ZAMBIA
Private Sector Development Reform Program (PSDRP)

Lessons Learned Based on
Institutional Architecture and Design of
the PSDRP

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Executive Summary

Zambia liberalized her economy in 1991 because she saw there was a need for a new approach to economic management, which would place emphasis on trade liberalization, privatization, better governance, and favorable investment climate (i.e., right policies and institutions). This she believed would encourage and attract private investment, raise productivity and increase employment.

As a first step in her pursuit of accelerated economic growth and enhanced private sector development, Zambia designed the Private Sector Development Reform Program (PSDRP). This Program’s main object was to contribute to creating and sustaining an investment climate that would allow private sector led economic growth.

Consultations with key stakeholders were made at various levels and in different forums, including one-on-one meetings and workshops for the private sector and Permanent Secretaries. All these consultations culminated in the Private Sector Development (PSD) Forum 2004 whose purpose was to bring to finality the PSD action planning process and to agree finally on the implementation structure. The resulting Draft PSD Reform Action Plan and implementation framework became known as the Government’s Private Sector Development Reform Programme (PSDRP). The PSDRP was formulated primarily for laying the foundation for faster and sustained private sector led economic growth by improving the investment climate. The PSDRP is an expansive program encompassing reforms across the economy which Government committed to implement.

In designing the PSDRP, the following were the guiding principles:

- Consultation and broad ownership in the development of plans
- Mainstreaming implementation through line ministries
- Monitoring progress of implementation at a high level
- Resource mobilization for implementation based on a menu of projects/programs requiring donor support

Zambia has been able to achieve more in terms of the macroeconomic stability in the past two or so years. This is because macroeconomic reforms are easier to implement than microeconomic reforms due to the fact that a few key actors are involved in their implementation, and also because Government can occasionally resort to using its administrative decree when things are not moving as fast.

While it can be acknowledged that some progress has been made so far, unfortunately not all is working as planned. A need therefore has arisen for all key stakeholders to share Zambia’s experience in reforming its investment climate. This is a useful way for Zambia to map the way forward.
1. Introduction

The purpose of this paper is to share the lessons learned in reforming the investment climate in Zambia based on experiences from the Private Sector Development Reform Programme (PSDRP) and from the perspective of its institutional architecture and design. Specifically, the paper describes the background to the program design, the design features, the progress made to date and the major challenges the Program is facing. It also suggests the specific lessons learned, and the way forward for the Programme.

2. Background

Zambia liberalized its economy in 1991, and subsequently set in motion policies that would support the development of its private sector, the engine of economic growth. Zambia also recognized the important link between improved investment climate, on the one hand, and increased growth, wealth creation and poverty reduction on the other. At this time Zambia also felt a need for a new approach to economic management, which placed emphasis on trade liberalization, privatization, better governance, and favorable investment climate (i.e., right policies and institutions). This, ultimately, would encourage and attract private investment, raise productivity and increase employment.

As a first step in its pursuit of accelerated economic growth and enhanced private sector development, Zambia designed the PSDRP. The main object of this Programme was to facilitate the process of creating an investment climate that would allow private sector lead economic growth.

To be sure, the pulling out of Anglo-American Corporation, Zambia’s major private investor in copper, from the mining industry constituted the trigger for Zambia to begin to pay serious attention to addressing investment climate issues. The need to create an enabling environment for the purpose of attracting private investment then became very real. A strategic plan for economic diversification was subsequently developed and disseminated at the Diversification Conference in 2002. Although this plan had in it good proposals, it however did not have an adequate framework for the implementation of the recommendations. Following this conference, a number of studies and consultations were carried out which produced a rich set of recommendations for private sector led economic growth.

To ensure that key recommendations from these studies and consultations were captured and later utilized, the Government in partnership with the private sector, through the Zambia Business Forum (ZBF), used the reports from these studies and consultations as resource material in preparing the Draft Private Sector Reform Action Plan and implementation framework. This Action Plan would serve as a road map for creating the right environment for investment, infrastructure development and private sector led economic growth. As part of the process for preparing this Draft Action
Plan and implementation framework for the Programme, the Government commissioned a study to review the investment climate assessment (ICA) report, the administrative barriers and other private Sector Development related studies conducted during 2002-2004.

Consultations with key stakeholders were made at various levels and in different forums, including one-on-one meetings and workshops for the private sector and Permanent Secretaries. All of this culminated in the PSD Forum 2004 whose purpose was to bring to finality the PSD action planning process and to agree finally on the implementation structure. The resulting Draft PSD Reform Action Plan and implementation framework became known as the Government’s Private Sector Development Reform Programme (PSDRP).

3. Design of the Private Sector Development Reform Programme

The Private Sector Development Reform Programme (PSDRP) was formulated primarily for laying the foundation for faster and sustained private sector led growth by improving the investment climate. The PSDRP is an expansive programme encompassing reforms across different sectors in the economy found in different ministries, which the Government committed to implement.

3.1 Programme Designing Principles

In designing the PSDRP, the following were the guiding principles:

- Consultation and broad ownership in the development of plans
- Mainstreaming implementation through line ministries
- Monitoring progress of implementation at a high level
- Resource mobilization for implementation based on a menu of projects/programmes requiring donor support

3.2 Programme Design Elements

3.2.1 Programme Objectives

The Programme was developed around six reform areas. Here below is given the specific objectives for each of the reform areas:

<table>
<thead>
<tr>
<th>REFORM AREA</th>
<th>SPECIFIC OBJECTIVE</th>
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<tbody>
<tr>
<td>Policy environment &amp; institutions</td>
<td>Create an enabling macroeconomic environment, strengthen the public agencies that support PSD and enhance public/private dialogue</td>
</tr>
<tr>
<td>Laws &amp; regulations</td>
<td>Improve regulatory frameworks and revise investment code to foster PSD</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>Enhance infrastructural platform for PSD by</td>
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</tbody>
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encouraging private investment in infrastructure

<table>
<thead>
<tr>
<th>Business facilitation &amp; economic diversification</th>
<th>Remove administrative barriers to business entry and operation and facilitate development of high growth sectors</th>
</tr>
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<tbody>
<tr>
<td>Trade expansion</td>
<td>Create opportunities to access regional and international markets by Zambian businesses</td>
</tr>
<tr>
<td>Citizens empowerment</td>
<td>Unlock the growth potential of the MSME sector through business development support and local empowerment initiatives</td>
</tr>
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</table>

The Financial Sector Development Plan constituted part of the basis for the development of these reform objectives.

3.2.2 Prioritization

From the six reform areas, a number of reform priority areas were identified based on these criteria: feasibility of action implementation, and impact of action. These priority areas were: (a) Administrative Barriers; (b) Citizens Economic Empowerment; (c) Energy; (d) Immigration; (e) Labor Law; (f) Lands, (g) Livestock Disease Control; (h) Public-Private Partnership; (i) Infrastructure; (j) Small Claims Court; (k) Telecommunications; (l) Tourism; and (m) Trade Expansion.

3.2.3 Achievement of Reform Objectives

For implementation of activities under each reform priority area, Working Groups (WGs) were formed, and a full-time Program Coordinating Unit (PCU) was established to coordinate and monitor the implementation of the Private Sector Development (PSD) reform action plan. The PSD reform action plan is being mainstreamed into the Government ministries.

To achieve the reform objectives, cited above, efforts were also focused on addressing current private sector constraints, based on the identified priority areas.

3.2.4 Implementation Framework

The Programme implementation framework has defined the functions and roles of the Programme’s different stakeholders to ensure that the reform agenda is effectively driven forward, accountability for the reforms is sufficiently secured, implementation of the reform activities is carried out, and that coordination and monitoring of the reforms is effectively done.

The PSD Steering Committee (SC) is the apex body for directing the affairs of the Program. Its membership comprises Government, private sector and donors, and is chaired by Government. The SC is, at operational level, sup-
ported by the PCU whose main task is to coordinate and monitor the operations of the whole Program, while the line ministries are responsible for initiating and executing the reforms through the WGs.

4. Progress of Reforms

In general the PSD reforms have not yielded much of the results expected at this stage of implementation. However some of the reforms are still underway and progressing well. Overall, notable achievements have been recorded so far. These include:

- Macroeconomic stability as evidenced by trends in the key indicators, such as inflation rate, interest rates and exchange rates
- Citizens Economic Empowerment (CEE) Commission has been established to take care of local empowerment issues
- Zambia Development Agency (ZDA) has been established as an institution that will improve service delivery to investors
- Business name registration and Company incorporation processes have been shortened from 21 to 3 days.
- Approval of the Information and Communication Technology (ICT) Policy and Private Public Partnership (PPP) Policy, and enactment of the Market Bill
- Establishment of the Credit Reference Bureau.

5. Challenges

There are a number of factors that have contributed to the not-so significant achievements recorded so far from the PSD reforms. Important ones are cited here below:

- Programme design defect. Keeping focused on the reform objectives has not been easy because of the lack of a built-in mechanism for harmonizing the divergent stakeholders’ needs and interests at political, institutional and technical levels.
- The administrative barriers. There has been experienced resistance to change at institutional level generally, which is mainly due to institutions failing to see long-term gains that lie beyond the momentary, short-term, loses of revenue or influence which they are likely to suffer because of the reforms.
- While the Government has the big picture of wanting reforms to encourage private investments as a means to creating jobs and reducing poverty, institutions focus mainly on the immediate benefits that will accrue to them. This lack of convergence of interests and aspirations has greatly slowed down reform implementation.
- The Government ministries do not all have the same zeal to implement the reforms. This is because, for some, the reforms are not part of their
written job description and therefore they see their participation as extra work for which remuneration must be given.

6. Good Practices in Designing the Reform Programme

- The Government, as the prime mover of the reforms, has made a commendable effort in ensuring that the reform process is sufficiently consultative, and that all its key local partners in both the public and private sectors participate. This consultative approach has given effect to:
  - The generation of a strong spirit and sense, among the partners, of co-ownership of the reforms initiative, which is necessary for creating a passion in each of them to perform and commitment to deliver;
  - The identification of real, and not supposed, priority areas whose improvements, it was hoped at design stage, would yield the greatest and immediate gains; these key priority areas included policy, regulatory and institutional reform;
  - Drawing important lessons - good and bad - from other countries, based on the experience gained by the participating members of the donor community in these countries. These lessons were great help in guiding Zambia’s programme design process;
  - Adoption of a balanced approach to implementation of the Programme, arising from the fact that the Working Groups (WGs), which were created to facilitate Programme implementation at reform sector level, are a mix of private and public sectors. While the Government is the reforms implementing agency, the private sector, on the other hand, provides the much-needed accountability checks and balances in addressing reform issues.

- The Programme has been designed as a tripartite partnership involving Government, Private Sector and the Donors. Each partner has clearly defined roles to play (as summarized in the Memorandum of Understanding on the coordination of the PSDRP), which will complement the efforts of other partners.

- Donor support for the reform Programme is strong arising from the pooling of funding and technical support for the Program that has resulted from the tripartite partnership that exists.

- Inclusion of an international perspective in the provision of support and counsel to the reform process, through the Zambia International Business Advisory Council (ZIBAC), does create international credibility of the reform process and also makes it possible to incorporate in the reform process international best practices as has been cited above.

- Because of the detailed technical and administrative requirements of the process, the Programme Coordinating Unit (PCU) plays an important role of coordinating all Programme activities. The PCU, on the one hand, acts as a facilitator and go-between in bringing the private sector, Govern-
ment and other key interest groups together, and on the other, identifies faster ways of Program implementation.

- Use of a fully coordinated mechanism for funding and responding to the reform issues has strengthened capacity for implementation, provided orderly and timely consultations, and ensured that resources required for Programme implementation are made available promptly.

7. **Other Lessons Learned**

Apart from the good practices in designing the PSD Reform Programme, and as well as the challenges that have been cited above (which in their own right suggest important lessons), there are other significant lessons we can learn from Reform Programme design. These include:

- The PSD reform action plan was not fully mainstreamed into GRZ ministries at design stage. This has resulted in the lack of full ownership of the Programme at institutional level, which in turn has resulted in the slow pace at which the Programme is being implemented.

- Although there is evidence that the process of Program design was consultative, there seems, at the institutional level, to be a serious lack of ownership of responsibility for Programme implementation; and this has resulted in the generally low levels of institution’s commitment. There could be only one plausible explanation for this: a strong sense of co-ownership of the Programme design process and of the Programme objectives was not fully shared among all the stakeholders at design stage.

- Political will is an important aspect in implementing reforms. National leaders, especially those in Government, must have a very clear vision in as far as economic reforms are concerned, and a very clear perception of the reforms agenda. They all must feel a strong sense of ownership of the reforms and must be willing to express their political will in driving the reforms agenda forward. Once this is achieved, the problem which is being experienced currently, where there are so many voices giving different and often contradictory messages on the reforms will be greatly ameliorated.

- Zambia has been able to achieve more in terms of the macroeconomic stability in the past two or so years. This is because macroeconomic reforms are easier to implement than microeconomic reforms due to the fact that a few key actors are involved in their implementation, and also because Government can occasionally resort to using its decretive powers when things are not moving as fast.

- With respect to microeconomic reforms, although members of the public would want to see microeconomic benefits immediately, especially given the high levels of poverty in the country, it is true to say that microeconomic benefits only follow after the macroeconomic base has been set. Moreover, benefits from micro-level reforms are not visible immediately. To illustrate this point, in 2007 the total number of days taken to regis-
ter a business name, on average, reduced from 21 days to 3 days. Although this is beneficial to businesses, it is not something that anyone can easily see or appreciate immediately.

- Having the Monitoring and Evaluation (M&E) framework put in place as an after-thought – i.e., after the Programme design was done and its implementation commenced, as opposed to making it an integral part of the design - is one of the greatest flaws of the PSD reform programme design. An M&E system is intended to define progress indicators, means of progress/results verification. It is also intended to define the Programme environment for each of the reform areas and for each of the key reform actors - political leaders, public and private sectors including the PCU, the SC, WGs, ZBC, etc. Lastly, the M&E system also facilitates feeding of information from the Program as it is implemented into the formal national reform policy formulation processes;

- The Programme is currently not effectively coordinated due to unclear Government statement on which ministry has ownership of the reform process, and due to implementation of the reform process through fragmented and uncoordinated mechanisms, which has tended to create fatigue in the line ministries because they end up duplicating efforts.

- Last but not the least, the Programme design did not incorporate a communication strategy for informing and disseminating Programme achievements to all who have a stake and interest in private sector development. The consequent lack of information on the reforms so far has caused the general members of the public in Zambia not to appreciate fully the achievements gained and challenges faced in the course of implementation of the reforms.

9. **Way Forward for the Private Sector Development Reform Programme**

As Zambia continues to reform its private sector it is important to pause and reflect on what is working and what is not. This will then ensure that the flaws in the design can be dealt with. In doing so, the programme will also have an opportunity to learn from the experiences of other reformers.

Some of the key areas that the programme has already identified for action are mentioned below.

- Confirm and set the pace for the widely shared vision of private sector led economic growth.

- Enhance the development of an effective and balanced platform for public/private dialogue and joint planning.

- Create a mechanism for a common voice on the vision, goals and achievements, and a consistent message in all public pronouncements on PSD.
• Demonstrated commitment and political will by GRZ to deliver on the PSD reform action plan.

• Strengthening the M&E mechanism as a Programme management tool for assessment of Program results and monitoring environment within which the reforms are being implemented.
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