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Foreword

We are excited to kick off 2024 with the first quarter Strategy and Policy Digest by the Strategy and Policy Analysis Unit (SPU) of the United Nations Development Programme (UNDP) Zambia.

This digest highlights our strategic support towards the formulation of Zambia’s Eight National Development Plan (8NDP), along with its Provincial Implementation Plans, and the launch and dissemination of Zambia’s Living Conditions Monitoring Survey (LCMS). The LCMS offers comprehensive data to inform evidence-based policy and programme formulation. The SPU equally pioneered the undertaking of a comprehensive Development Finance Assessment whose report is in the design stage.

I take this opportunity to commend the SPU for the launch of the Digest which also showcases some fresh perspectives on our portfolio for 2024. For instance, it deep-dives into pertinent areas of poverty reduction and social development along with insights on the recent budget and economic performance. The digest also explores the status of the natural capital accounting process and the development finance assessment and further offers some insightful readings relevant to the current development context in Zambia.

Happy reading!
A call to Action on Youth Development- High Level Business Breakfast Meeting

In January 2024, the Ministry of Youth, Sport and Arts (MYSA), with support of the United Nations Development Programme (UNDP), organized a high-level business breakfast meeting at Neelkanth Sarovar Hotel which saw participation of industry leaders, private sector, government, and development partners. The meeting aimed to facilitate further discourse on how to address the overarching youth unemployment challenge in the country while leveraging each partner’s collaborative advantage.

With a renewed commitment in the 8th National Development Plan to double down on youth economic empowerment and employment in the country, the Government of the Republic of Zambia (GRZ) has rolled out several initiatives that would accelerate youth access to economic opportunities. One such initiative is the GRZ-UN (United Nations) Joint Programme on Youth that provides a platform to highlight and test initiatives and models that can leverage a multistakeholder approach in addressing the youth unemployment challenge.

The high-level breakfast meeting convened a wide range of partners to explore best practices, programmes, and partnerships that can accelerate youth development. The meeting underscored the critical role of the private sector in driving economic development and called for greater partnership between the private sector and government in achieving inclusive and sustainable growth. In Zambia, the private sector is recognized to provide majority of employment opportunities. By generating both direct and indirect job opportunities across various industries, including technology, agriculture, and manufacturing, private companies offer a pathway for young people to engage in productive employment. Furthermore, investments in infrastructure and Public-Private Partnerships (PPP) not only spur economic growth but also create jobs that are accessible to the youth.
In his remarks, the Honourable Minister for Youth, Sports, and Arts, Elvis Chishala Nkandu, MP, noted that the government seeks to work with the private sector in increasing youth employment in the country, making further emphasis on the need for favourable policies and programmes that can reinforce the role of private sector in the provision of economic opportunities.

The Honourable Minister noted: “The private sector constitutes about 90% of employment opportunities on the African continent, similarly for Zambia. This is why the Government of the Republic of Zambia values the role of the private sector in achieving sustainable development.” Among the issues discussed at the breakfast meeting was the need to strengthen youth access to opportunities offered by the country’s unique rich agricultural and mineral resources and ensure productivity within local value chains and linkages with regional and global markets. Linked to this was the need for increased capacity development and training of youth within various trades and enhanced the ability of small and medium-sized enterprises (SMEs) to participate productively in these value chains. This involves improving access to finance, providing technical support, and facilitating market access both domestically and internationally. It was noted that strengthening these aspects within the labour market will not only contribute to more robust economic growth but also address the pressing issue of youth unemployment.

A panel discussion with CEOs from different sectors was held at the meeting discussing ways in which young people can leverage their creativity, innovation, and abilities to contribute to national development. The conversation explored a variety of strategies, ranging from business development, skills training, access to finance, and digitalization. In his remarks the United Nations Development Programme (UNDP) Resident Representative, James Wakiaga, noted the necessity for increased private sector involvement in youth development programmes recognizing the critical role they play in generating jobs, foster innovation, and providing the practical skills and experiences young people need to thrive in today’s economy. The meeting resulted in a few pledges and commitments by private sector companies to engage with and support the government in advancing youth employment.
Updated National Youth Policy: Empowering Youth to Drive Economic Transformation

In March 2024, Zambia marked yet another significant step in its economic transformation plan with the launch of the updated National Youth Policy by His Excellency, the President of the Republic of Zambia, Mr. Hakainde Hichilema, at a National Youth Indaba. This policy, targeting young people aged 19-34, aims to address the challenges faced by youth and empower them to contribute meaningfully to the country’s development. The launch of the policy, which was attended by 3,000 young people, cabinet ministers, heads of UN agencies, private sector, and various development stakeholders, offered an opportunity for the youth to interact with the President on a wide range of socio-economic issues.

Developed with support from the United Nations in Zambia, the updated National Youth Policy builds on the 2015 National Youth Policy, the Action Plan on Youth Empowerment and Employment as well as other national development frameworks to increase investment in youth development. The Policy document seeks to provide a comprehensive framework to guide national efforts in addressing complex challenges faced by the youth, strengthening their development, and empowering them to contribute meaningfully to the economy. It seeks to leverage Zambia’s critical economic sectors, towards increased youth participation in the economy. While providing a broad comparative analysis and review of previous youth policies, the revised National Youth Policy highlights their achievements and reflects on areas requiring further attention, thereby setting the justification for its strategic objectives and focus areas. The key overarching focus areas of the document include entrepreneurship, employment and job creation, education and skills development, information, and communication technology (ICT), health and well-being, and the integration of technology and innovation in various youth development programmes.

Significant emphasis is placed on leveraging technology and innovation to drive youth development. This includes fostering a culture of innovation among the youth, supporting startups, and using digital platforms to enhance education, healthcare, and entrepreneurship.

Furthermore, it addresses operational challenges such as the need for an effective coordinated approach among diverse stakeholders and initiatives and underscores the importance of tailoring programmes to the diverse needs of young people across different parts of the country. The Policy document is also accompanied by a comprehensive Implementation Plan that provides a detailed roadmap for the effective operationalization of the policy objectives to include activities that are measurable, costed, and timebound.
Poverty Reduction and Social Developments

Zambia ranks among the countries with the highest levels of poverty and inequality globally. While the Gini coefficient indicates a slight narrowing of national inequality, (from 0.546 in 2015 to 0.507 in 2022), a concerning trend emerges in rural areas where inequality has widened. The Gini coefficient in rural areas has increased from 0.434 in 2015 to 0.444 in 2022, while that in urban areas has narrowed from 0.476 in 2015 to 0.440 in 2022. The 2022 Living Conditions Monitoring Survey (LCMS) estimated that over 11.7 million Zambians (60.0%) were living in poverty. The national figure masks a cardinal disparity between rural and urban areas. While poverty is more pronounced in rural areas, (78.8%), it has also risen in urban areas (from 23.4% in 2015 to 31.9% in 2022).

The COVID-19 pandemic worsened poverty, but projections suggest a low return to pre-pandemic levels by 2025, driven by growth in the services and construction sectors benefiting the urban poor. However, progress in rural areas remains uncertain due to structural barriers and climate change impact on agriculture, the main stay for many poor households.

Multidimensional Child Poverty is a pressing concern, with 70.6 percent of the children experiencing deprivations in two or more dimensions of wellbeing (e.g., health and education) and nearly 29 percent facing deprivations in 4 or more dimensions of wellbeing simultaneously. Due to inadequate water, sanitation, and electricity infrastructure. This challenge is particularly acute in rural areas with 86.8 percent vs. 41.8 percent of urban areas.) The recent surge in urban child poverty since 2015 from 32.3 percent to 41.8 percent in 2022 whereas rural child poverty ((87.5 vs 86.6 percent) is largely driven by increased health deprivations (children lacking access to medical care (Living Conditions Monitoring Survey, 2022).

Zambia is experiencing a large demographic shift and is one of the world’s youngest countries by median age. Its population, much of it urban, is estimated at about 19.6 million (2021) with a rapid growth rate of 2.7% per year, reflecting the relatively high fertility rate. As the large youth population attains reproductive age, the population is anticipated to double in the next 25 years, resulting in additional pressure on the demand for jobs, health care, and other social services. The cost of living has been rising. Despite the high levels of debt, the government has been spending money on education and health. School fees have been abolished, additional teaching and medical staff have been recruited. The government has upscaled social support despite the fiscal consolidation. The cash transfer scheme remains the most important safety net program, aiming to reach 1.4 million households in 2024.
Budget and Economic Performance

According to the Ministry of Finance and National Planning, Zambia experienced an economic growth of 4.3 percent in 2023, falling slightly below the 4.7 percent in 2022. One of the factors contributing to the slight decline in the economic performance in 2023 despite the steady high rates of growth from 2021 was the decrease in the annual copper export earnings.

Copper export earnings by the third quarter of 2023 had decreased by 18.96 percent to US$ 5.1 billion compared to US$ 6.3 billion in the corresponding period in 2022 due to lower export volumes and fluctuations in copper prices. The decline in copper production and output was a consequence of operational challenges and routine closures for maintenance at some mines, also resulting in lower ore grades. This drop in copper exports has had a significant impact on the depreciation of the Kwacha against foreign currencies from 2023 into the following year.

According to preliminary estimates, domestic revenue and grants exceeded the target of K31.2 billion by K3.5 billion in the fourth quarter. This was mostly due to an increase in Value Added Tax (VAT) collection on imported goods, particularly petrol and diesel. However, tax collection from the mining sector continued to underperform due to the underlined decline in copper output. Despite the Government's recognition of the need to stimulate economic activity, more was spent on the clearance of domestic arrears than planned. This resulted in expenditure exceeding the target. For 2023, the deficit is however expected to be lower than the target of 7.7 percent. Preliminary estimates indicate a deficit of 5.7 percent for the year.

The budget deficit was mostly financed through the issuance of Government securities in which pension funds contributed significantly (Figure 3).

Noteworthy in terms of budget performance is the Government stance and consistency in building budget credibility. The Treasury disburses money strictly following the appropriations by the law. “When the National Assembly appropriates money for recruiting teachers, or for paying pensioners or for financing free education, the Treasury ensures that cash for these activities is released without fail”. This has been the practice since the new administration was ushered into power, signaling prudent budget discipline. On the fiscal front, government mobilized revenues and grants amounting to K122.1 billion in 2023, representing an overperformance of 7.7 percent above the budget target of K113.4 billion. This was mostly due to over-performance from non-tax revenue collections and grants receipts as tax revenue collections were however below target. On the expenditure side, K160.0 billion was released and was 4.4 percent below the target of K167.3 billion.

Issues requiring urgent attention have emerged, along with the exchange rate of the Kwacha, pending agreements on debt restructuring and the financial consequences of the drought under the current agricultural season.

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1 Mr. Situmbeko Musokotwane, Minister of Finance and National Planning, Budget Updates to the National Assembly, February 2024
1. The exchange rate of the Kwacha depreciated substantially during 2023. This depreciation continued through February 2024. The depreciation of the Kwacha well beyond expectations no doubt has brought about some economic problems. This has seen the rate of inflation rise from the single rate of 9.9 percent in December 2022 to the double-digit rate of 13.1 percent in December 2023. The most important driver of the exchange rate has been the drop in copper production in 2023, resulting in reduced inflows of foreign exchange. With regards to the drop in copper production, two factors are worth noting: Firstly, high rainfall in early 2023 resulted in some mines having excessive water which took time to remove from pits. Secondly, some of the operating mines (those that did not close) had before the 2021 elections decided to leave Zambia, citing an unconducive environment that prevailed then. Because they had made the decision to leave, they did not decide to develop new mining areas which would be exploited when the areas currently being mined got exhausted.

In terms of measures being instituted to stabilize the exchange rate, the following are worth highlighting: The first point is to remember that the primary shock to the exchange rate emanated from reduced copper earnings. This shock needs addressing. This entails bringing back into production the two mining giants of Konkola Copper Mines (KCM) and Mopani Copper Mines (MCM) back into production. These two companies were out of serious production for about four years when they closed under PF. In terms of KCM, only one step remains before it is handed back to Vedanta and production will resume. This should happen soon. In terms of MCM, the target date for handing it over to the new investor is the end of February 2024. Beyond this preparatory stage, which is already supporting the exchange rate, we are looking forward to increased copper production and foreign exchange earnings as the two companies get to work. The effects of the return of the two mining companies are set to change things positively. The second leg of increasing copper production is by expanding production at First Quantum (Kansanshi) and Barrick (Lumwana).

Both FQM and Barrick have started developing the new ore bodies and have put in $1.3 billion (about $4 per person in the US) and $2 billion (about $6 per person in the US) respectively to achieve enhanced production. The shock to the exchange rate was largely attributed to problems in the mining sector. This has been a temporal problem which this government has resolved. Because of the mining sector alone, without considering other sectors, concrete steps will soon be visible as production towards the three million tons target takes shape.

Stability comes about because supply and demand for foreign exchange roughly balances. We have already discussed the supply, as we described developments in the mining sector because it is the main source of foreign exchange. The demand side can be managed by monetary policy actions such as those instituted by the Bank of Zambia. These included the withdrawal of government deposits from commercial banks to the Bank of Zambia and the increase in the statutory reserve ratios. Both measures reduce access to local currency financing from the banking system and dampen effective demand for domestic expenditure, including on foreign exchange purchases. Once again, the positive effects of the monetary policy actions are evident today.
2. Moving on to debt restructuring, significant progress has been achieved. We all recall that there are two broad categories of external debt: the official and the private. For official debt restructuring, this was already achieved with formalities expected to be concluded shortly. Regarding the private sector creditors, the focus of the work now is to clarify the meaning of comparable treatment of all creditors. Members will recall that as a way of ensuring that no creditor takes advantage of other creditors, a requirement exists which demands that any proposal for debt restructuring must satisfy the criteria of comparable treatment. This concept was not properly clarified, leading to ambiguous understanding by different creditors. With progress made to clarify the term, this should pave the way for agreement on the private creditors as well.

3. On the drought during the current agricultural season, it is very clear that this season is one of the worst in living memory with many of our citizens in different provinces facing their worst food insecurity calamities. The government has been left with no choice but to propose adjustments to the 2024 budget so that a financing room is created to enable the financing of the vulnerable households. The challenge of food security is not alone. Our national dependency on hydroelectricity equally means in this year of drought, power will become limited unless we find alternatives. As for food security, the Treasury awaits response proposals to guide how the 2024 budget will be adjusted. Given the imperatives arising from the drought calamity, the need for judicious care of our limited financial resources has never been more important. That being the case, requests for a supplementary budget or requests for subsidies of any sort will not fly.
Insights from the Natural Capital Accounting Process

The Natural Capital Accounting is a practical tool used to measure how nature supports the economy and people and comprises the use of an accounting framework to provide a systematic way to measure and report on stocks and flows of natural capital. In 2017, Zambia joined the Wealth Accounting and Valuation of Ecosystems Programme (WAVES) programme with support of World Bank and Worldwide Fund for Nature (WWF). The country has since initiated the Natural Capital Accounting (NCA) Programme and has thus far developed the Forest, Water, Land, Tourism (Wildlife and protected Areas) accounts as well as a policy modelling tool. In pursuit of the economic transformation agenda, it is imperative that development pathways are sustainable. This entails the sustainable utilization of natural resources, which are the basis for wealth creation and building resilience to the adverse effects of climate change.

As such, measures aimed at promoting green growth, safeguarding the environment and natural resources, and enhancing climate change mitigation and adaptation have been prioritized. In line with the UN Common Agenda which urges Member States to begin implementation of the System of Environmental-Economic Accounting (SEEA) the international statistical standard for natural capital accounting, in the last quarter of 2023 a technical team comprising of officers from UNDP country office and line ministries undertook a Natural Capital accounting benchmarking mission to South Africa. The mission to South Africa was to inform the development process of the Natural Capital Accounting Strategy and identify areas that could lead to positive knowledge sharing between the governments of South Africa and Zambia by addressing multiple threats to ecosystems that require a comprehensive approach through improved knowledge about use of System of Environmental Accounting. Furthermore, the mission aimed to enhance understanding on developing the Natural Capital Accounts including the corresponding strategy and implementation plan based on experiences from South Africa. The development and implementation of the national strategy for Natural Capital Accounting will provide credible evidence for integrating planning and policy and decision making in support of the country’s development needs.
Financing for Development in Zambia, Insights from the National Development Finance Assessment (DFA)

With only 6 years remaining to the 2030 target, Zambia faces a critical moment. While the country has made progress, achieving the Sustainable Development Goals (SDGs) remains a cardinal challenge largely due to deep-seated issues. The country is grappling with inequalities, high unemployment, climate change, high levels of poverty, high debt and constrained or reduced fiscal space. The 2022 Living conditions Monitoring Survey (LCMS) paints a very saddening status quo for the country’s poverty levels. The national poverty level has as of 2022 increased by about 5.6% from 54.4% in 2015 to 60% in 2022. The burden of high debt further complicates matters, making the status quo unsustainable. Acknowledging this, the 8th National Development Plan (8NDP), calls for the need for an Integrated National Financing Framework (INFF) to bridge the funding gap.

It is against this background that the United Nations Development Programme (UNDP) partnered with the Government of Zambia through the Ministry of Finance and National Planning that engaged the Zambia Institute for Policy Analysis and Research (ZIPAR) to conduct the Development Finance Assessment (DFA), whose aim was to provide a comprehensive analysis of public private finance for sustainable development in the country. The DFA has provided development finance data across public and private financing streams to better understand financing flows and provide recommendations on finance into the future.

Informed by a robust analytical framework, the DFA assessed how Government mobilises and utilizes public and private finance across all sectors, for both domestic and international. By analysing policies, and regulations, financing streams, and trends from 2010 to 2020, the DFA did not only identify key challenges, but it also provided actionable recommendations for the development of an INFF. This roadmap serves as a cardinal tool for the country to harness its resources effectively and efficiently, diversifying its financing options, and accelerate its progress towards achieving the SDGs.
However, the DFA also brought out concerning trends. It notes that while public sources currently dominate Zambia’s development finance, with domestic public finance alone accounting for 36.3% of GDP from 2010 to 2020, private finance, both domestic and international, lags. Despite encouraging growth in capital markets which saw an upward trend in the Lusaka Stock Exchange (LUSE) market capitalization, Public-Private Partnerships (PPPs) have underperformed due to challenges such as lack of political will, weak legal frameworks, and capacity limitations. This over-dependence on public funds shows the need for Zambia to unlock the potential of private finance and create a more balanced and sustainable development financing landscape.

To achieve this, the DFA proposes several cardinal reforms/recommendations. These include among others broadening the tax base and reducing leakages, enhancing tax collections capacity for the Zambia Revenue Authority (ZRA), stabilising the mining fiscal regime and reviewing tax incentives, leveraging technology to boost non-tax collections, and simplifying the corporate income tax structure.

All in all, the DFA provides a significant step forward in Zambia’s pursuit of sustainable development through having optimised financing strategies, especially as the country approaches the 2030 targets even as the country faces challenges. It is hoped that by taking a step towards the DFA recommendations, Zambia may be able to unlock its full potential and achieve a more prosperous and sustainable future for its people as hoped for in the country’s agenda 2030.
Prospects for 2024

Overall, we expect stronger growth in the coming year as rising mining output boosts exports and fiscal consolidation supports investor confidence. Inflation will ease only marginally in 2024 - to 9.8%, well above the forecasted 4.4% for Tanzania and 4.6% for South Africa—as negative interest rates persist at least initially. Inflation will stay above the 6-8% target until 2026 amid tight local food supply.

Zambia will run a current-account deficit in 2024 as copper output takes time to rehabilitate and as prices gradually improve. A current-account surplus will emerge in 2025. Capital inflows will strengthen once a debt-restructuring is completed. It is important to note that Zambia is heavily dependent on copper exports for foreign-exchange earnings and government revenue. High global copper prices will support fiscal consolidation, subject to the risk that a plunge in copper prices would negatively affect the fiscal balance. The copper sector accounts for about 70% of Zambia’s export earnings, and its expansion is key to the country’s future. The government’s industrial policy is to encourage private investment and take mines out of state control.

As a country already in a sovereign default, the outlook remains tight for Zambia. A Memorandum of Understanding (MoU) was reached on a restructuring with official creditors in July 2023, paving the way for crucial new IMF support and negotiations with the private creditors. Going forward, Zambia’s economy is poised to be in stronger position. The drag on the economy in the past few years, which also reflected itself on the exchange rate, high cost of living and poverty was due to the absence normal production in the mining sector, the key driver to the economy. The revival of the mining operations will boost livelihoods on the Copperbelt and in the rest of Zambia. Other sectors of the economy are poised for greater heights, including the tourism, telecommunications, manufacturing, and construction sectors.

Zambia’s economy is expected to expand over the 2024-26 period mostly on the back of the anticipated recovery of the mining and agriculture sectors, as well as improvement in the macroeconomic environment (Figure above). This will be complemented by sustained growth in the information and communication, financial and insurance services, accommodation and food services, transport and storage, and manufacturing sectors.
The Bank of Zambia projects real GDP to grow by 3.9 percent in 2024, 4.2 percent in 2025 and further by 4.4 percent in 2026 (Figure 1). The Ministry of Finance and National Planning (MoFNP) projection is higher at 4.4 percent, 5.5 percent and 5.4 percent over the same period (Figure 1). The IMF and Focus Economics projections are slightly lower than MoFNP, but broadly in line with the Bank of Zambia.
Relevant articles

Selected readings from prominent economists and policy analyst offer valuable insights into the evolving discourse on the economic development and policy reforms around sustainable development. These readings, carefully proposed to align with Zambia’s development agenda, provide diverse perspectives on cardinal issues such as inflation, debt management, climate change and innovation. Below, we recommend selected readings from prominent economists on How Economics Must Change:

**Rethinking My Economics** | Questioning one’s views as circumstances evolve can be a good thing | **Angus Deaton**

**Why and How Economics Must Change** | Economics needs greater humility, a better sense of history, and more diversity | **Jayati Ghosh**

**Renewing Economics** | Fundamental economic changes require a departure from simplistic economics | **Diane Coyle**

**How Inflation Radically Changes Economic Ideas** | Inflation teaches us that supply, not demand, constrains our economies, and government borrowing is limited | **John H. Cochrane**

**Breaking the Debt Supercycle** | Dependence on credit to boost demand imperils the world economy—we must correct the underlying imbalances | **Atif Mian**

**Economics and Innovation** | Economists can play a crucial role in the development of innovations for serving social, environmental, and other human needs | **Michael Kremer**

**A Win for Greening Zambia** | Politics Footprints of the Biodiversity Finance Initiative (BIOFIN) in Zambia’s Maiden Green Bond Issuance: A Win for Greening Zambia’s Financial Sector | **UNDP BIOFIN**

**Zambia, China & India** | Zambia Bonds Jump as Revamp Gets Traction with China, India Deal | **Colleen Goko-Petzer & Tonga Mitimangi**
# Upcoming Events

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<td>United Nations, Summit of the Future in 2024</td>
<td>How would a <a href="#">Pact for the Future</a> that adopts the proposals of the Secretary-General change our world?</td>
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<td>Tenth Session of the Africa Regional Forum on Sustainable Development</td>
<td>The hybrid event will reinforce the 2030 Agenda for Sustainable Development and Agenda 2063 and eradicating poverty in times of multiple crises: the effective delivery of sustainable, resilient, and innovative solutions. 23 April, 2024,</td>
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| World Bank 2024 Spring Meetings                            | **Energizing Africa:** What Will It Take to Achieve Universal Energy Access?  
The discussion will focus on what it will take to scale up the solutions and investments that will help connect millions more Africans to electricity and transform African economies. |
| 3rd UN Conference on Landlocked Developing Countries       | The Third [UN Conference](#) on Landlocked Developing Countries opens an opportunity to explore meaningful partnerships to unlock the potential of landlocked developing countries. The conference will be held in Kigali, Rwanda from 18th to 21st June 2024. |