



Analysis of the business environment in Least Developed Countries

Zambia

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International Organisation of Employers | Organisation Internationale des Employeurs | Organización Internacional de Empleadores

Zambia

Region
Southern Africa

Population(2022)
19 708 129

Demographic growth
2.8%

Average income (2022)
311 USD

Human Development Index ranking:
154th out of 191 countries. In 2020, the human development index for Zambia was 0.57 score. The human development index of Zambia increased from a 0.43 score in 2001 to a 0.57 score in 2020, growing at an average annual rate of 1.48%.

Economic membership:
Southern African Development Community

Economic overview

The Zambian economy is heavily dependent on copper mining and rain-fed agricultural production, which exposes the economy to external vulnerabilities such as variances in global copper prices and changes in seasonal weather patterns. However, policies are being made to diversify the economy. Despite broad economic reforms in the early 2000s, Zambia still struggles to diversify its economy and accelerate private-led growth to address the poverty of its people. According to the Extractives Industries Transparency Initiative (EITI), mining contributes 77 per cent of Zambia's total export value and nearly 28 per cent of government revenues. A landlocked country, it has a small domestic market and faces some of the highest transportation costs in the Southern Africa region.

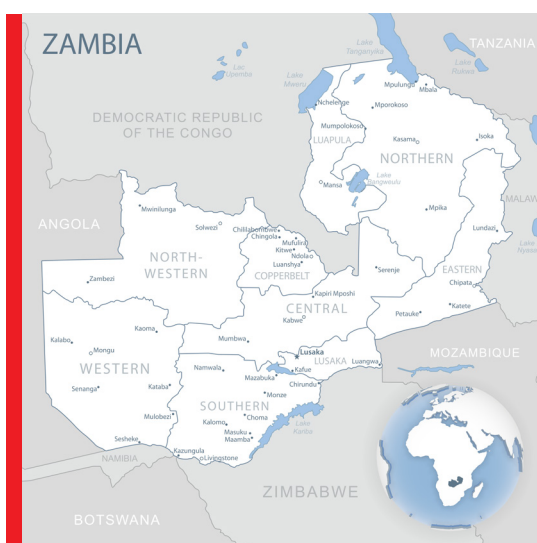
Zambia is experiencing a sizeable demographic shift and is one of the world's youngest countries with a median age of 17.6 years. Its population, much of it urban, is estimated at about 17.9 million and is growing rapidly at 2.8 per cent per year. Zambia's economy has been significantly impacted by climate change resulting in changing growing seasons, severe and frequent seasonal droughts, elevated temperatures, and occasional dry spells¹. This contributes to food insecurity with recent findings by the Integrated Food Security Phase Classification (IPC) showing that 1.18 million Zambians experienced severe food shortages between July and September 2020².

Zambia has made significant strides on its path to digital transformation over the past few years. Progress is particularly evident in digital infrastructure, digital financial services, and digital platforms, while more significant gaps remain in digital skills and digital entrepreneurship.

Zambia's industrialisation plan has identified manufacturing, tourism, energy and agriculture as their priority focus³.

Challenges faced by the private sector

- **Policy inconsistency and uncertainty:** Government policies concerning business and trade often changed without prior stakeholder consultation. Government officials' interpretation of regulations affecting businesses is inconsistent and unpredictable. A good indicator of the cost of



¹ UNDP, 2021

² Jerry Martin: "Zambia Food Security Policy Assessment: Institutional Architecture For Food Security Policy Change", Africa Lead

³ Zambia human development report, 2016

regulatory uncertainty is the amount of time and money senior management spent on regulations (e.g. tax, customs, labour regulations, licensing, and registration), completing forms and dealings with officials. For example, the EITI notes that Zambia's minerals tax regime has changed ten times in 16 years – an issue that mining companies say disincentivises investment and exploration. Market-distorting subsidies and ad hoc changes to trade policy in the agriculture sector have inhibited greater involvement by and growth of private enterprises.



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- Tax rates and administration:** Firms in the private sector are constrained by tax rates and administration. In addition, in relation to tax administration, there is a high frequency of change in tax policy that is either unjustified or unexplained to the business community, and the Zambia Revenue Authority's (ZRA) behaviour toward firms can be arbitrary and punitive. Some staff lack the skills needed, are not provided with clear guidelines, and are given wide discretionary power, which opens the door to corrupt practices. WDI figures show that Zambia's highest marginal tax rate and the tax-to-Gross Domestic Product (GDP) ratio are higher than its regional neighbours.
- Cost of and access to finance.:** Access to capital in the domestic financial market is restricted and characterised by high annual interest rates averaging between 20 per cent and 37 per cent. Small and medium enterprises (SMEs) are required to provide collateral averaging over 400 per cent of the loan value.
- Low labour productivity:** Meanwhile, despite low nominal wages, actual labour costs in Zambia are considered high for the region due to low productivity, stringent labour laws, generous benefits for formalised employees, and training costs due to the shortage of skilled labour.
- Electricity deficit due to rationing of power affects businesses and industries.** The situation has improved since the Zambian government intensified efforts to connect new power generation projects to the national grid and because of strong rainfall in 2020/2021. Load shedding, though still experienced, has eased.
- The decline and the volatility of the Kwacha have a serious impact on the private sector.** The loss in purchasing power of the Kwacha through inflation is reflected in the market-determined exchange rate, which has depreciated precipitously, despite periodic official interventions.
- Covid-19 remains an ongoing challenge for the Zambian business sector as it has stifled growth, affected supply chains and general business activity, and crippled the country's vital tourism industry in 2020 and 2021. Low vaccination rates and an inadequate healthcare system have exacerbated the spread of Covid-19 during each successive wave and will remain a challenge for the foreseeable future.
- Firms in Zambia are concerned about the generally poor quality and limited availability of infrastructure services. Supply of electricity is unreliable, with power outages causing production loss, delays, and increasing the cost of doing business. Zambia has 2,800 MW of installed electricity generation capacity, of which 85 per cent is hydro based. National access to electricity averages 31 per cent, with 67 per cent of the urban and 4 per cent of the rural population having access to power. Zambia's vast majority of power is operated by ZESCO, a vertically integrated state-owned utility. However, the sector is opening to new independent power producers for on-grid and off-grid transactions. The government has set a goal for universal electricity access and expects to bring online additional MW of solar, hydro, and thermal power through 2030⁴.

A gap remains in information and communications technology (ICT) infrastructure, with the lack of last-mile connectivity preventing greater use of digital systems in more sparsely

populated areas where access to services and markets is more limited and where digital systems could help reduce transaction costs associated with serving smaller populations. The high price of connectivity also imposes a barrier to greater business take up. Concerning digital infrastructure, all provincial centres are now linked to the fibre backbone. The country's state-of-the-art data centre can be leveraged for government and commercial use. International benchmarks for the affordability of broadband have also been met, and the use of mobile phones has increased significantly, reaching 15.5 million mobile subscriptions in 2019, out of which 63.5 per cent use broadband.

An insufficiently developed and maintained network of primary, secondary, and tertiary roads creates steep transportation costs. For water supply, many of the industrial districts in the major Zambian towns incur the extra expense of buildings wells to compensate for an unreliable public supply of water.

- **Zambia has made less progress in increasing the population of those with requisite digital skills for digital transformation.** Most Zambians have some level of foundational digital skills, but intermediate and more advanced ICT skills are in short supply. The Seventh National Development Plan (7NDP) Implementation Plan aims to have ICT mainstreamed in schools, and the new competency-based national curriculum has made ICT a compulsory subject. In practice, however, most schools are not connected to the internet, have inadequate access to devices, and have limited knowledge of how to use ICT in teaching and learning.

- The tourism and travel industry accounted for 7.2 per cent of employment and 7 per cent of the country's GDP in 2019 before the coronavirus pandemic⁵. The legal requirement of obtaining several licenses (sometimes up to 58) and poorly designed procedures for license acquisition is a major barrier to investment in the sector.

- **The private sector lacks confidence in the judicial system to enforce contractual and property rights in business disputes.**

Private sector policy recommendations

The following initiatives are recommended to promote private sector participation in national economic growth and development.

- **More robust private sector involvement is needed to tackle entrenched energy issues.** The country experiences intense and abundant sunlight throughout the year, so solar power is a viable solution to energy issues. However, the solar power segment is largely managed by non-governmental organisations, donors and the government.⁷ Increased private sector participation should be encouraged and supported in the power sector to increase access to electricity and power generation through public-private partnerships (PPP).

- The gradual development experienced due to the National ICT Policy could be further improved by offering tax breaks, loans and grants and establishing ICT parks for the private sector. This will encourage further investment, research, and development in the Zambian ICT industry.

- **Reducing the cost of doing business through digitally optimised government systems.** Policies aimed at promoting private sector activity should include:

- Developing a government-wide implementation approach to advancing and scaling up the digitisation of major government payment flows (such as social cash, fertiliser subsidies, school fees, taxes, customs, and licenses).
- Optimise and scale up the e-border management, e-licenses, and public e-procurement systems.

³ ITA, "Zambia - Energy", International Trade Administration, Last modified 2020, <https://www.trade.gov/country-commercial-guides/zambia-energy>.

⁶ Rayner Tabetando, "Tourism And COVID-19 In Zambia", IGC, Last modified 2020, <https://www.theigc.org/blog/tourism-and-covid-19-in-zambia/>.

⁷ IITA, "Zambia - Energy", International Trade Administration, Last modified 2020, <https://www.trade.gov/country-commercial-guides/zambia-energy>.

- **Leveraging data and digital systems to improve sector-specific outcomes in secondary towns and rural areas.**

The government should undertake initiatives that would focus on the digital transformation of a sector (such as agriculture, education, or health) to increase the effectiveness of public service delivery or increase productivity and reduce vulnerability.

- **Improving the adoption of innovative digital solutions by enabling entrepreneurship.**

Initiatives should be undertaken to ensure that the private sector can develop innovative solutions to resolve public and private sector challenges. This will involve conducting a regulatory review assessing how tax, labour, and other pertinent regulations affect enterprises at the start-up stage and developing a regulatory sandbox for digital innovation that provides digital entrepreneurs with a clearer mechanism for navigating regulatory requirements for innovative products and services.

- Developing a start-up strategy that includes attention to technology entrepreneurship that leverages the competency and resources of the Ministries of Higher Education and Commerce, Trade and Industry, the private sector, and the continental entrepreneurship ecosystem.

- There should be a clear change in the allocation and expenditure of public resources to focus on the key drivers of agricultural productivity and growth, such as research and development, extension services, irrigation, and feeder roads. This involves an improved emphasis on activities that directly focus on crop and livestock production and productivity.

- **The government should facilitate dialogues with employer organisations** such as the Zambia Federation of Employers, Zambia Chamber of Commerce and Industry

(ZACCI), Indaba Agriculture Policy Research Institute (IAPRI), Zambia National Farmers Union (ZNFU), and Agriculture Consultative Forum (ACF)⁸. Through multi-industrial coordination, frameworks and mechanisms can be developed to strengthen the effectiveness of stakeholders' input in the agricultural sector. Multi-industrial frameworks should target the technology, horticulture and fertiliser, chemicals, fishing and forestry sectors. This will create great potential for job creation.

- To counter the effect of climate change, private sector investment and expertise should be engaged in developing some remedial measures. This includes securing technologies for identifying flood and drought-prone regions using mapping, developing best practices to promote sustainable utilisation of water resources, and strengthening early warning systems for climate change preparedness⁹.

- Policymakers should design regulations to consolidate and simplify the process of obtaining business permits, taxation and business registration¹⁰. This will encourage formalisation and therefore increase private-sector investments and employment.

- Improve businesses' tax and regulatory treatment regarding equity, transparency, and predictability, with a special focus on tax administration. Also, strengthen public-private dialogue on policy and institutional reform.

- Reduce the mandatory severance benefit for employees in line with neighbouring countries.

⁸ UNDP, "Zambia", UNDP Climate Change Adaptation, Last modified 2021, <https://www.adaptation-undp.org/explore/africa/zambia#:~:text=Zambia%20has%20been%20experiencing%20adverse,changes%20in%20the%20growing%20season.>

⁹ UNDP, "Zambia", UNDP Climate Change Adaptation, Last modified 2021, <https://www.adaptation-undp.org/explore/africa/zambia#:~:text=Zambia%20has%20been%20experiencing%20adverse,changes%20in%20the%20growing%20season.>

¹⁰ Rayner Tabetando, "Tourism And COVID-19 In Zambia", IGC, Last modified 2020, <https://www.theigc.org/blog/tourism-and-covid-19-in-zambia/>.

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