capacity building proposal has been presented in conjunction with the University of Zambia. This course is aimed at training government, CSOs and private sector officials in trade issues.

Donor facilitator – The Finnish Embassy has been identified as a donor facilitator for the EIF in Zambia. It is envisaged that this donor facilitator will assist in the mobilisation and harmonisation of donor support for the promotion of trade.

9 *Conclusions and Policy Implications*

The paper has highlighted the evolution of the IF. In addition, the study has also highlighted potential export products for diversification as identified by the DTIS of 2005. The DTIS identified a number of products that include processed foods, engineering products, floriculture and fresh vegetables, cotton, tobacco, coffee and paprika. A closer examination of trade data revealed that the export of most of these products increased between 2005 and 2008. However, the performance is below the potential, mainly on account of the macroeconomic instability that had a negative impact on NTEs.

Although these products are important in Zambia, the DTIS ignores some of the critical and potential areas of diversification. These include livestock, honey and services. Rice, cassava and groundnuts have a huge potential in the regional markets. In addition, the IPR, ICT and gender mainstreaming need to be acknowledged and included.

Despite the huge potential for diversifying trade, the DTIS, under the IF, has not been able to fulfil its objectives, due to a number of constraints which, among others, include: lack of capacity to implement and co-ordinate trade policies, limited mainstreaming of trade and poverty in the NDP, lack of national ownership and high level political backing, limited funding, lack of a national export strategy, fragmented donor effort and inadequate funding. In addition, the country does not have adequate data for improved trade policy analysis and implementation for strategic policy formulation. The supply-side constraints remain entrenched in the economy.

Finally, the study observes that the EIF provides an opportunity for improved trade-related capacity building in both the private and public sectors. In addition, the framework avails the country with an opportunity to effectively harmonise and co-ordinate AfT in line with the Paris Declaration.

Policy Implications

Based on the findings of the report, the following policy recommendations are made:

Recommendations to the Government

1. There is need to revise and update the DTIS, in order to accommodate the areas that are currently not included and yet are critical for trade promotion. These areas could be identified by undertaking a baseline survey to identify areas of competitive and comparative advantages, potential impact on poverty reduction, potential and existing level of market penetration and domestic trade. Among the areas for potential inclusion, to firm up the DTIS, include:
    - Trade in services that include labour services and call centres;
    - Live stock and by products promotion;
    - Organic honey production and export promotion;
    - Handicrafts for both tourism and identified market exports;
    - Rice;
    - Cassava; and
    - Groundnuts.

2. The DTIS has to also include promotion of domestic trade as a means of attaining economies of scale necessary for improving competitiveness and foreign market penetration.

3. There is need to engage more stakeholders in updating the DTIS as way of ensuring that more sectors and innovations are covered and guarantee local ensure ownership.

4. There is need to build up a database of required information to strengthen the envisaged updating of the DTIS. In this regard, institutions like the Central Statistical Office have to be involved to provide necessary information.

5. There is need to explore the OVOP concept for specific products like soya beans, wood and wood processing. The civil society could play a big role by using their large network to researching this area.

6. There is need to enhance mainstreaming of trade in the NDPs.

7. There is need to increase the promotion of trade as a potential tool for poverty reduction among various policy makers.

8. There is need to provide TRTA to exporters in order to improve their quality of products for exports.

9. There is need to identify champions to lobby for political will to mobilise resources for trade promotion.

10. There is need to advocate for increased funding towards trade-related capacity building for government and CSO officials. Government has to Streamline the National Working Group on Trade, focusing on sectoral sub-committees, and enhance the capacity of the trade expansion sub-committee of the PSD Steering Committee to deal with policy issues. In addition, more stakeholders, such as the Bank of Zambia, have to be brought on board and improve inter-ministerial and trade agencies co-ordination.

11. There is need to extend the EIF and other national trade committees to provinces and district levels, if policy makers are to benefit from the bottom-up and top-down export promotion strategies. This will enable producers input into the national trade policy priorities and easily access funds that may be available through the EIF.

12. The government could further improve donor co-ordination through the EIF steering committees.

13. The government has to continue improving trade facilitation infrastructure that comprises, among others, road network, transit facilities at the borders and telecommunication.

14. In order to ensure effective mainstreaming of gender in trade, women organisations that are involved in trade have to be represented in the TEWG and other sub-committees.

Recommendations to Civil Society Organisations

1. There is need to continue lobbying and advocating for communities with export potential that have been exclude from the MTS and the EIF in particular.

2. There is need to strengthen the campaign for policy flexibility and an end to coerced liberalisation, without strengthening the supply-side, as identified in the DTIS under the EIF. This is crucial for defending Zambia's producers.

3. There is need to continue strengthening the research and information dissemination network to all stakeholders in the various provinces. This will increase awareness of trade and EIF among various stakeholders and possibly facilitate their participation.

4. Encourage the Zambian government to promote a critical debate on the role of FDI in Zambia's development.

5. Since implementation of the EIF programmes has to be done through the NIU at MCTI, civil society has the obligation to use its warm relationship with NIU staff to advocate for balanced capacity building in the government, the private sector and the civil society.

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Endnotes

1 This provision was strengthened in 1966.

2 See Box 3 on the one village one product concept for details.

3 This list is not conclusive. The list could be informed by baseline survey findings.

4 Incorporating gender-sensitive sectors in the DTIS and action matrices will make them eligible for funding under the EIF initiatives.

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CUTS International
CUTS Africa Resource Centre, Lusaka
Plot 6078/A Northmead, Greatest Road, Lusaka, Zambia
Telefax: +260-211-294 892, Email: lusaka@cuts.org
Web site: http://www.cuts-international.org/ARC/Lusaka/