

# The **ZIPAR** *Quarterly*



## **Lusaka needs Public Transport Reforms**

- Tax evasion still a challenge in Zambia
- Enhancing export performance in Zambia
- Innovative ways of bridging the financial gap for the poor

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## Message from the Executive Director



**W**elcome to our first edition of 2014. With this issue, we are unveiling a new look for the ZIPAR Newsletter. This newsletter will be sharing with you our readers some of the key events that have taken place in the Institute, findings of our research and studies and our views on topical issues that emerge on the economic landscape.

Our cover story talks about the need for Public Transport (PT) Reforms in Lusaka. This story and four others you will encounter in this issue are based on some of ZIPAR's research and studies out puts of 2013. One of the basic necessities that is top priority for any modern city but has eluded Lusaka over the last two decades is a public transport facility that is safe, efficient, comfortable and affordable. Our cover story brings to the fore some defects of the current PT system and recommendations to reform the current operational system.

Another story of key interest in this edition is about the Landmark Summit for African Think Tanks which took place in Pretoria, South Africa in February 2014. ZIPAR was honoured to be among the 50 leading think tanks from 25 countries in Africa that participated in the first continental meeting. We had the privilege to make opening remarks at the Plenary Session 1-Round table in which we pointed out critical issues that need to be addressed in order for think tanks to be more effective and dynamic. You will find these issues in our first article.

Indeed, the summit was timely and contemporary because today policymakers and civil society throughout the developing world face the common problem of bringing expert knowledge to bear on government decision-making. The challenge is to harness the vast reservoir of knowledge, information and associational energy that exist in policy research organizations on the continent for public good.

Africa's Think Tanks are potential reservoirs for leading ideas for Africa's transformation; hence the first summit in Pretoria provided an invaluable platform that will enhance African Think Tanks' capacity to nurture knowledge and learning and share lessons that enable growth, action and above all transformation. One of the ground breaking recommendations and plan of action participants at the summit committed to was to make this meeting a common feature on the continent and a steering group to oversee the planning of the next Summit was established.

As ZIPAR we remain committed to maximizing our involvement in such a dynamic fora to tap on transformative ideas that will enable the Institute to facilitate policy and development reforms for a better Zambia.

We hope you will enjoy reading the newsletter. We welcome your comments on [info@zipar.org.zm](mailto:info@zipar.org.zm) or check for the physical and postal address at the back of the newsletter.

**Dr. Pamela Nakamba-Kabaso**



By Zali Chikuba

# Lusaka needs public transport reforms

Based on ZIPAR Research Paper “Trip Modelling and Cost Analysis for Public Road Transport Systems”

The people of Lusaka have for a long time endured serious Public Transportation (PT) failures which complicate their mobility. It is usual for cities to sprawl as they grow; people migrate away from the center, so that distances are continually increasing between residential and work areas. This result in increased commuting distances, greater dependency on motorised transport, growing traffic and congestion levels and a greater average number of passenger trips. As a service, PT is expected to facilitate mobility of labour and a wider access to goods and services.

With a population of 1,747,152, Lusaka is the largest city in Zambia and the seat of Government. The city is one of the fastest growing in Sub-Saharan Africa. It ranks second on the MasterCard African Cities Growth Index 2012 – 2017 in terms of growth potential with Accra, Ghana on top. The concern is on the preparedness of the city to meet the transportation requirements of that growth. Today, the mass transit system in Lusaka is already in chaos.

PT operations in Zambia are in private hands and greatly deregulated. Liberalisation of PT operations aimed at achieving greater transportation efficiency and effectiveness through free enterprise and competition. The reforms succeeded in closing the passenger seat supply - demand gap created in the time of state owned and controlled bus operations. However, new challenges relating to mediocre service provision have emerged and the public institutions responsible for PT regulations are apparently inappropriately structured or resourced to contain the emerging challenges. The response of the public has been increased inclination to private motoring causing traffic congestions or walking.

## Public Transport Authorities

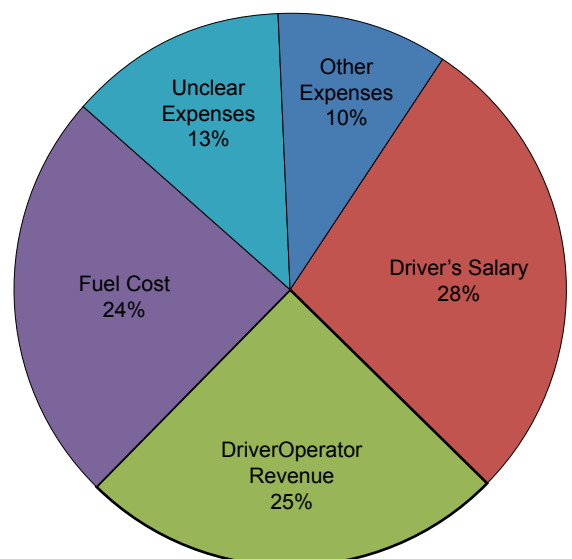
The Ministry of Transport, Works, Supply and Communications provides the PT policy framework. However, PT management is legislatively a function of the Ministry of Local Government and Housing. Thus, the mandate to run bus stations, recommend service levels, designate routes and develop route infrastructure is with Local Authorities (LAs). The Road Traffic and Safety Agency (RTSA) is mandated to register, control and regulate traffic among other things.



The regulatory functions of public transport are therefore wrapped-up in the functions of LAs and RTSA. Essentially, PT reform is contingent on the benevolence and response of these institutions to the following issues.

## Bus Fares

Lusaka bus fares are among the most expensive in the world (ZMW 4.20 - 5.20 or USD 0.80 -1.00) for a single intra-urban trip which is



Breakdown of bus fare

unsustainable. Lower income families spend as much as 40% of their incomes on PT, far above the average (26 %) which is itself twice as high as the international benchmark. Average monthly expenditure on PT is as high as ZMW 450 which is nearly  $\frac{1}{3}$  of the median household income. Since transit demand is relatively inelastic with respect to fares, these fares have telling income redistribution effects and increase the cost of doing business. However, the fares breakdown shows enough scope for further optimisation.

### Service Quality

Commuter satisfaction with the level of bus service in Lusaka is low. Long waiting times at the bus stations; irregular stops to pick passengers, and lack of sensitivity to time characterises the services. Most buses are inaccessible to the disabled people since that is not a requirement for passenger service vehicle registration. There is no official fare structure to facilitate transfers and special population groups transit.

Buses can enter the market based entirely on willingness to supply. Unfortunately this has led to over-capacity and in-route competition which lowers the average number of trips per driver to about 4 runs per day. The bus fleet is on average 13 year old and lacks necessary comfort features.

### Bus Ridership

Bus ridership in Lusaka is estimated at 453,000 passenger trips per day on over 10,000 vehicle trips.

For the city with over 1,747,152 people, this represents low bus ridership. On average a bus covers 72km a day. This is significantly lower than the international benchmark, 200-300 km.

### Recommendations

The bus fares absurdity, poor service quality and low ridership concern are sufficient reasons to demand reforms that increase public control of the entire PT system.

A two tier system that relates to transit demand is recommended. The first tier would hinge on bus service contracts for high demand routes and a well-defined regulatory regime with at least; (1) supply regulation and service management, (2) high occupancy buses and (3) a common ticketing systems. The second tier comprises a business as usual approach on the rest of the routes but, with supply regulation to avoid excessive in route competition.

### Conclusion

It is clear from the foregoing that PT is a critical local development issue. Most commuters recognise the defects of the current PT system; that it favours the elitist operators and their employees and hurts the lower income households. However, the market structure makes it difficult for them to demand operator justness and accountability. The welfare of the commuters under the circumstances can only be expected to worsen.

"Buses can enter the market based entirely on willingness to supply. Unfortunately this has led to over-capacity and in-route competition which lowers the average number of trips per driver to about 4 runs per day. The bus fleet is on average 13 year old and lacks necessary comfort features."



# Tax Evasion still a challenge in Zambia: Evidence from the PAYE Gap Analysis

In October last year, the government announced an ambitious and expansionary 2014 budget to the tune of K42.7 billion which is K10.5 billion higher than the 2013 budget worth K32.2 billion for 2013. Domestic revenues for 2014 are K4.8 billion above the 2013 Budget, and account for 21.2% of GDP or 69.2% of the total budget.

Of the total budget, tax revenue accounts for 62.4% of the budget or 19.2% of GDP with Income Tax and VAT accounting for the largest share. In 2014 government is projected to collect only 19.2% of GDP in tax revenue, not quite enough to support the budget. With the new GDP estimates of K97, 215.9 for 2010, which are 25% higher than the old GDP estimates of K77, 666.6 Million for 2010 released recently by the Central Statistical Office (CSO), the tax revenue to GDP ratio will even be much lower than the earlier estimated. This implies that more than ever before the government requires adequate domestic revenue mobilization particularly tax revenue to finance infrastructure and social programmes.

The contribution to total tax revenue is mainly through Pay-As -You-Earn (PAYE), Company Income Tax (CIT) and Import VAT. Of these tax types, PAYE can be said to be the most efficiently collected as it is withheld at source. However evidence from the few tax evasion studies conducted suggest that PAYE is also susceptible to tax evasion.

**PAYE is underperforming.** PAYE is one of the major personal income taxes collected by ZRA, contributing 26 percent to total tax revenue on average. Based on the analysis of data from 2010 Living Conditions Monitoring Survey using income of wage earners and self-employed above the PAYE exempt threshold, it is evident that there is a gap in PAYE between what is currently being collected and what could be collected. The analysis shows that PAYE potential from both the self-employed and the wage earners was estimated at K8, 886 million compared to the actual PAYE collected of K3, 683.5 million. This gives a K5, 203 million tax gap equivalent to 6.7% of GDP or 40.3% of tax revenue in uncollected taxes.

## Estimated PAYE Gap, 2010

This shows that despite that PAYE is mainly withheld at source and therefore expected to be one of the most taxes difficult to evade, it is also susceptible to tax evasion.

	Total (K 'million)
Est. PAYE	8,886
PAYE Revenue 2010	3,683
Tax Gap	5,203
GDP 2010	77,667
Tax Gap as % of GDP	6.7%
Tax Gap as % of Tax Revenue	40.3%

Despite the tax reforms in the early 1990s, the legal and administrative framework remains weak to sufficiently tackle cases of tax evasion.

**The Income Tax Act in its current form is not adequate to tackle tax evasion.** Currently the law provides for penalties for late filing, non-filing, non-payment of tax and fraud. While tax fraud or evasion receives the stiffest penalty at 52.5% of the amount involved plus interest at Bank of Zambia rate of 5%, the jail sentence provided for in the Act is rarely applied.

The Act is clearer in addressing issues of tax avoidance than it is with tax evasion. For instance, issues relating to profit shifting using techniques such as thin capitalisation and transfer pricing, though also inadequate in many aspects, have been given greater attention than tax evasion.

**Structural Changes.** Significant strides in improving efficiency in tax administration by ZRA are being made; however, a lot needs to be done to address tax evasion. Notable is the creation of the Tax Audit and Investigations units to address issues of tax evasion. However these two departments require further operational improvements including capacity building in terms of skills enhancement and increasing the number of officers in each unit. An optimal number of officers can increase the frequency of audits. The high frequency of audits has a likelihood of reducing tax evasion.

**Taxpayer Education.** Other innovations include Taxpayer Education and Advisory Services (TEAS) and the Tax Payer Charter which have been rolled out to improve tax payers' knowledge of taxes, obligations and rights. However there is need for a deliberate programme of improving tax literacy among tax payers and the general public.



The contribution to total tax revenue is mainly through Pay-As -You-Earn (PAYE), Company Income Tax (CIT) and Import VAT. Of these tax types, PAYE can be said to be the most efficiently collected as it is withheld at source



Upgrading of Information Systems. The ZRA website contains good information on taxes in Zambia. Recently ZRA rolled out the Tax Online programme aimed at improving compliance and efficiency in tax administration through e-registration, e-returns and e-payments. However, more needs to be done to sensitize the public on the new measures and their advantages.

Taxpayers perceive high tax rates as one of the causes of tax evasion particularly CIT, Import duties, PAYE and VAT. The firms revealed that techniques used to evade tax include under-valuing of invoices, overstating expenses, declaring part of turnover as capital allowances in order to reduce taxable gross value.

**Limited knowledge of tax and penalties for tax evasion.** Knowledge of penalties and their severity have the potential to discourage tax evasion. In the same survey, it was found that only two out of every five respondents interviewed had knowledge of penalties on tax evasion. If tax payers do not know how harsh the penalties are, it is likely that they could engage in tax evasion.

### POLICY RECOMMENDATIONS

In order to address tax evasion, Government should undertake comprehensive tax reforms that should include the following:

#### Review the law in order to strengthen it to address tax evasion.

This must include among others:

**Simplification of tax laws** as this is vital to enhance tax compliance as simple tax laws are easy to understand and comply with.

**Stiffer penalties** should be put in place such as charging interest at above-market rate, strengthening enforcement on jail sentences,

revocation of operating licenses and blacklisting directors of companies involved in tax evasion.

The law on Double Taxation Agreements should be strengthened to prevent Multinational Corporations evading tax.

Additionally, the law should be reviewed to include filing of personal income returns by the self-employed and wage earning employees.

#### Review the administrative measures used to address tax evasion to include among others:

Restructuring the Audit and Investigations departments by increasing the number of officers and equipping them with skills to combat tax evasion.

Upgrading of the information systems should be dynamic to accommodate changes in the economy. Significant resources are required to constantly update the information system capable of tracing evasion transactions.

Increase compliance through embarking on taxpayer education to improve tax literacy. This can be done by establishing adequate call and advice centres in each provincial town in Zambia for the purpose of taking tax literacy closer to the people.

**Streamline tax incentives.** Tax incentives should be reviewed continuously to ensure those which no longer serve or have served their purpose are phased out. Maintaining incentives which appear to be disproportionately favouring a sector of the economy at the expense of tax revenue deters tax morality in the rest of the sectors and therefore encourages tax evasion. Tax incentives should only be awarded to firms or sectors that add value in terms of employment creation, skills transfer and foreign exchange earnings.

# Enhancing Export Performance in Zambia

## Based on the Report the Birth, Death and Survival of Exports in Zambia: 1999-2011

The importance of exports in any economy cannot be contested. They are a key source of growth, foreign currency flows and have important implications for job creation and productivity. While aggregate information on a country's exports is useful for understanding developments in exporting, it is particularly essential to have insights on the performance of firms engaged in international trade. Specifically, information on the duration of firms in export markets is of paramount importance. As new firms engage in exporting, their contribution will only be considerable if they can sustain their activities over time as they complement existing exporters.

In Zambia assessments on the duration of exporting by firms are often over looked by analysts and policy makers. Consequently, it is unknown what matters most between promoting the export of existing products into existing markets (called intensive margin) or disproportionately encouraging exports of new products and venturing into new markets (called extensive margin) in order to rapidly grow the contribution of exports to our economy. The answer to this question is extremely critical in shaping national actions that aim to stimulate or sustain the growth of exports.

Information collected from the ASYCUDA system used by the Zambia Revenue Authority to process export transactions indicates that the value of exports has been rising over the last few years, although growth has been sporadic with a significant drop recorded during the financial meltdown of 2008/9.

Based on a credible framework that has recently proliferated in the assessment of international trade flows, we decompose the annual growth rate of exports into the "intensive margin" and the "extensive margin". Our findings suggest that it is the value from new exporters or the extensive margin that drives the growth in the value of exports in Zambia.

Zambia's export performance on the intensive margin is relatively poor, mainly owing to the decline in export values for firms that survive and to some extent the value lost to firms that

exit the export market. The year on year survival rates mainly lie between 50% and 60% implying that almost half of the exporters in any particular year exit the export market by the following year. The pattern at the sectorial level mimics the observation at the aggregate level. The extensive margin dominates the growth of exports across all the sectors. In most years, the intensive margin is negative indicating a decline in the value of exports for surviving exporters and mortality among exporters in the past year. On average, survival rates are similar across all sectors ranging between 50% and 60% except for the machinery, electronics and transportation equipment sector where survival rates over the period are lower averaging 39%.

On the other hand a comparison of survival in products and markets indicates that survival of products is extremely low. This probably reflects stiffer competition in exporting new products than venturing into new markets or perhaps difficulty in competing on quality for export products.

Our most important finding is that, year-on-year growth in exports came mainly from new exporters. This is a highly policy relevant result as the country seeks to grow the contribution of exports to its Gross Domestic Product that is still below 50%.

Our assessments indicate that a rapid growth of the export sector is likely to be achieved by a simultaneous implementation of interventions. One set of interventions should be directed at supporting entry into exporting among firms. Another set should target improving the duration of survival by reducing the high level of mortality among exporters. A third set of interventions should target deepening or growth in the value of exports among exporters that survive.

In order to further inform these interventions, we have embarked on an investigation to carefully unveil the factors that are responsible for the poor survival rates among exporters. We hope that this investigation will provide key insights for the Government on shaping trade policy and support to exporters.

"On the other hand a comparison of survival in products and markets indicates that survival of products is extremely low. This probably reflects stiffer competition in exporting new products than venturing into new markets or perhaps difficulty in competing on quality for export products."



# Bridging the financial gap for the poor

## Evidence from the Rural Finance Programme analysis

Have you ever imagined not having access to a safe and secure place for saving or borrowing money for investment? This is the grim reality for most people in the rural Zambia. While urban residents may have some opportunity to enjoy a wide array of financial services, rural communities largely rely on informal local lenders to access loans and they mostly save money in their homes. The loans are usually offered at very high interest rates exceeding the commercial lending rates. This means that, the population getting loans from these informal money lenders who are part of the country's most vulnerable populations (77.9 percent poverty levels in rural areas) can only access loans at the highest lending rates, further stifling their ability to create wealth.

Financial exclusion in Zambia is very high with 62.7 percent of the Zambian population financially excluded according to a FinScope study (2009). Most of the financially excluded are in the rural areas. This excluded population is purported not to be using any form of financial services formal or informal. This financially excluded population has been found to be saving their money in homes or in some cases save none at all

The Government of the Republic of Zambia (GRZ) recognizes that the lack of access to financial services in rural areas severely restricts the development potential of people in these areas and has to this effect been implementing the Rural Finance Programme (RFP) from 2011 to 2013.

The RFP used various innovative approaches in the provision of financial services to the poor. One such approach is the Village Savings and Loan Association (VSLA) methodology which the programme used to build capacity of rural finance support institutions. The VSLAs attempt to overcome the difficulties the rural poor encounter in accessing credit by creating groups of people who pool their savings in order to have a source of lending funds. Participants make contributions of their savings to the pool, and can also borrow from

it. Through the RFP, Government has adopted an innovative model that seeks to promote sustainable provision of financial services to the poor through working with community based organizations, the private sector and public financial institutions. The key features of the VSLA are as follows:

- VSLAs are usually made of groups of self-selected people of between 10-30 people.
- Groups are trained on saving, borrowing and drawing a constitution which forms the basis for administration of the group and management of the funds.
- In the constitution, the group agree on the share value and the interest rate charged on loans.
- The groups have a loan fund and a social fund used for accessing loans and emergencies respectively.
- At the end of a cycle usually between 9 months and 12 months, the groups share out the accumulated funds from the savings and loans based on accumulated shares per member.



*The Savings Box (Village Bank)*



*The Village Savings and Loan Association (VSLA) group in Kasama*



*By Tamara Billima*

"Financial exclusion in Zambia is very high with 62.7 percent of the Zambian population financially excluded according to a FinScope study (2009)"

Accumulating Assets from the pay-out: Mr. John Mulenga from Chipapa (A) Savings Group in Mungwi showing a radio that he bought using money from the share-out



The Village Savings and Loan Association has in many countries been seen to have a positive contribution to improving the livelihood of the people in rural areas. ZIPAR carried out quantitative and qualitative impact assessments of the RFP to evaluate the impact that this programme has had on the people in rural areas. The study was done in Kasama and Mungwi districts of Northern Province of Zambia in 2013.

The VSLA has positive impacts on rural livelihood that extends beyond the provision of financial services for the poor. VSLA has positive impacts on various indicators of household and individual welfare.

The majority of the VSLA members at 63% are women. The women have been empowered to provide and contribute meaningfully to the family welfare. The results from the study show that about 60% of the female respondents made collective decisions with their spouses on issues relating to savings, credit and expenditure. The VSLA is thus a good tool for empowering women.

The monies obtained through loans and at the end of the savings cycle have been reported to be used on agricultural inputs. Members use the share out and loans to procure fertilizer and seed. 87% of the respondents in the study reported investing funds from the VSLA in agriculture.

Through the VSLA, members have been enabled to accumulate household assets such as furniture and solar panels. The loans and share out from the VSLA has also made it possible for members to buy building materials to improve their houses. The study reveals that the VSLA

impacted positively on the ownership of assets on the participants. Participants who did not own assets in 2012 were 10% more likely to have owned assets such as livestock in 2013 than non-participants. For radio, chairs and beds, the proportion of participants who owned these assets was significantly higher in 2013 than the ones who were not in the VSLAs.

The VSLA members have also reported to have used the loans and share out to pay for school requirements for their children. This is one of the main uses of the funds.

In addition to using the funds for school requirements, the VSLA members use the funds from the groups to invest in Income Generating Activities (IGAs) to smooth consumption and income. The average income for participants was higher than for the new members for incomes from both IGA and farming. People involved in VSLAs are more likely to increase their income from farming activities. Eighty per cent of the participants reported that their incomes had increased over the year compared to only 30% of the new members. The result indicates that participation in the VSLA was 23% more likely to boost income for participants compared to those that were not participating. VSLAs therefore have a positive effect on income. Participation in the programme increases the probability of increasing income for participants.

VSLAs have had a positive impact on food security among the participants. The study shows a higher consumption of own produced food items among participants compared to non-participants which is attributed to increased production capacity of participants as a result of investment of funds from VSLA into agriculture. The study shows that participants are 15% more likely to consume their own produced maize and 16% more likely to consume chickens that they rear than non-participants. Because participants consume more of their own produced food items, they have more income to spend on other items such as meat products which are rarely consumed in rural areas.

It is undeniable that the programme has had a huge impact on improving the livelihood of the poor in rural areas. It is programmes like this one that specifically targets the poor that will help alleviate poverty in Zambia. It is thus imperative that sustainability strategies should be devised and refinements to the programme are put in place to ensure more poor people benefit from the programme.

ZIPAR recommends that the VSLA methodology be incorporated in agricultural support programmes to people in financially excluded areas. This will help rural farmers have access to financial services in order to save earnings from agriculture and diversify to nonfarm businesses.

Since most of the VSLA participants reported investing the funds into IGAs, the programme should extend training beyond financial services to business training by linking the VSLA participants to business development service providers. This will increase the viability of the VSLAs.

"The VSLA has positive impacts on rural livelihood that extends beyond the provision of financial services for the poor. VSLA has positive impacts on various indicators of household and individual welfare."

# Making Every Mile Count

By Tamara Billima and Zali Chikuba

(Based on the Road Optimisation Study by ZIPAR)

Zambia requires an efficient transport system to move its material exports and imports. The current distribution of freight haul within the country is 85% road transport and 15% rail transport. Air and maritime freight are negligible. Therefore, every mile of our road network particularly, the sections of the North-South Corridor spanning from the Copperbelt southwards to the borders with Zimbabwe and Botswana, must count towards the efficiency of the transport system. It is on this corridor that most of our road haulage occurs. What then, is the current situation on the stated corridor? How does the future look and how will our road infrastructure cope?

## International Trade Situation

Zambia greatly depends on international merchandise trade for its economic survival. The Southern Africa Development Community (SADC) is the largest source of Zambia's imports accounting for close to 50%. Moreover, nearly 60% of Zambia's exports, dominated by intermediate goods in form of copper cathodes and sections of refined copper, are to Switzerland and China. The dependency of our country on international trade particularly copper export is evident in the strong relationship between the global prices of copper and our exchange rate.

Zambia's trade with the rest of the world has grown tremendously, rising from about \$2 billion (and 2 million tonnes) in 2002 to \$18 billion (over 10 million tonnes) in 2012. It is anticipated that trade volumes will be in excess of 34 million metric tonnes per year by 2024 if this growth in trade is sustained. Additionally, owing to its central location, Zambia serves as a merchandise trade route within and across regional economic groups such as SADC and the Common Market for East and Southern Africa (COMESA) whose trade volumes are also expected to increase. This will apply a tremendous amount of pressure on the existing transport infrastructure particularly on the north-south corridor, challenging its strength and traffic flow capacities.

## Trunk Road Capacities

The North-South Corridor is part of the country's 3,088 km trunk road network. The corridor has of late been characterised by freight overloads, rapid section deterioration and fatal accidents. Traffic congestions and occasional traffic jams are experienced especially between the Copperbelt and Lusaka and the Lusaka and Kafue sections. These factors affect the efficiency and effectiveness by which traffic and commodities flow.

Analysis and Research (ZIPAR) shows that at present, interurban traffic volumes are still relatively low in spite of the existence of several major commercial and population centres and an overall increase of 73% in road traffic between 2008 and 2013. The characteristics of our trunk roads as described in the preceding paragraph are partially as a result of road design based bottlenecks, causing extended travel times.

## Road Capacity Projections and Project Prioritisation

Considering that most of the population and economic activities are located along the trunk roads from the Copperbelt towards southern Zambia, improvements in the stated trunk road network are also likely to result in improved traffic and commodity flows.

ZIPAR modelled travel demand at national level and found that in less than 10 years, most sections of the North-South Corridor between the Copperbelt and Lusaka as well as Lusaka and Kafue will be heavily congested unless at least four lane roads are provided. The charts below show the current and projected two-way daily assignment volume of traffic on Lusaka-Kafue Road. The colour green represents free traffic flow, yellow represents moderate congestion and red represents very congested traffic.

Although plans to construct a dual carriage way from the Copperbelt – Lusaka are already underway, it appears we lost an opportunity to do the same on the Lusaka – Kafue road sections. This is because there are ongoing activities for the replacement of the old 2 lanes highway with a similar one.

The Zambian roads authority has at its disposal the Highway Development and Management (HDM-4) which is a powerful tool for the analysis



2030 Traffic Assignment on Lusaka-Kafue Road

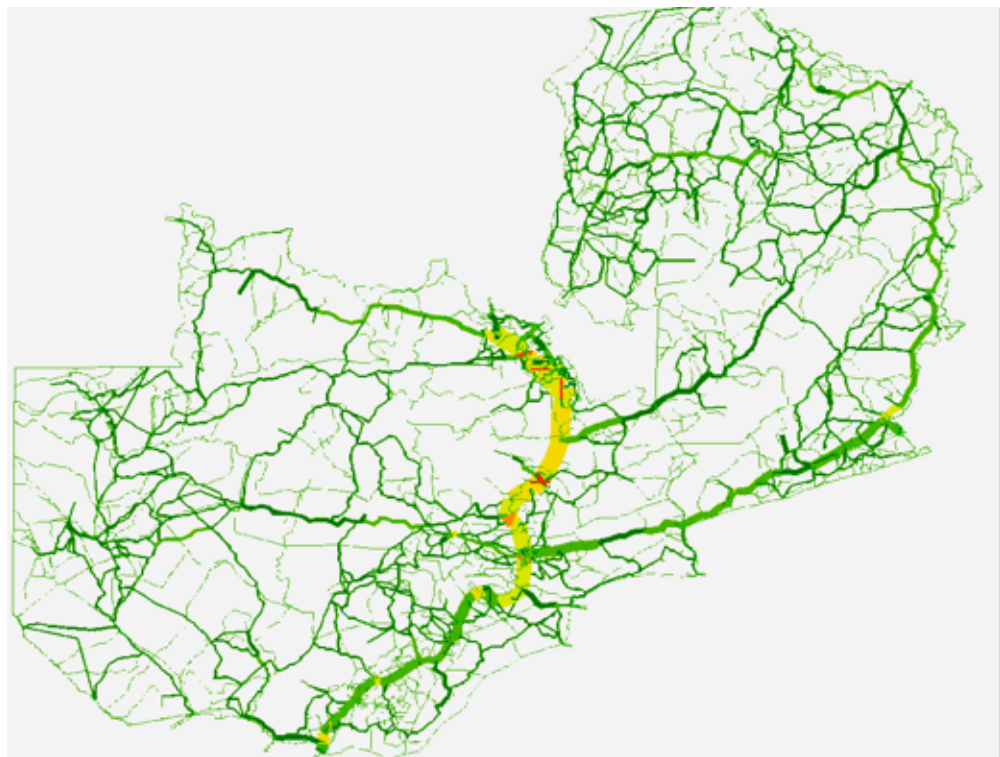
of road management and investment alternatives. This system is also useful for prioritising work programmes for user specified budget scenarios. However, when resulting road investment priorities are at variance with observable facts and general expectations the need for cross checking and triangulating the priorities arises so that every mile of our road investment should optimally count to the much sought after efficiency. Using alternative tools including, Multi-Criteria Analysis (MCA), we analysed 38 road development projects. These included the Link Zambia 8000 - phase 3 projects which are yet to be implemented and other major trunk roads from Lusaka to major destinations as a way of validating our road development priorities. MCA produced a robust benefits-based ranking of road development projects. This ranking was further rationalised using a cost benefit approach. The MCA ranking placed the Lusaka - Copperbelt and Lusaka - Kafue trunk roads among the top 10 out of the 38 road projects considered.

Most of the Link Zambia 8000 projects aim at linking the country by road and opening up rural areas to markets with the view of denting rural poverty. Various, trunk roads provide basic regional and national connectivity, linking the provincial capitals to Lusaka, and Lusaka to the main international border crossings. The colour-coded map reflects the results of the nation-wide private vehicle assignment in our travel demand model (TDM) which predicts the congestion on the Lusaka - Copperbelt and Lusaka - Kafue roads by 2030.

The results of TDM and MCA were consistent with each other and support the notion that the Copperbelt - Lusaka and Lusaka - Kafue road projects merit to be prioritised above the other projects. These routes serve the most populous and most important commercial and industrial centres of the country and they are major international freight circuits. The social and economic benefits of these roads are huge and they spill-over beyond their immediate localities to the rest of the economy. Thus it is on these roads that we should be seeing more of the road development activities.

### Conclusion

Zambia has made significant efforts at providing transport infrastructure to catalyse growth processes. It is of essence to take a moment to reflect back and see whether we could have done better in our past road investment decisions and to make amendments where necessary. Going forward, we recommend that important investment decisions are cross checked on expected benefit and cost effectiveness using the various models available. To optimise our road investment decision, we need to model national travel demand and align our project planning to respond to the demand. On this premise we recommend that the Lusaka - Kafue road should be upgraded to a dual carriage way and the remaining works on the Copperbelt-Lusaka road sections should be higher on the priority list of our roads authority



# ZIPAR BEMOANS LACK OF INSTITUTIONAL FRAMEWORKS TO ENGAGE THINK TANKS

...as ZIPAR Executive Director participates in the First Africa Think Tank Summit in Pretoria, South Africa



By Euphrasia Mapulanga-Ilunga



Participants in the First Africa Think Tank Summit held in Pretoria, South Africa in February 2014 discussing during a parallel session. 4th from L-R is ZIPAR Executive Director Dr. Pamela Nakamba-Kabaso

The Zambia Institute for Policy Analysis and Research (ZIPAR) Executive Director, Dr. Pamela Nakamba-Kabaso says while Africa has emerged as a resilient economy presenting think tanks with a major role in shaping policy, some African Governments lack institutional frameworks to engage think tanks.

Addressing the Plenary Session 1-Round table at the First Africa Think Tank Summit held in Pretoria, South Africa on 4th February 2014, Dr. Kabaso observed that she anticipated to be part of an era where well-thought research would play a critical role in shaping policy thereby, transforming Africa.

She however, noted that there was a weak to almost non-existent link between think tanks and policy makers which prompted ZIPAR to take a proactive role in seeking working relations with policy makers in Zambia and this yielded positive results.

She observed that the art of making policy in Africa was still a developing science where various initiatives for better governance were under way or in their infancy, including ones for opening up the policy making process, and others for building evaluation into policy implementation.

“As one of my mentors in running a think tank told

me, to effectively work with Government, as a think tank you should not be too far from Government, but also should not be too near”, she stated.

Dr. Kabaso added that the proximity to policy makers had implications on perceptions about independence and objectivity of think tanks and thus influenced the nature of the relationship a think tank would cultivate with policy makers.

The ZIPAR Executive Director also stated that often time think tanks were perceived not to conduct research relevant to policy makers while think tanks felt that they had a clear role to identify issues and problems that policy makers and politicians did not consider.

“It has been said often time that think tanks do not answer the right questions that policy makers are asking. On the other hand, think tanks do feel that if they only did research that is ‘relevant’ to policy making then they are accepting that policymakers must have all the right questions. To reach a compromise between these two aspects is not easy”, she observed.

Dr. Kabaso also stated that the other daunting challenge think tanks faced was the lack of technical capacity to do research with the rigor required and

“As one of my mentors in running a think tank told me, to effectively work with Government, as a think tank you should not be too far from Government, but also should not be too near”

She urged think tanks to be catalysts thorough which the African continent could go beyond being a source of raw material and market for finished products to being the centre of the 21<sup>st</sup> century civilization through knowledge and implementable policy advice.

package research outputs and policy advice in a format that could sale to policy makers.

She attributed the gap in capacity to limited resources available to think tanks to invest in retention of qualified personnel and lack of exposure to regional platforms to share and learn lessons with like-minded think tanks.

Dr. Kabaso added that think tanks did not invest much in outreach and policy advocacy initiatives especially extensive use of both traditional and new media whereby the pace with which policy advice and the format in which it is generated did not correspond to the policy makers schedule and preferences.

She urged think tanks to be catalysts thorough which the African continent could go beyond being a source of raw material and market for finished products to being the centre of the 21<sup>st</sup> century

civilization through knowledge and implementable policy advice.

The First Africa Think Tank Summit was organized in partnership with the African Capacity Building Foundation, (ACBF) African Leadership Centre, Friedrich-Ebert-Stiftung, Konrad-Adenauer-Stiftung and the Think Tanks and Civil Societies Program, University of Pennsylvania. The Summit was held on 3-5 February 2014 at the Pride of Africa Irene Country Lodge in Pretoria, South Africa. The Summit was hosted by the Institute for Security Studies, Pretoria, South Africa who provided all the in - country logistics and support.

Over 50 of the leading think tanks from 25 countries in Africa participated in the Summit which focused on the organizational and policy challenges facing think tanks in the region and how they might increase their sustainability, value and impact.

By James G. McGann,  
Think Tanks and Civil  
Societies Program,  
University of Pennsylvania

## Landmark Summit of African Think Tanks Leads to a Call for the Creation of Trans-African Think Tank Network

### An extract from preliminary summary of major issues and findings

Over 50 of the leading think tanks from 25 countries in Africa that participated in the first-ever Africa Think Tank Summit made a number of important recommendations that fall into four areas: capacity development, knowledge sharing and networking, resource mobilization and regionally based initiatives and partnerships. These recommendations include a call for the following: development of strategies and programs to engage private indigenous donors to support think tanks; establishment of a Pan African Think Tank Network and annual meeting of think tanks; strengthening and funding the core operations of think tanks to help ensure the sustainability and independence of think tanks in Africa.

The rest of the recommendations are: development of a media and public engagement training program; creation of a national and regional media (print and electronic) directory/resource guide; creation of knowledge sharing platform that focuses on research, capacity building and best practices; development of a think tank co-operative to promote and manage shared resources and services such as think tank staff recruitment, joint purchasing of computer hardware, web hosting, and the negotiation of in-kind contributions (software, mobile devices, etc.); increased funding for think tank collaboration to develop

capacity, share and implement best practices.

Major public policy issues facing the region are: Regional Integration; Natural resource management; Poverty and economic development; Governance: Citizen empowerment and democracy; Peace and Security; Managing foreign aid: Trade and Investment; Infrastructure development including cross-boundary/ border investment in Infrastructure development and Youth Unemployment.

There were repeated calls to move from ideas and recommendations to action. This resulted in the establishment of a steering group that will oversee the planning of the next Summit and the dissemination and implementation of the recommendations developed at the Summit. **The African Capacity Building Foundation, the African Leadership Centre, Think Tanks and Civil Societies Program and the Institute for Security Studies** agreed to serve as the nucleus of the Planning Committee. It was suggested that the African Development Bank, World Bank (Africa division) and the South African Institute of International Affairs and one or two additional institutions be included in the planning group



*Prof. Emmanuel Nnadozie delivering his speech at the official opening of the SSG workshop in Lusaka*

*ZIPAR Executive Director Dr. Pamela Nakamba-Kabaso and Economic Association of Zambia president Mr. Isaac Ngoma listening to ACBF Executive Secretary Prof. Emmanuel Nnadozie's speech during the official opening of the Strategic Studies Group (SSG) workshop on 7th March 2014 at Intercontinental Hotel, Lusaka*

## ACBF to focus on capacity for African regional integration

The African Capacity Building Foundation (ACBF) Executive Secretary Professor Emmanuel Nnadozie says the organisation has achieved its mission of building human, institutional and organizational capacity in a sustainable manner adding that the ZIPAR Executive Director, Dr. Pamela Nakamba-Kabaso who benefited from ACBF support was a shining example of the capacity building programme.

Speaking during the opening of the ACBF Strategic Studies Group (SSG) inaugural workshop at Hotel Intercontinental in Lusaka on 7<sup>th</sup> March 2014, Prof. Nnadozie said that his vision was to bring capacity building back to the centre of development programmes in the foundation. He added that the establishment of think-tanks and the building of capacity of middle level management had contributed to the significant economic growth in many member countries.

Prof. Nnadozie remarked that before ACBF, many African countries such as Ethiopia had few Economists at PhD level but now they were many and helping to drive development.

From a human capacity dimension, ACBF has gone beyond. If anyone is in doubt that ACBF can build capacity, they should come and see this woman (Dr. Pamela Nakamba-Kabaso), she benefited from ACBF support and she is a very capable person", he stated.

Earlier, the ZIPAR Executive Director in her welcome remarks to the SSG delegates mentioned that

she benefited from an ACBF scholarship through the Ministry of Finance to pursue a Masters in Economics, an initiative which she said changed the picture of economic and social development in Zambia.

The ACBF Executive Secretary also stressed the importance of the SSG workshop which he said brought together a global pool of technical and professional experts that will guide and advise the Foundation on specific research areas of critical importance to Africa. This will enable ACBF proactively identify and address pressing development issues confronting the continent.

After almost 10 years of existence, the ACBF subjected its Knowledge Management (KM) function to an independent evaluation whose report in October 2011 revealed that amongst other issues there was an apparent disconnect between the key ACBF Technical Advisory Panels and Networks (TAPNETs) and the Foundation's Operations. Also, the activities of the network were found to be not in sync with the strategic objectives of the Foundation's Third Strategic Medium Term Plan (SMTP III) thus the evaluation report recommended the redesign of the TAPNETs into a more dynamic network to be known as the Strategic Studies Group.

The Foundation, adopted the evaluation recommendation and communicated its decision to redesign the TAPNETs into the SSG to network members at the last 8th Annual TAPNET Meeting, held in Yaoundé, Cameroon, in November 2011.

" From a human capacity dimension, ACBF has gone beyond. If anyone is in doubt that ACBF can build capacity, they should come and see this woman (Dr. Pamela Nakamba-Kabaso), she benefited from ACBF support and she is a very capable person"

# ACBF Strategic Studies Group key to political and social stability for transformational change in Africa-ZIPAR



The Strategic Studies Group members pose for a group photo at Intercontinental Hotel in Lusaka. Sitting in the front row 3rd from R-L is ZIPAR Executive Director Dr. Pamela Nakamba-Kabaso and 6th R-L is ACBF Executive Secretary, Prof. Emmanuel Nnadodzie

The Zambia Institute for Policy Analysis and Research (ZIPAR) says the inauguration of the Strategic Studies Group (SSG) is one of the major milestones in the work of the African Capacity Building Foundation (ACBF) in promoting political and social stability for transformational change in Africa.

In her welcome remarks during the opening session of the SSG inaugural workshop at Hotel Intercontinental in Lusaka on 7th March 2014, the ZIPAR Executive Director, Dr. Pamela Nakamba-Kabaso noted that while it was undeniable that most African countries had recorded high economic growth rates over the last years; nagging poverty, inequality, increasing conflicts and terror, high levels of youth unemployment, climate change and increased natural disasters remained a challenge.

ZIPAR emphasized that decision makers on the continent more than ever before needed evidence based on high quality studies to undertake policy and development reforms to tackle the challenges faced by countries, hence the SSG was one of the milestones in promoting political and social stability for transformational change in Africa because it would enhance capacity to engage and regulate the productive sector and to track policy impact on the continent.

The commencement of the operations of the SSG brought new hope to the African continent because

the impact of development research on policy action could not be assumed but had to be consciously and concertedly developed.

The SSG will be invaluable in contributing to the identification of key policy and emerging issues that are relevant to Africa's development agenda.

ZIPAR commended the ACBF for the exceptional gesture of setting up and initiating activities of the SSG which made it possible to have diverse voices and experiences proactively engaged to identify critical capacity issues facing Africa and also propose good fit solutions centred on evidence-based research.

ZIPAR stressed that the increasing importance of the use of evidence based policy implementation and practice in Africa could not be over emphasized. The SSG was aware that it will not only work with ACBF to identify research themes, but will also serve as a 'review panel' that shapes, examines and evaluates the high level studies that will emanate from competitive calls for proposals commissioned by the Foundation in line with ACBF's strategic objectives.

The divergent views and experiences that the knowledge experts in the SSG brought to the fora will facilitate the adoption of high level studies that will produce evidence that can dramatically change the face of the African continent for the better.



# World Bank commissions ZIPAR to conduct Quality of Maternal and Child Care Study in 18 districts

By Euphrasia  
Mapulanga-Ilunga

.....and ZIPAR trains 20 research assistants for the study



ZIPAR Researcher Albert Halwaampa discussing with Research Assistants during a training at Elunda 2 in Lusaka

The World Bank has commissioned the Zambia Institute for Policy Analysis and Research (ZIPAR) to conduct a Quality of Maternal and Child Care Study in 18 districts in nine provinces of Zambia involving a total of 140 health facilities. The study will be conducted starting February to December 2014.

The health systems in Zambia need revamping to improve health service delivery to the people. Therefore, the ZIPAR study aims at assessing the state of quality of care with a specific focus on maternal and child health. The study also seeks to assess major challenges faced in achieving better maternal and child health care in the rural areas of Zambia.

The objectives of the study include; to find out clients' perceptions of the quality of healthcare delivery in Zambia; to make observations about the completeness and quality of primary health services and about the current role of the community in the primary healthcare systems; to observe differences, if any, in the quality of health care provision between health centres; to examine the existence of technical and managerial capacity at the health facility level; and to carry out assessment of quality (completeness and accuracy) of data being fed into the Health Management Information System (HMIS).

To successfully assess the quality of Maternal

and Child Care in the health facilities under consideration, the study will take a two sided approach to data collection. These will include collecting information from the health facility to find out the improvements that have been achieved in terms infrastructure and capacity building. The other component will include collecting information from the patients or clients that were treated at the healthy facilities. To accomplish this study and achieve the intended objectives, high quality data is required to be collected on time.

Therefore ZIPAR trained 20 research assistants from 17th to 19th March 2014 at Top Floor, Elunda 2 in Lusaka to orient them in research techniques required for the study. Some of the key topics covered included understanding the data collection instruments, roles and responsibilities of research assistants, research ethics, and the health system in Zambia. The ZIPAR Researchers who conducted the training included Gibson Masumba, Malunga Syachumpi, Albert Halwampa and Thulani Banda. The World Bank representative from Washington DC in the United States of America, Adas Ashis also attended the workshop to show the importance the Bank and its stakeholders attaches to study.

It is hoped that the policy recommendations that will emanate from the Maternal and Child Care study will help government to formulate evidence based policies aimed at improving health care service delivery for mother and child in Zambia.

"The study seeks to assess: the state of quality of care with a specific focus on maternal and child health; and major challenges faced in achieving better maternal and child health care in the rural areas of Zambia."

ZIPAR Executive Director  
Dr. Pamela Nakamba-  
Kabaso and Knowledge  
Manager Euphrasia  
Mapulanga-Ilunga reading  
the Zimbabwean Herald  
Newspaper shortly before  
the ACBF Project Retrofitting  
Workshop started.



## ZIPAR participates in ACBF Results Measurement Framework Retrofitting Regional Workshop in Harare

The Zambia Institute for Policy Analysis and Research (ZIPAR) participated as an observer in the African Capacity Building Foundation (ACBF) Results Measurement Framework (RMF) Retrofitting Regional Workshop held at Crowne Plaza Hotel in Harare, Zimbabwe from 11<sup>th</sup> to 13<sup>th</sup> March 2014.

The aim of the workshop was to ensure an effective integration of ACBF's portfolio of the projects funded under RIDA into the ACBF Regional Capacity Building Project (RIDA Project). This would enable the Foundation to contribute significantly towards the achievement of the RIDA project development objective.

As part of the implementation of its third strategic medium-term plan (SMPT III) within a time frame of the five years (2012-2016), ACBF in December 2013 signed a grant agreement with the World Bank for financing the ACBF Regional Capacity Building Project also referred to as RIDA Project. The project seeks to enhance the impact and capacity development effectiveness of ACBF and also to ensure the responsibility of the Foundation's grantees for tracking, measuring and reporting on

results.

The workshop attended by 48 representatives from 24 projects from across Africa specifically sought to provide a clear guidance to grantees in understanding the RIDA Project results tracking, measuring and reporting requirements; to align the RMF of the relevant projects in ACBF's portfolio to the global results framework and monitoring plan of RIDA Project; to sensitise the grantees to changes in the foundation's operational modalities including project supervision and monitoring, disbursement, financial risk and control, audit and procurement.

ZIPAR was represented by the Executive Director, Dr. Pamela Nakamba-Kabaso and the Knowledge Manager Euphrasia Mapulanga-Ilunga. ACBF envisaged that ZIPAR which attended as an observer would be oriented to the new measuring and reporting requirements in readiness for future funding as the the grant agreement between the Government of Zambia and the ACBF which provides funding to ZIPAR elapses in August 2014.

"As part of the implementation of its third strategic medium-term plan (SMPT III) within a time frame of the five years (2012-2016), ACBF in December 2013 signed a grant agreement with the World Bank for financing the ACBF Regional Capacity Building Project also referred to as RIDA Project"

# The 2013 Joint NEAC, ZIPAR and IGC Annual Conference

“Growth, Poverty and Inequality: Creating Opportunities for a Better Zambia”

The Zambia Institute for Policy Analysis and Research (ZIPAR) in conjunction with the National Economic Advisory Council (NEAC) and the International Growth Centre (IGC) held the National Economic Development Conference on 5<sup>th</sup> December 2013 at Government Complex in Lusaka under the theme “**Growth, Poverty and Inequality: Creating Opportunities for All!**”. The conference was officially opened by the Minister of Finance, Hon. Alexander Chikwanda through his speech presented on his behalf by the Permanent Secretary-Economic Management and Finance, Mr. Felix Nkulukusa.

A broad spectrum of stakeholders that included the Government, Private sector, Academia and the Cooperating partners attended the conference to provide insights and contributions to the discussions. About 180 participants were in attendance.

## Official opening

In a speech read on his behalf by the Permanent Secretary-Economic Management and Finance, Mr. Felix Nkulukusa to officially open the conference, the Minister of Finance Hon Alexander Chikwanda, MP, reiterated the high poverty levels and income inequality in Zambia and acknowledged that stakeholders such as civil society, academia and think tanks are cardinal in assisting government to formulate policies that ensure delivery of service and opening of economic opportunities to all Zambians.

Hon Chikwanda noted that in a market based economy like Zambia it is imperative that government gives in to constructive and independent scrutiny provided by think tanks and urged the institutions to engage government regularly so that policies and programmes that benefit the grassroots are actualized. He emphasized the need for government and think tanks to develop institutional frameworks and capacities for policy dialogue.

## Key Note Address

In his Key Note Address, Tobias Rasmussen, IMF Resident Representative in Zambia highlighted Zambia's impressive economic growth against other major economies in the world. He mentioned Zambia's positive trends namely, the country's strong economic growth supported by prudent macro policies that have led to higher incomes, consumption and job creation.

Mr. Rasmussen also noted Zambia's challenges which largely remain; a small formal sector, lagging employment, extreme poverty in rural areas, high

interest rates and the fiscal deficits. Lastly, he observed that overall economic growth was delivering, but addressing poverty fully would take time. He added that it was critical to preserve macro-stability and direct Government spending towards investment and targeted pro-poor support to boost growth and make it more inclusive.

## The Conference

The one day conference culminated with nine key technical papers presented in three sessions and these included: *Three papers under growth dynamics:* “*Commercial Bank Credit to MSMEs in Zambia*”, by Joseph Simumba-Research Fellow at ZIPAR, “*Optimal rate of Inflation in Zambia*”, by Dr. Nyamazana and “*The Birth, Death and Survival of Exports in Zambia*”, by Bernard Banda-Associate Researcher at ZIPAR.

The papers under poverty and jobs were “*Social security systems in Zambia*”, by Dr. Lawrence Mukuka, “*Food Constraints, Yield Uncertainty and Ganyu Labour*”, by Dr. Felix Masiye, “*The Face of poverty-An alternative approach to poverty measurement*”, by Gibson Masumbu-Research Fellow at ZIPAR.

The last three papers under Entrepreneurship and skills were “*The Enterprise Map of Zambia: What do the book findings mean for the Zambia Economy?*” by Felix Mwenge and “*Education and Training*”, by Neil Ranking, “*Capacity Assessment of public TEVET institutions*”, by Mukuka Nunkwe.

Lastly, a policy dialogue on “*Raising Domestic Revenue-Prospects and Challenges*” was held based on the background that in the last two years, Government increased its expenditure due to infrastructure development programmes such as road, health, education and new districts. The Government also increased salaries for civil servants. The resultant effect of these undertakings was 8.5% deficit in 2013 which Government intends to reduce to 6.6% in 2014. This meant that Government needed to look to other avenues in order to raise the funds needed to cover its expansionary policy. The dialogue engaging five speakers from the Government, the private sector, Civil Society and Academia brought together stakeholders from Government and Non-governmental institutions to explore the prospects and uncover the challenges of raising revenue.

For more information on the presentations made at the NEC 2013, visit [www.zipar.org.zm](http://www.zipar.org.zm)

# Photo Focus



The Members of Parliament Committee for Local Government in dialogue with ZIPAR on the Resource Allocation Model for the Constituency Development Fund (CDF) developed by ZIPAR based on a study in 2013



Team Building: ZIPAR staff pose for a group photo at Protea Hotel in Livingstone during a team building workshop in 2013



Joseph Simumba (in blue shirt) ZIPAR Research Fellow Trade and Investment presenting to ZIPAR staff findings of the MSME Access to Commercial Bank credit study during a brown bag (knowledge sharing) meeting in February 2014. On his immediate right is Bernard Banda, Associate Researcher Trade and Investment and Shebo Nalishebo, Research Fellow Public Finance



Some of the ZIPAR Staff that attended the International Women's Day commemoration on 8th March 2014 in Lusaka pose for a photograph. L-R: Vivienne Kapulu, Tila Phiri, Beenzu Puta, Tamara Billima and Singani Mantina



ZIPAR Staff following a discussion during an exchange visit to the Institute for Policy Analysis and Research (IPAR) in Rwanda in 2013 L-R: Shebo Nalishebo, Public Finance Research Fellow, Antonia Mutoro, IPAR Rwanda, Joseph Simumba, Trade and Investment Research Fellow and Dr. Pamela Nakamba-Kabaso, Executive Director



ZIPAR Executive Director, Dr. Pamela Nakamba-Kabaso in discussion with Gregory Chikwanka, Programme Manager, Inclusive Growth Team-DFID Zambia and Andrew Ockenden, DFID Economist during an annual review of the Zambia Economic Advocacy Programme (ZEAP) in March 2014. ZEAP is a funding agent for DFID-Zambia for which ZIPAR is a beneficiary.

# Upcoming events

## Poverty, Equity and Growth Network (PEGNet) conference 2014

ZIPAR will co-host the PEGNet conference from 18<sup>th</sup> -19<sup>th</sup> September 2014 at Government Complex in Lusaka-Zambia under the theme "Employment Strategies in the Developing World-How to create sufficient, productive and decent jobs". PEGNet brings together researchers and practitioners with an interest in issues revolving around the poverty-inequality-growth nexus in developing countries, and links them to the German and international development policy bodies. Other co-hosts are; German institutions: Federal Ministry for Economic Cooperation and Development, Kiel Institute, GIZ, KfW and University.

## ZIPAR Research and Studies in 2014

### 1. Human Development

In the last two years, Government has been putting emphasis on inclusive growth and social justice. Government has indicated that its main goal is to ensure that the benefits of growth lead to a better life for all. In this light, Government has endeavoured to implement programmes that aim at uplifting the lives of the people.

Government has been implementing programmes in the area of infrastructure development. Key among infrastructure development activities are such programmes as rural electrification, road construction and development of social infrastructure such as schools and hospitals. Government has also embarked on programmes to create jobs over the next five years.

As a way of resonating with the Government's priorities, the Human Development Unit will aim at generating knowledge that will enhance Government's policies on inclusiveness and social justice. The studies will look at issues relating to employment creation and infrastructure development.

ZIPAR has therefore identified the following studies to be undertaken in 2014 under the Human Development unit:

#### a) Is Non-Farm Self-Employment A Way Out of Poverty?

ZIPAR has been undertaking analytical work in the domain of employment creation strategies with a view to contributing to Government's employment creation efforts. In 2012, ZIPAR undertook some analysis on the youth labour demand constraints covering the construction, manufacturing and mining sectors and produced an analytical paper on the Unpaid Family Workers. In 2013, ZIPAR has undertaken analyses of employment creation in

the small livestock and creative industry sectors.

In 2014, ZIPAR will undertake analysis focused on the non-farm self-employment sector. The study will aim at generating knowledge on what strategies should be used to enhance income generating capacity of those engaged in non-farm self-employment both in urban and rural areas. This study will among other methods use Propensity Score Matching (PSM) approach to compare the poor and non-poor non-farm self-employment to determine factors that sets the poor and non-poor non-farm households apart. The study will endeavour to identify determinants of 'non-poor' non-farm self-employment income among households and the extent to which non-farm self-employment income contributes to increasing welfare of Zambian households. The study will also give recommendations on which areas policymakers should focus to enhance income for people engaged in non-farm self-employment.

#### b) The Welfare Impact of Rural Electrification on the Poor

As noted in the R-SNDP, poor and inadequate infrastructure remains a major constraint to economic development and poverty reduction. Government has continued to invest heavily in infrastructure development. Through the Rural Electrification Authority (REA), Government has been increasing access to electricity for the rural poor. Currently, less than 25% of Zambian households have access to electricity. The goal of rural electrification programmes goes beyond providing rural households affordable modern energy at a cheaper price than inferior alternatives over the long run. Rural electrification is expected to improve rural people's quality of life and spur growth on a range of socioeconomic fronts.

To provide further impetus on the welfare gains of electricity, this paper will analyse the impact of electrification on a wider range of household outcomes in rural Zambia and determine who benefits most from rural electrification. This study will therefore examine the effects of both household and demographic characteristics on household demand for electricity, along with estimates of the average benefits accrued by rural households from providing electricity in rural areas. Since rural electrification is supported with public funds, the study will also examine the distributional benefits of rural electrification. The study will utilise available household data from the Living Conditions Monitoring Surveys and other household surveys.

#### Public Finance

Under the Public Finance thematic area, the

In the last two years, Government has been putting emphasis on inclusive growth and social justice.

research team will carry out two studies. The studies that will be undertaken focus on assessing the opportunities and challenges of Zambia's entry onto the sovereign bond market and the effects of corporate income taxation on employment. Specifically, the following are the proposed studies:

#### **a) Assessing Zambia's Entry Onto the Sovereign Bond Market: Opportunities and Challenges**

With Zambia becoming a lower middle income country, coupled with slow economic recovery from the global economic crisis in advanced economies, access to concessional resources has become more limited. Therefore, non-concessional borrowing from the international capital markets will inevitably be considered for projects with a high rate of return. Though Zambia's debt is currently sustainable, investing in projects with high rate of return must prudently be undertaken to avoid risk of default that could otherwise escalate the current debt levels.

To ensure that Zambia's sovereign-bond issues do not turn into a financial disaster, the country should carefully put in place a sound, forward-looking, and comprehensive debt-management structure. Despite the diversification 'song' regarding copper, most of our export earnings are still copper-dominated. Therefore, dependence on copper export earnings renders the country vulnerable to copper price shocks. Furthermore, a deterioration of other macroeconomic fundamentals may lead to the credit rating agencies downgrading the country's rating, as recently done by Fitch and Standard and Poors, thereby increasing the cost of borrowing.

This study seeks to understand the opportunities and challenges of Zambia's entry into the sovereign bond market by drawing on the experiences of other countries that have borrowed on the capital markets before to finance their infrastructure projects.

#### **b) Effects of Corporate Income Taxation on Employment**

Employment creation is one of the key policy objectives of the current Government. Government's medium term employment objective is to create 200,000 decent jobs per annum. Consequently, an Industrialisation and Job Creation Strategy has been devised to operationalise this objective. In this strategy, the labour-intensive industries – agriculture, mining, manufacturing and tourism – have been prioritised. In 2013, Government only created 58,000 formal sector jobs in the first nine months of the year. Inconsistencies between the medium to long term plans and fiscal policies have led us to the assumption that Government may miss its employment targets.

Fiscal policy, through the design of the tax system, can deter employment albeit indirectly. Company taxes can affect employment by reducing

investment and production, and by reducing labour supply to the extent that firms pass on these taxes to employees in the form of lower wages. In Zambia, different industries have been given tax incentives by the Government.

In this study, we investigate how company income tax incentives in agriculture, mining, and manufacturing affects employment decisions by employers and what can be done to use fiscal policy to drive growth in these industries.

## **2. Trade and Investment**

Two studies are planned to be undertaken in 2014 under the Trade and Investment Unit:

#### **a) Companies' Decision To Publicly Trade on LuSE: Ramifications for Market Deepening and Economic Empowerment of Indigenous Citizens**

This study will be conducted in collaboration with the National Pension Scheme Authority (NAPSA) and the Lusaka Stock Exchange Company (LuSE). The study seeks to investigate the factors that underpin the decision by companies not to trade on the local bourse. For a longtime, it has been observed that public trading on LuSE has been limited. Simultaneously, large institutional investors such as NAPSA have repeatedly lamented on the lack of opportunities LuSE offers to expand their investment into companies operating locally.

This paradox begs the question why many companies especially the mining based companies that are rapidly growing are not publicly trading on LuSE. When the study is completed, it is expected to provide concrete evidence on the discussions and inform optimal interventions that can boost companies' participation on the local bourse. It can be anticipated that increased public trading will also improve the economic representation of LuSE, help price discovery, ensure indigenous citizens participate in the governance and profitability of companies operating locally and help increase the flow of foreign direct investment.

#### **b) Birth, Death and Persistence of Exporters: A Qualitative Assessment**

In 2013, the Trade and Investment unit analyzed customs data at the export transaction level for the period spanning 1999 to 2011. The results from this analysis show that the growth in the value of exports in Zambia is driven by new export entrants. This result is surprising and deserves some insight from the perspective of exporting firms. As a result, we propose to probe qualitative responses that underlie this phenomenon. In particular, the reasons

for short-lived exporting spells or high mortality in exporting need to be probed. A carefully selected number of respondents that had short export stints or are still exporting will be chosen in different economic sectors. A combination of in-depth interviews and focus group discussions focusing on detailed historical accounts will be employed. At the same time, key Government departments and agencies will be consulted to understand the policy context and ramifications of the results.

### 3. Transport and Infrastructure Development

The 2014 research agenda for the Transport and Infrastructure Development thematic area was developed with consideration to its resourcing as well as the amount of work being carried over from 2013. One (1) new study and two (2) continuing studies have been proposed for year 2014.

#### a) Evaluation of the **Zambian Transport Policy: Performance and Potential of the Road Transport Module**

This is one of the two studies that is rolling over from 2013 onto the 2014 research and study agenda. The study evolved as a stakeholder expressed need to investigate whether the country is being optimal in the way it is investing in road infrastructure and whether the strategies and objectives of the 2000 policy are sufficient for the regulation and to channel investment in the sector. Many new developments in the transport sector have taken place since the sector policy was adopted. It still remains to be stated how much the important issues currently impinging on the progress of this transport module are being articulated. This study therefore seeks to address some of these questions and to engage our minds to start thinking about the kind of issues we want to see in the new transport sector policy.

#### b) **Analysis of the Root Causes and Financial Impacts of Incomplete Road Contracts**

This is the other study that is rolling over from the 2013 research agenda. In the midst of a civil engineering activities boom in Zambia, the incidences of project failure and very slow work progress after the contracts have already been awarded remain relatively high. In order to safeguard public resource and avoid delayed flow of benefits to society from road projects, the exact causes and cost to economy of road project failures ought to be appreciably understood. Only then can avoidable causes be isolated and addressed to reduce the social and economic burden of project failure. This study therefore to characterise failed projects and draw lessons that could inform future public project implementation.

#### c) **Assessment of the Impact of Used Motor Vehicle Importation on the Zambian Economy**

This study has been proposed by the Ministry of Transport, Works, Supply and Communication. Arguably, the growth in the used motor vehicles market has given opportunity for lower income households to own vehicles and hence ease passenger and freight transit. Alongside the improvements in the economic performance of the country, the demand for used motor vehicle imports in Zambia has increased drastically, outstripping demand for new ones. It could also be argued that the increase in the number of used motor vehicles entering the country in the long run is more of a burden than benefit to both the importing households and economy. Performance guarantees for used motor vehicles are hard to secure and the net benefit of the buyers of used motor vehicles is largely uncertain. This study seeks to add to the debate on the issue of second hand motor vehicle importation and ultimately inform policy.

"This paradox begs the question why many companies especially the mining based companies that are rapidly growing are not publicly trading on LuSE. When the study is completed, it is expected to provide concrete evidence on the discussions and inform optimal interventions that can boost companies"

*“Working towards the formulation of sound economic policies”.*

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