

Executive Summary: Zambia Country Strategy Note

1. Country context

In August 2016, the incumbent President Lungu won a full term after a closely contested race. President Lungu's Patriotic Front party has a narrow majority in Parliament with 80 of 156 seats but appears to have an informal coalition with members of the opposition MMD party that gives them room for legislative manoeuvre. The period 2006-2016 saw the unexpected death in office of 2 presidents (in 2008 and in 2014) leading to 6 elections in a span of 11 years. The heightened frequency of political competition is perceived to have contributed to overt politicization of agencies, and a greater reliance on populist policies.

Until the slump in global commodity prices in 2014, Zambia was one of the fastest growing economies in Sub-Saharan Africa with GDP growth on average 6.7% over 2001-15. Despite high growth, nationally measured poverty declined only marginally, from 60.5% in 2010 to 54.4% in 2015, but more than 3 of every four rural Zambians remained below the poverty line. The commodity boom also contributed to increased public spending. Fiscal pressures currently are a major concern for government which ran a fiscal deficit of 10 percent of GDP in 2016 and has experienced a sharp increase in the ratio of public debt to GDP. High levels of poverty and widening inequality despite a decade of robust growth point to deep structural and institutional constraints to inclusive development.

Despite the lost opportunities for inclusive economic progress of the past decade, Zambia now stands at an important turning point. The government has recently completed the drafting of a five-year plan. The new plan aims to stimulate economic recovery and build "*a diversified and resilient economy for sustained growth and socio-economic development*". The objective is to achieve economic diversification and job creation; reduce poverty, vulnerability and inequality; improve human development; and, establish a governance environment in support of a diversified economy.

The demand for good policy research and advice is growing, from multiple agencies in government. In this context, IGC is very well placed, having cultivated close relationships with key agencies and policy influencers which has resulted in a very healthy engagement in supporting policy thinking in government.

2. IGC Zambia Country Programme

Consultations with a range of counterparts in government have reinforced the importance of a focus on institutions as the critical challenge of inclusive development in Zambia. This will require selective focus on key institutions, sustained research commitment, and effective partnerships, to yield results. Over the next three years, IGC-Z strategy will prioritize and sequence research that generates the evidence to help government build capable and functional institutions for inclusive development.

Accordingly, the thematic area of state capability will be a principal focus of IGC research. IGC-Z will deepen its ongoing work on civil service performance and productivity, while expanding its research on issues of fiscal management and support to the government's decentralization reforms. Other thematic research will embed a focus on institutions into the work, as appropriate. Under the firms and cities themes, IGC will expand its work relevant to understanding the constraints and opportunities for economic diversification and healthy urbanization, including an assessment of the impact of industrial zones, informal institutions and SME development, urban planning and land use, and infrastructure investments. IGC will

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selectively expand its thematic work on energy.

3. Thematic Areas

The key engagement areas under each theme will be:

(a) State

Civil Service Performance and Productivity: Ongoing work developed alongside the Ministry of Health and the Ministry of Education is focused on civil service performance and productivity including on the allocation of teachers and health workers. This builds on previous high-impact work around the performance of community health workers.

Fiscal Management: Institutions of fiscal management are critical to macro-stability and effective development. A focus on fiscal institutions will be a major focus of the IGC Zambia research programme in the coming years – including resource mobilisation and expenditure and investment management. Policy research will build on long-term engagement with the Zambia Revenue Authority (ZRA) and the Ministry of Finance (MoF).

Decentralisation Reforms: The 7th National Development Plan (7NDP) identifies decentralisation as an important focus for the effective implementation of the plan. Building on recently completed IGC research, work in this area will seek to complement assistance from other development partners and look selectively at generating knowledge to guide an effective decentralization reform.

(b) Firms

Firm Competitiveness and Productivity Enhancement of Local Industry: The programme supports projects to understand the factors influencing firm growth and linkages, the current drivers of firm competitiveness and productivity in MSMEs in key sectors, looking at lessons from high growth firms; the potential for agro-processing industries and products for export; trust and linkages among businesses in Lusaka; and opportunities for local content regulation in mining to enhance upstream supplier growth and diversification.

Tradeable Sector Development and Competitiveness: Research in this area may focus on: the efficiency of government policies and institutions in enhancing trade such as border posts management, macroeconomic management and cost and access to finance; the efficacy of regulation; the role of investment incentives in the tradable sector; and the potential for locally owned trading firms to graduate to manufacturing companies,.

(c) Cities

Urban planning: Given Zambia's rapid urbanization, urban planning has been identified as an important area of focus by policymakers. Important policy research questions exist around the adequacy of the national/local policy framework to adapt to emerging urban challenges. IGC research will include looking at the role of secondary/tertiary cities, and land use planning in urban and peri-urban areas, property rights and their impact on urban growth.

Capturing Gains from Urban Growth: Zambian cities are better characterised as centres of consumption rather than centres of production. Building on our ongoing research on clusters and trust and knowledge sharing between firms, we will seek to look at the nature/impact of agglomeration effects across cities and, in particular, looking at the most promising avenues for improving labour market outcomes.

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Upgrading Infrastructure in Informal Settlements: The current rapid expansion of populations in Zambia puts severe pressure on urban infrastructure, including roads, water and sanitation and solid waste management. 70% of the urban populations reside in informal settlements. Ongoing IGC research projects related to water and sanitation aim to offer insights on the social and economic impact of water interruptions, solutions to the “last mile problem” and water consumption patterns.

Municipal Finance: Local Councils in Zambia lack revenue handles and are therefore unable to manage the urbanisation process. Building on IGC Zambia research on property taxation, research around decentralisation would also benefit the urbanisation agenda by helping relax municipal financing constraints.

(d) Energy

Approaches to the Promotion of Energy Access: Electrification rates in Zambia remain extremely low, particularly in rural areas. The rural electrification programmes currently being implemented include off-grid solutions such as solar and mini-hydro power plants. Research into the fuel sources that sustain households and firms in rural areas, and how local energy markets can be improved to meet the needs of firms and households, is therefore needed.

The Economic Impact of Access and Availability of Electricity: Limited evidence exists on the impact of access to electricity in Zambia on relevant outcomes such as productivity of firms, employment, education outcomes and household health. IGC Zambia has commissioned research projects on the impact of electricity outages on firms, willingness to pay for improved electricity and the importance of electricity access for provision of health services. Studies will consider the current institutional capacity to deliver on ambitious electrification plans.

4. Engagement Strategy and Collaborations

IGC’s focus on rigor in analysis, strong empirical basis, and its independence in generating ideas is recognized and is a potential force of positive change in Zambia. The IGC-Z team will invest in developing relations of mutual trust and credibility with policy influencers as well as with technical experts in government. Recognizing that policy changes take time to achieve, sustained engagement and responsiveness to government policy concerns in a timely way will be goals of the IGC-Z program.

| Theme | Research Issues | Relevant Stakeholders and Partners |
|----------------------|---|---|
| State | Civil service productivity; tax compliance and revenue generation; fiscal management; decentralisation reforms. | ZRA; MoF; Cabinet Office; PSMD; MoH; MoE; MNDP, MoL |
| Firms | Industrial zones; firm competitiveness; tradeable sector development. | ZDA; MCTI; ZAM; ZCCI |
| Cities | Urban planning; gains from urban growth; upgrading informal settlements; municipal finance. | MLG: Decentralisation Secretariat; MNDP; Local Authorities; Lusaka City Council |
| Energy | Promotion of energy access; economic impact of access and accessibility of electricity. | MoE; ZESCO |
| Cross-Cutting | Poverty analyses; macroeconomic support; economic impacts of infrastructure investments including roads. | MNDP; Bank of Zambia; ZIPAR; DFID; World Bank; IMF; MHI; RDA |

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Good relationships have been maintained and strengthened with the ZRA, MoF and BoZ, in part due to the programmatic focus on tax revenue generation and fiscal management and the comparative strength of the IGC in this space. New relationships have been developed, particularly with the Cabinet Office and the MNDP. The forum with the Cabinet Office will be a key channel to convey IGC-Z research to policy influencers and impact development outcomes.

IGC is a relatively small organization but its unique value in bringing high quality research to illuminate policy puzzles can be extremely effective if (a) it works to co-generate knowledge with government counterparts and other stakeholders (such as ZIPAR, SAIPAR and IAPRI), and (b) it works in partnership with other development agencies (such as the World Bank and DFID and IPA-Zambia) and complements their own development initiatives.

There have been an increased number of local researchers working on projects and government counterparts collaborating directly with researchers. Many of the specific training opportunities supported under the programme have been tailored to the needs of counterparts in government. While none of these approaches have been formalised, they have become organically important for developing and strengthening partnerships and for encouraging strong research capacity in government. Recent requirements for local IRB approval will increase the importance of a strong local researcher base.

The Zambia programme is well-established as an independent, high quality policy research organisation; there has been a continued focus on ensuring that research findings are effectively communicated with policymakers and other relevant stakeholders. Over Phase I and Phase II, research dissemination events have been well-attended and reported, partly because they are generally organised with a client or partner organisation, often sharing the stage with related work by others which has helped to give policy messages more leverage.

IGC Zambia has recognised that the programme would benefit from reaching out to the broader community of policy influencers in civil society and we intend to improve our outreach and relationships with both print and electronic media journalists. More active social media use has been suggested as it is widely accessed by Zambians. Regular postings are expected to increase our audience. We also intend to have periodic media briefings on issues of topical interest, conveying the meta-messages emerging both from some of our core research as well as broader cross-country evidence and experience, complementing events designed to launch individual pieces of policy research.