

Aide Memoire

Diagnostic Technical Integration Study: Technical Mission to Zambia May 31 – June 11, 2004

1. The Main Technical Mission for the Diagnostic Trade Integration Study (DTIS) visited Zambia from May 31 –June 11, 2004. The Mission was led by Robert Kirk (World Bank Consultant) and included, Philip Schuler, Philip English, Takako Ikezuki, Rene Meeuws, Ihsan Mahjad, Guido Porto and Jorge Balat. The Zambian consultants managed by John Kasanga from IMCS will continue their fieldwork through to the end of July 2004. The Ministry of Commerce, Trade and Industry (MCTI) nominated Mr. Sunday Chikoti to work with the Mission.

2. The Integrated Framework (IF) initiative coordinates the work of the six core agencies¹ and other donors to respond to a country's trade development needs. The IF seeks to facilitate more effective trade mainstreaming with the national development strategy and enhanced integration into the world trading system. Following the launch of the IF a Concept Paper is prepared to guide the work of the DTIS. The main purpose of the Technical Mission is to meet with Government, donors, the private sector and other stakeholders to collect information for the DTIS. The DTIS includes:

- A review and analysis of Zambia's economic and export performance;
- An assessment of the macroeconomic and investment climate;
- An assessment of the international policy environment outlining any specific constraints in existing and potential export markets;
- Review of the institutional framework for trade policy and trade development;
- An analysis of selected sectors that have the potential to expand output, employment and exports;
- A review of the link between trade policy and poverty;
- An inventory of trade related technical assistance; and
- The preparation of an Action Matrix that prioritizes specific interventions taking into the account the constraints and bottlenecks identified by the DTIS.

The Draft DTIS is scheduled to be submitted to the Government of Zambia before September 30, 2004.

3. At the start of the Mission the team met with the Ministry of Commerce, Trade and Industry. The meeting was chaired by the Acting Principal Secretary, Mr. G. Tembo and included Ms. P. Mlewa, Chief Economist Foreign Trade and Ms. L. Bwalya, Senior Economist.

4. The Mission held meetings with the Ministry of Commerce, Trade and Industry, Ministry of Finance, Ministry of Agriculture, Ministry of Communications and Transport, the Central Bank of Zambia, Central Statistics Office, Zambia Revenue

¹ The IMF, ITC, UNCTAD, UNDP, the World Bank and WTO.

Authority, National Roads Board, Export Board of Zambia, Zambia Investment Centre and COMESA Secretariat.

5. The Technical Mission has worked in close cooperation with the donors holding both bilateral meetings with the Donor Coordinator (SIDA), UNDP, the EU, DFID, USAID, and the Netherlands Embassy and a meeting with all the donors. During the second week the Technical Mission worked closely with the DFID consultants working on the design of a project to support the Enabling Environment.

6. The Technical Mission has worked in close cooperation with the private sector. A series of interviews with private sector apex organizations and a number of private exporters indicates the importance of expanding exports if the private sector is to grow. The IF Coordinator, Fahrettin Yacgi (World Bank) will participate in the PSD workshop from June 21-23 to cover issues relating to the Integrated Framework process and the DTIS study.

7. The DTIS Technical Mission includes several Zambian consultants who are working on agricultural and manufacturing case studies in exporting and potentially exporting sectors. The work will also include studies of selected service sectors including the financial sector, business support services and transportation. Further work on the standards infrastructure and technical regulations framework for supporting export competitiveness will take place during June/July.

8. The team working on trade and poverty will remain in country until June 19 to undertake fieldwork with the manufacturing sector and with smallholder farmers. The work on trade and poverty is examining the impact of trade liberalization on the poor as both consumers and income earners. They will also examine the role of complementary policies aimed at ameliorating the adverse effects on the poor. They have met with the Ministry of Agriculture, the Agriculture Consultative Forum Secretariat and the Central Statistical Office. At the end of their Mission the Trade and Poverty team will present a summary of their preliminary findings.

9. At the conclusion of the Pre-DTIS Mission the Government of Zambia requested the Technical Mission to undertake three priority studies. These included an assessment of the economic impact of implementing the proposed COMESA Common External Tariff(s), a study on the export of scrap metal from Zambia, and a review of outstanding management issues relating to the implementation of the Export Processing Zone Act (the draft terms of reference are attached as an Appendix to the Aide Memoire). The DTIS Team confirmed at the outset of the Technical Mission that they would undertake these studies. The Mission submitted draft Terms of Reference to the MCTI and these are expected to be finalized within the next week.

10. The IF team remain ready to support the Government of Zambia in their ongoing trade negotiations should they be requested.

Preliminary Key Findings

11. The IF will identify an Action Matrix and technical assistance programs to facilitate support from donors for actions aimed at improving trade policies and enhancing Zambia's participation in the world economy. Based on interviews with Government, the private sector, donors and other Stakeholders the preliminary findings to date indicate:

- There is a growing awareness of the importance of trade policies to achieving the Government's objective of diversifying the economy, accelerating the growth rate and reducing poverty. It is important that this commitment to mainstreaming trade is reflected in trade policies being firmly embedded in the upcoming Poverty Reduction Strategy Program;
- Considerable potential for increasing non traditional exports to both regional and extra regional markets. Although the detailed trade data remains to be analyzed it appears that substantial expansion has taken place in the tobacco sector over the past three years. Other crops are also showing considerable potential. In the manufacturing sector there has been more modest expansion, although there are signs of some companies beginning to export more to the larger regional markets;
- The importance of the Government maintaining the commitment to macroeconomic stability. Further progress on reducing the government budget deficit will lead to a reduction in inflation and a lowering of interest rates;
- The existing tariff structure results in considerable anti-export bias. Difficulties in the operation of the existing export incentive programs do not compensate for this anti-export bias and therefore continue to constrain exporters and potential exporters. The scheme would appear to be characterized by considerable delays, high compliance costs, and a concern over critical assumptions on input costs that result in systematic underpayments;
- The current review of the mandates and effectiveness of the Investment Agency and the Export Board of Zambia is welcomed. Presently both institutions mandate includes administrative, regulatory and business service functions;
- The statistics bureau requires more resources to provide accurate and timely data that will guide research and support policy decision making. A shortage of resource prevents fundamental fieldwork from being undertaken. This results in many of the assumptions underpinning household, agricultural, and manufacturing data being based on outdated baseline surveys, some dating back almost thirty years;
- Recent developments by the MCTI to coordinate trade policy formulation and implementation through the establishment of the National Working Group on

Trade (NWGT) are very positive. It is recommended that consideration be given to streamlining the various sub-committees. Distinguishing by different trade agreements raises concerns about consistency across working groups, breadth of coverage within groups, and takes attention away from focusing on national trade policy. For example, discussions on financial services liberalization would have to take place in the sub committees on the WTO, SADC, COMESA, and Cotonou, and financial services specialists would be required to attend all these meetings. Consideration could be given to an alternative structure organized on sectoral lines-such as agricultural trade, non-agricultural trade, and services.

- The commitment of the MCTI through the NWGT to strengthen trade capacity analysis is welcomed. It is apparent that considerable work is required to augment trade capacity across all Ministries and Government departments that are involved in trade and trade related issues, and also within the private sector. In the short to medium terms it is necessary to increase capacity in government and stakeholders to address existing trade policy issues, negotiations and training needs. This will require capacity to conduct the necessary economic analysis. There continues to be a disproportionate focus on the complexities of trade institutions and processes, relative to the economic development objectives to be pursued through trade policy (regardless of whether at the national, bilateral, regional or multilateral levels). The DTIS will develop recommendations aimed at augmenting the capacity for trade policy analysis across government and other stakeholders.
- The strong commitment of the donors to the IF process presents an opportunity to move quickly from the DTIS and the Action Matrix to specific projects aimed at supporting Zambia's increased integration in the world economy. It is necessary for the IF Steering Committee to become operational and include the Lead Facilitator in order to take advantage of the opportunity for enhanced coordination and the opportunity to leverage additional support for trade related projects.

12. The Technical Mission wishes to thank the Ministry of Commerce, Trade and Industry for their support throughout the Mission.

Lusaka
June 11, 2004

Appendix

Draft Scope of Work

The economic implications of restricting exports of Scrap Metal from Zambia

The Ministry of Commerce, Trade, and Industry is reviewing the Scrap Metal Dealers Act in response to complaints from private sector foundries over the export of scrap metal. The government organized a meeting of all stakeholders in Kitwe on May 15, 2004. There appears to be a concern that the local foundries are losing market share as scrap metal is exported to neighboring countries, and that the export of scrap metal serves as a conduit for the trade in stolen metal products such as telephone and electricity cables.

In response to these concerns the Ministry of Commerce, Trade, and Industry (MCTI) has requested a study to assess the costs and benefits to the economy of Zambia of imposing restrictions on the export of scrap metal. This study will supplement work on the ongoing Integrated Framework Diagnostic Trade Integration Study (DTIS). This study will be completed in advance of the full DTIS so that the MCTI can take its findings into account in their review of the Scrap Metal Dealers Act.

The study will be based on interviews with the main suppliers and users of scrap metal, the traders in scrap metal in Zambia. The consultants will carry out interviews in South Africa and also seek to obtain comparative information from other countries. Where possible the consultants will quantify the volume and value of the different types of scrap metal supplied and traded in Zambia. The consultants will also seek to obtain estimates of the domestic, import and export prices paid for different types of scrap metal.

The study will include a brief outline of the structure of the Zambian foundry sector including employment, size, competitive structure and the prospects for growth. The study will interview the main downstream markets from the foundries.

The final report will assess the likely impact of any change in the regulations governing the trade in scrap metal on: the suppliers of scrap metal, traders in scrap metal, the users of scrap metal, the downstream industries (mining) and the Zambian economy. It will also address the export of illegal scrap metal.

The study will be carried out by IMCS under the guidance of Robert Kirk Team Leader DTIS (World Bank Consultant). A draft report will be submitted to Dorothy Tembo, Director of International Trade, MCTI, by September 1, 2004.

Draft Terms of Reference

Study of the Impact of the COMESA Common External Tariff

The Ministry of Commerce, Trade, and Industry (MCTI) has requested an analysis of implementing the COMESA common external tariff (CET). This will supplement work on the Integrated Framework Diagnostic Trade and Integration Study (DTIS) that is presently underway. This study will be delivered in advance of the full DTIS, so that MCTI negotiators can take into account its findings to inform negotiations with other COMESA members.

This study will use a partial equilibrium model to compute changes in import flows and duty collections expected to arise when COMESA free trade agreement members adopt a CET. It will calculate the extents of trade diversion and trade creation likely to arise from a CET. Since the CET schedule is still being negotiated, the study will include projections for the different tariff levels that have been proposed. Due to data and modeling limitations, the study will not be able to simulate all changes in trade flows within COMESA or between COMESA and the rest of the world.

Data needed for this study include: value of imports disaggregated by tariff line and region of origin; current statutory tariff rates, both MFN and preferential; current customs duty collections, disaggregated by tariff line and region of origin; and the proposed CET schedule.

The study will be conducted by Takako Ikezuki under the guidance of Robert Kirk, Philip Schuler, Paul Brenton, all of the World Bank Trade Department. A draft study will be submitted to Dorothy Tembo, Director of International Trade, MCTI, by September 1, 2004.

Draft Scope of Work

Assessment of the Zambia Export Processing Zone Program

The Ministry of Commerce, Trade, and Industry (MCTI) has requested technical assistance in implementing the Export Processing Zone (EPZ) Act of 2001. This assistance will supplement work on the Integrated Framework Diagnostic Trade and Integration Study (DTIS) that is presently underway. It will be delivered in advance of the full DTIS, so that its findings and recommendations can be taken into account along with other proposals currently being made improve the business environment in Zambia. The task manager of the IF will contract a consultant to provide this assistance.

Background

Zambia adopted the EPZ Act of 2001 after conducting feasibility studies and a survey of other EPZs in the region. The law provides for a package of tax and customs duty concessions that are designed to stimulate non-traditional exports. The law allows for the possibility of granting concessions to groups of firms established in territorially defined zones as well as to individual firms not affiliated with any larger entity. Both foreign and domestic firms will be able to take advantage of the EPZ program. Participation will be open to new investors as well as to firms that have already established themselves in Zambia and wish to increase their exports. The primary requirement for EPZ participants is that they export no less than 80 percent of their total sales.

The Zambia Export Processing Zone Authority (ZEPZA) was created in 2002 to oversee the program. In 2003 it began accepting applications from firms wishing to participate in the EPZ. Before reaching the stage of issuing licenses, however, the EPZ program was suspended due to concerns about the program's fiscal implications as well as its effectiveness in creating a better business climate in Zambia. The government is currently conducting a technical review of the program, soliciting analyses from various public agencies and commissioning legal and financial studies. A final report is expected in July 2004.

An initial finding of the DTIS technical mission is that additional work may be needed to provide recommendations on the management of the program, as distinct from its fiscal and legal considerations. Clear and practical guidelines are needed to ensure that regulatory functions of the program are separate from administration of industrial parks. The division of labor between ZEPZA and other governmental bodies is not clear at the present time, and it appears that firms will continue their existing interactions with existing agencies—in contrast, experience from other countries suggests that a principal benefit of and effective EPZ is that firms' interactions with the government are handled primarily by the EPZ agency. Finally, it appears that many of ZEPZA's monitoring and evaluation responsibilities have not yet been spelled out.

Objectives and Deliverables

The objective of this consultancy is to fill these missing gaps. The consultant will meet with the relevant government officials and representatives of the private sector in Zambia. Taking into account the findings of the government's technical review, the consultant will present the following:

- Appropriate organizational forms for EPZ regulation and administration
- A proposal for rationalizing interactions between EPZ firms and regulatory bodies
- A review of the adequacy of existing guidelines for considering new applications
- Draft procedures for preserving the confidentiality of business information
- Draft guidelines for movement of goods in and out of EPZ industrial parks and individual firms
- Draft guidelines for monitoring and evaluating the success of the EPZ program
- A marketing plan to attract new investors to the program

The consultant will present findings and recommendations to Dorothy Tembo, Director of International Trade, MCTI, by August 1, 2004. Interviews and preparation of the recommendations are expected to require 15 person-days.

Qualifications

The consultant will have extensive international experience in the management and analysis of EPZs.