

Procuring firm growth in Zambia: efficiently targeting public purchasing

POLICY NOTE

- Public procurement spending represents around 15% of Zambia's GDP and provides a stable source of demand for firms.
- In 2025, new procurement regulations introduced preference margins and reservations for citizen-owned, local, and disadvantaged group firms, with special provisions for Constituency Development Fund (CDF) projects.
- Global research shows that public procurement preferences can stimulate firm growth but concerns about the capacity of targeted contractors in Zambia highlight the need for further research.
- Pairing preferential procurement with firm capacity development programmes has the potential to enhance both firm performance and value for money in public spending.

Danielle Handel

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FUNDED BY UKaid from the British people

Targeting public procurement spending

The Zambian government contracts private firms to deliver a wide range of goods and services, from road construction and classroom rehabilitation to ICT services and office supplies. Spending on public procurement accounts for around 15% of GDP in Zambia, making it one of the largest markets in the economy.

To ensure fairness and value for money, contracts are awarded via auctions, with the method depending on project size:

- **Above ZMW 1 million (~USD 43,000)** – contracts must be advertised nationally and awarded through open competitive bids. Firms submit bids that specify costs, qualifications, and proposed provisions.
- **Below ZMW 1 million** – simplified bidding can be used, inviting a smaller pool of firms, and granting greater discretion to the procuring entity.

Simplified bidding has been a key channel for involving local firms. According to survey data[1] of local authorities procuring for Constituency Development Fund (CDF) projects valued between ZMW 0.7 and 1.3 million, 67% of contracts allocated using simplified bidding were awarded to local firms, compared with 47% in national open bidding.

Formalising procurement preferences

In June 2025, the Government of Zambia introduced the Public Procurement (Preference and Reservation Schemes) Regulations under Statutory Instrument No. 45 of 2025. These regulations institutionalise preferential treatment for a range of groups in public contracting, including citizen-owned firms, women, youth, persons with disabilities, and small businesses.

Key provisions include:

- Preference margins of 5-10%, rising to 15% for citizen-manufactured products with at least 35% local content.
- Reservation of all CDF-funded procurements for citizen bidders domiciled in the constituency.

[1] See IGC Zambia project “Decentralisation with guardrails: Evaluating Zambia's Constituency Development Fund”.

These changes make procurement preferences a central pillar of Zambia's industrial and empowerment strategy carried out by the Citizens Economic Empowerment Commission (CEEC).

Existing evidence

Research from across the globe provides insight into the potential impacts of receiving government contracts on firms:

- Procurement contracts increase firm hiring and investment and can help firms overcome financing constraints (Hebous & Zimmerman, 2021; Gugler et al., 2020; Goldman, 2020; di Giovanni et al., 2022; Lee, 2021; Ceppelletti et al., 2024; Fadic, 2020; Ferraz et al., 2015).
- Firms participating in procurement contracting in other sub-Saharan African contexts are 20% more productive than otherwise similar firms.[2]
    - This is most pronounced for small, domestically owned firms, which describe the entities most heavily targeted by Zambia's preference and reservation schemes.
- Firms winning public contracts also subsequently expand private operations (Lee, 2021).
    - Measuring the private market activity of Zambian firms will provide crucial evidence about the sustainability of procurement preferencing as an industrial policy tool.

Evidence from preferencing programmes in other contexts also gives insights into the benefits of preferencing programmes:

- Preferencing financially constrained firms can theoretically lower government costs in the long run by increasing competition through aiding in the firm's survival (Arve, 2014).
- Set asides can be effective in keeping many SMEs in the market and increasing competition for larger contracts (Nakabayashi, 2013).

However, there are pitfalls to implementing programmes that are not carefully calibrated:

[2] See IGC Uganda project "Firm performance and participation in public procurement: Evidence from sub-Saharan Africa".

- When the makeup of firms participating in public procurement responds to preferences, costs can rise substantially (Krasnokutskaya & Seim, 2011).

- Demand shocks can boost labour and capital investment, but this may fail to generate persistent growth due to firm capacity constraints.

Taken together, existing evidence indicates that procurement contracts can promote firm growth and that carefully designed preference policies can broaden participation. At the same time, there are risks of increases in government costs and reductions in the quality of public service delivery.

Providing insights for the Zambian context

Still, the contexts from which the existing evidence has been generated differ greatly from Zambia, so it will be important to gather evidence from the Zambian context to inform efficient policy. Public procurement may provide even more opportunities for growth in Zambia due to capital market constraints: according to the 2019 World Bank Enterprise Survey, 24% of Zambian firms identified access to finance as their biggest obstacle, compared with 11% in sub-Saharan Africa overall. Thus, firms may be subject to a "firm size trap", which makes growth difficult unless they are provided with demand shocks or other stimuli.

Vitally, the efficiency of targeted spending in generating long-term growth depends on whether firms can absorb sudden increases in demand by successfully completing projects, investing, hiring, and eventually obtaining more public and private contracts. In Zambia, surveys of district-level officials implementing CDF projects suggest that concerns about local contractor capacity are first-order, as 41% of 2024 CDF projects experience issues with contractors.[3] If these firms cannot grow quickly enough, preferences may increase costs without producing long-term gains. Rigorous evaluation of Zambia's recent reforms will provide an opportunity to calibrate preference and reservation schemes and spending on capacity stimulation. It can also aid in the design of firm capacity development programmes that may be paired with preferences to ensure long-term absorption of targeted funding.

To evaluate the 2025 reforms, evidence is needed on three fronts:

1. Evidence on contracting outcomes: Policymakers need to know whether preferences and reservations actually shift awards toward targeted

[3] See IGC Zambia project "Decentralisation with guardrails: Evaluating Zambia's Constituency Development Fund".

firms, and whether participation rates in procurement increase. This requires detailed tracking of project-level procurement data from the Zambian Public Procurement Authority's (ZPPA) electronic government procurement (e-GP) database, including whether preferences were applied, how many bidders participated, and which firms won. This will also require tracking applications for, and the use of, Preferential Procurement Certificates issued by the CEEC.

2. Government outcomes: Preferences may raise prices or reduce competition in the short term, but could increase the pool of qualified bidders in the long term. The key is whether efficiency losses are temporary or persistent. Evidence is also needed on service delivery outcomes, including whether projects are completed on time, whether cost overruns are higher, and how communities evaluate the quality of services delivered.

3. Firm outcomes: To assess whether procurement contracts generate growth, data are needed on firm revenues, employment, investment, and tax payments, as well as quality indicators. It will be vital to establish data infrastructure to capture firm responses to demand shocks. Existing infrastructure, such as ZPPA's e-GP, can be leveraged to collect data on firm economic outcomes.

POLICY RECOMMENDATIONS

1. **MONITOR** the implementation of SI No. 45 of 2025 through the ZPPA electronic government procurement system and the CEEC Preferential Procurement registration.

2. **PAIR** procurement preferences with firm capacity development programmes to ensure that local firms and SMEs can deliver timely and high-quality public services.

3. **INVEST** in data infrastructure to record economic outcomes of firms provided with targeted spending and firm capacity development programmes, allowing for the calibration of future policy.

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