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UNCTAD

National Workshop

Validation of the results of the National Productive Capacities Gap Assessment of Zambia and the fostering of productive capacities for a smooth transition from the LDC category

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Concept Note

Background

The Republic of Zambia is a least developed country (LDC), as well as a landlocked developing country (LLDC) located in Sub-Saharan Africa (SSA). Notwithstanding the impact of the COVID-19 pandemic and related external shocks, the country has made modest socioeconomic progress in some areas over recent years, but still exhibits many of the systemic development challenges facing LDCs. The Zambian economy remains significantly dependent on the mining and export of copper, with ores and metals accounting for 77.8 percent of its exports in 2021 (the latest figure available). The high dependence on extractives has left the economy vulnerable to fluctuations in the copper price for most of its post-colonial history.

Zambia's agriculture sector consists largely of smallholder farmers who cultivate staple crops. The agricultural sector continues to be characterized by low levels of productivity and linkages with other value-added sectors are limited. In 2019, the sector accounted for 49.6% of employment but only 3% of the country's Gross Domestic Product (GDP), down from 9% in 2010. A further challenge facing Zambia relates to the premature de-industrialization of its economic structure. The country's largest shares of GDP and employment originate from the services sector, which is characterized by informality and low-skilled jobs. Industry contributes the second largest share to employment, however, manufacturing value-added (MVA) as percentage of GDP has continued to decline. What is more worrying is that the decline in Zambia's MVA is faster than the median contraction seen in the group of LDCs, LLDCs and Sub-Saharan Africa. This is despite the fact that Zambia has important manufacturing sectors such as wood and paper products (which represent a combined 30% of total production), chemicals, rubber and plastics (at 28%), and food, beverages and tobacco (at 18%). The precipitous decline in Zambia's MVA demonstrates the challenges the country faces in kick-starting structural transformation, increasing value addition and stimulating economic diversification through industrialization. Zambia's industrialization is further hindered by a weak energy sector, where the dominant hydropower infrastructure does not meet domestic needs, including those of industry. The mining sector alone accounts for 50% of domestic energy demand. In addition, the country struggles to provide access to electricity for its population, especially in rural areas. Overall, in 2019, only 43% of Zambians had access to electricity. This also hinders progress in areas such as information and communications technology (ICT) and e-Commerce development.

As an LLDC, Zambia also faces high transportation costs and weak export competitiveness, which are further exacerbated by a limited transportation network and inefficient trade logistics. Moreover, there is a high prevalence of micro-, small- and medium-sized enterprises in the economy with informality being common, especially among young workers. In 2019, 72% of those employed in Zambia worked in the informal sector. As a result, there is high underemployment and a high incidence of poverty, with the country facing a higher aggregate level of labour underutilization than its neighbours in SSA.

Weak and vulnerable growth and a lack of economy-wide productive capacities have had a detrimental impact on Zambia's poverty reduction efforts. In 2015, 54% of the population was living below the national poverty line. People living in rural areas made up 77% of those living in poverty, while 23% lived in urban areas. Extreme poverty in the country increased from 43% in 1998 to 52% in 2002, and from 62% in 2006 to 66% in 2010, before declining to 59% in 2015.

Moreover, Zambia's economy has been hit hard by the COVID-19 pandemic. In 2020, real GDP contracted by an estimated 4.9%. Zambia's services sector was hit particularly hard as tourism was decimated worldwide due to severe international travel restrictions. A World Bank Survey of households in Zambia found that 71% of respondents in the tourism sector had experienced job losses. Moreover, capacity utilization in manufacturing firms fell from 70% in 2019 to 51% in 2020. More severe declines were observed in small and large firms compared to medium-sized firms.

Moreover, as the COVID-19 pandemic in 2020 caused the international price of copper to fall sharply, Zambia experienced a significant loss in export revenue. This precipitated the country's default on its external debt in November 2020. The country is now classified as a highly indebted country, with the overall national debt surpassing 120% of GDP. At the end of 2021, Zambia's debt totalled US$31.74 billion, of which US$17.27 billion was external. Although the Executive Board of the International Monetary Fund (IMF) approved a 38-month arrangement under the Extended Credit Facility (ECF) for an amount of around US$1.3 billion to restore macroeconomic stability and foster higher, more resilient, and more inclusive growth, this may prove insufficient. According to the IMF – based on the country's homegrown reform plan – the ECF-supported programme is intended to help re-establish sustainability through fiscal adjustment and debt restructuring, create fiscal space for social spending to cushion the burden of adjustment, and strengthen economic governance, including by improving public financial management.

These indicators, including the country's current level of debt, are worrying, particularly in the context of Zambia's graduation from the LDC category. In the last triennial review by the UN Committee for Development Policy (CDP), which took place in 2021, Zambia achieved the graduation threshold for two out of three indicators. Despite the country's development challenges, Zambia met the graduation criteria for GNI per capita and for the Human Assets Index (HAI). It did not, however, reach the threshold of the Economic and Environmental

Vulnerability Index (EVI). As LDC graduation is a milestone in a country's development process and the result of cumulative progress made, it also impacts a country's position in the global economy. On the one hand, it makes the country a more reliable partner for economic engagement and, thus, makes it more attractive for international investment and participation in global and regional value chains. On the other hand, a graduated LDC eventually loses some international support measures (ISM), particularly with regard to preferential market access.

Therefore, Zambia, with the support of international development partners, should take steps to ensure that its graduation from the LDC category happens with momentum. This can help continue to carry the country's development dynamics forward by increasing engagement with the global economy, despite the loss of some ISMs. For that, the country needs to build its domestic productive capacities, understood as the productive resources, entrepreneurial capabilities and production linkages that together determine a country's ability to produce goods and services that will help it grow and develop.

In order to design adequate policy interventions to build productive capacities, it is of paramount importance to assess the country's existing sectoral gaps. UNCTAD prepares National Productive Capacities Gap Assessments (NPCGAs) to provide support to graduating LDCs. This follows the inclusion of the Productive Capacities Index (PCI) in the graduation monitoring process by the CDP and the UN General Assembly resolutions requesting UN entities to provide such support to LDCs in the development of their strategies for graduation with momentum and the identification of policies for a smooth transition.

The PCI provides the statistical foundations for NPCGA analyses, relying on eight categories to measure different elements of productive capacities. The PCI, together with a closer examination of micro and macroeconomic fundamentals of the country, as well as an assessment of visions and development plans form the basis of the NPCGA. The NPCGA closely examines socioeconomic challenges, opportunities, and prospects. It identifies comparative advantages of a country and key binding constraints to socioeconomic development. It recommends a series of pragmatic and forward-looking policy actions at domestic level, together with ISMs aimed at fostering productive capacities and achieving structural economic transformation.

Zambia's National Productive Capacities Gap Assessment (NPCGA) shows that the country lags behind developing countries in all measures of the PCI, except on the natural capital component. Nevertheless, the country's overall performance in the composite PCI is slightly better than the average for LDCs. However, it is lower than Africa's regional average and, by far, lower than the region's top performers. Zambia's weak performance in the energy (electricity), ICTs, private sector, and transport components is particularly worrying.

Objective

In view of the completion of Zambia's NPCGA and listed therein gaps in terms of productive capacities as well as suggested policy interventions, the main objectives of the workshop are:

(a) To present the NPCGA to domestic stakeholders in Zambia;
(b) To validate the results of the NPCGA with the Government of Zambia and to examine the causes and consequences of the country's development performance, as well as the strengths and weaknesses of Zambia's productive capacities;
(c) To agree on the formulation of the policy responses to ensure the building of productive capacities, and to align policy interventions with Zambia's national development vision, and domestic plans and strategies, particularly, the *8th National Development Plan 2022-2026*; and
(d) To build capacity among Government technical experts to utilize UNCTAD's Productive Capacities Index PCI in order to design tailored and focused policy interventions to address the gaps in Zambia's productive capacities.

Specific issues to be examined during the national workshop include:

a) Levels of productive capacities in Zambia (based on Zambia's NPCGA) as compared to other developing economies, and their causes and consequences.
b) Utilization of the PCI to evaluate gaps in productive capacities and to identify binding constraints to structural transformation and subsequently formulate adequate policy responses;

c) Challenges to fostering productive capacities, diversifying the national economy and accelerating structural transformation in Zambia;
d) Successful experiences and best practices in policy formulation, building productive capacities and achieving structural economic transformation and their implications for Zambia.

Modalities of the national workshop

Participants of the national workshop will include senior Government officials, national, regional, and international experts in the field of economic development and representatives of the private sector and civil society, including academic institutions in Zambia.

The workshop will consist of a segment for policymakers (to be held from 6-7 October 2022). This will be held back-to-back with a statistical and methodological training for statisticians and development policy experts on the Productive Capacities Index (to be held from 4-5 October 2022).