ZAMBIA INSTITUTE FOR PUBLIC POLICY ANALYSIS

Journal

July - September 2009

Theme: ENABLING DIVERSIFICATION

Features

Freeway
What Holds Us Back?

Diversification away from mining was the subject of our April issue. It described some success stories, and it introduced readers to an almost free international consultancy service. 'Go for it, Zambia!' urged the editorial. But diversification into other fields of business is far from easy. What is holding us back?

Let's look at mining. Why has mining, on the whole, been so successful? Is it because of rich ores and high prices? Not really. If these had sufficed, the industry would not have become progressively moribund after nationalization. Professionalism and expertise have been vital. Size and independence have been no less important. Mining companies have had the resources and the clout to look after themselves. But such independence is lacking in other fields, where business enterprises, far from controlling the environment where they operate, are held back by it.

The business environment has a major influence on business performance. This is emphasized by 'Doing Business', a World Bank research publication which has appeared annually since 2003. Studying business environments around the world, it covers ten areas of regulation. Each one is examined in detail to determine its average cost to businesses in time and money.

Countries are awarded annual rankings, just as they are in the Corruption Performance Index of Transparency International. Like the TI index, the 'Doing Business' index has acquired great influence. It has even been suggested, as countries strive to improve their rankings, that 'Doing Business' has achieved more for developing countries than have all the World Bank's loans!

Alas, Zambia's overall ranking is disappointing. Among 181 economies listed in the 2009 edition our position is a mediocre 100. Each of the ten areas covered receives a separate ranking. In 'Paying taxes' Zambia is awarded a commendable 38, but in some other areas our performance is lamentable. In 'Trading across borders' Zambia ranks 153, in 'Dealing with construction permits' we rank146, and in 'Employing workers' we receive 135. This issue of the journal contains articles which discuss why these three rankings are so low, and suggests possible improvements.

The ten aspects studied in 'Doing Business' are, of course, far from exhaustive. Political stability and property rights, for example, are not covered. But the aspects which are studied cover several important areas where government regulations can inhibit business performance. If we are serious about diversifying our economy, we shall treat Zambia's adverse rankings in 'Doing Business' as calls to action.

Winning Investment Against Stiff Competition

By Pamela Tremont

The World Bank's Doing Business Report ranks Zambia 100 out of 181 countries for ease of doing business. What does it matter whether or not it is easy to do business in a country, and why should it fall to the government to make it easier for businesses to make money? Because private enterprise is the driver of economic growth, and is the means of creating employment and wealth for a country's people.

Zambia's government knows the importance of attracting foreign investment to create jobs and wealth, and is equally aware of the need to improve the investment climate, so as to persuade investors to choose Zambia rather than one of the 99 countries where doing business is easier. However, the Zambian public must also support economic reform and accept the trade-offs it entails. Attracting foreign investors and nurturing domestic investors is extremely competitive, particularly during an economic downturn when capital for investment is scarce.

Fortunately there is much the GRZ can do in the policy sphere to improve its competitiveness. First, it has a critical role to play in making Zambia a predictable country in which to do business. Corruption, in all forms and at all levels, must be rooted out. Investors cannot reliably calculate their profitability if bribes are solicited at every turn.

The GRZ can stem corruption by implementing its long-awaited anti-corruption strategy, supporting the Anti-Corruption Commission and the Task Force on Corruption, setting up a Financial Intelligence Unit that meets international standards, finalizing the Single Treasury Account that will eliminate the thousands of separate government accounts over which there is inadequate oversight, and passing legislation on asset forfeiture and whistleblower protection.

In government procurement, companies are put off by their inability to bid on large projects due to sole source contracting. Government contracts should be competitively and openly bid. Sole source contracts to companies who repeatedly deliver substandard products and projects indicate to investors that having the best product at the best price will not necessarily win orders. Communications are also critical. According to the World Bank, Zambia's cost of exporting a shipping container is about twice what it costs in neighboring Malawi. Investment in roads, one-stop border crossings, and the long neglected railway is critical to lowering transportation costs for potential exporters. Likewise the cost of internet, telecommunications, and fuel are much higher than in the surrounding countries with whom Zambia is competing for investment. The GRZ can lower the costs of production by increasing competition in all these areas. With regard to employment, the cost of retrenching workers is twice as high in Zambia as in Botswana and seven times as high as in South Africa. The government must recognize that, in order to create jobs, it must allow companies to abolish them to maintain profitability. In agriculture, Zambia could dramatically increase its productivity by opening up to biotechnology. Genetically modified crops can produce much higher yields with more nutritive value and less use of labor and pesticides. The debate on biotechnology should be reopened to take account of scientific information rather than just ideology.

Export bans also inhibit production. Farmers are reluctant to produce more than they can sell domestically because of uncertainty about the ability to export any surpluses. So they hold back on planting, with the result that crops fail to meet even domestic demand. Zambia, potentially the breadbasket for southern Africa, must then import food from neighboring countries.

These areas of policy are all under consideration, and the government is openly supportive of free market principles. However, each entrenched policy that stifles business has a constituency in Zambia opposed to its reversal.

The GRZ needs the backing of all Zambians to make these difficult changes. Some will lose in the short term, but in the long term, more Zambians will benefit through greater investment, more jobs, and higher government tax revenues devoted to service delivery. It's time to put aside personal interests and rent seeking behavior for the greater good of the country.

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Remove Non-tariff Barriers

By Astean Chongo

Despite the decision by the Common Market for Eastern and Southern Africa (COMESA) to remove non-tariff barriers (NTBs), as a way of increasing trade within the region, a number of these barriers have yet to be removed by member states.

The situation undermines efforts to facilitate inter-African trade, and in some cases cancels the gains accruing from the removal of formal tariff barriers within the Free Trade Area (FTA).

A report of the 26th Council of Ministers meeting released after the COMESA heads of state summit has revealed that by March this year, several NTBs were still in force in member states.

Non-tariff barrier is the term used to describe any trade practice, aside from the formal duties and taxes, which tends to restrict trade.

The three main NTB areas are: misapplications of the rules of origin, documentation for clearance of goods and transit traffic, and trucking issues. These are manifested in lengthy clearance processes at borders and variable transport documentation procedures, which are used to facilitate corruption.

According to the ministers' report, NTBs add significantly to financial costs to businesses in the region, and these costs are ultimately incurred by consumers through high prices and poor services. The direct additional cost of NTBs per shipment was calculated as averaging US$3,500, excluding bribes.

Delays to clear goods at border points were estimated at 6 days, while the cost for such delays was calculated at 11 per cent of landed cost.

The report has recommended that national NTB monitoring committees should be set up in member states to identify such situations.

With the ushering in of a COMESA customs union, the continuation of substantial NTBs would be highly retrogressive. It is hoped that member states will strive to ensure that all such barriers to trade are eliminated. This would doubtless result in COMESA members earning much better rankings for 'Trading across borders'.

Author: Astean Chongo,
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'Times of Zambia'

Dealing with Construction Permits

By Paul Golson

Construction Certification

The 2005 Act that brought the National Council for Construction (NCC) into existence stipulates that all contractors must register their company in Categories and Grades that befit their capacity. For the larger companies, Grades 1 to 4, the process is scrutinised by the Association of Building and Civil Engineering Contractors (ABCEC) based in Lusaka, which must ensure that the application meets all statutory requirements before it approves or rejects the company's request for grading. In Grades 5 and 6 for smaller contractors, where there is most competition, the scrutiny takes place at provincial level, where governmental and professional bodies meet regularly to consider applications.

Once this process is complete the documents are handed over with the subscriptions to the NCC, whose task it is to certify, once they are happy that ABCEC and other scrutinising committees have completed their remit to confirm the contractors request to enter Category and Grade, that corresponds to a Table which gives the parameters of Capacity in Plant Equipment Manpower, Professional, Technical and Skilled, as well as Experience and Track record of Turnover.

New Registrations and Renewals

New registrations can be done at any time, as can upgrades. Renewals are annual with an unprecedented amount of paper requirements. Some returns weigh up to 6kg for the larger companies. From all accounts this paperwork is glanced once over by NCC and then filed.

There are supposed to be data entry clerks, but the information captured is scanty and mostly useless. An online single entry system where the contractor can enter the information straight into a database would streamline the process and store the required information. Renewals could simply update the data in the contractors secure account.

Documentation

From fear that contractors will furnish fraudulent information, the NCC only accepts submissions on its watermarked forms. It requires certified true copies of all bank statements, qualifications, sureties, certificates, vehicle registration papers, company registration information and financial statements, as well as evidence of contracts entered on the submission. Documents from previous years cannot be updated. This is repeated each time for up to six categories in some instances, and every time the contractor upgrades.

Costs

The costs involved are obviously high, especially if repeated each year, together with the costs of certified signatures, photocopying, information gathering, postage or hand delivery.

Conclusion

The present system for dealing with construction permits is costly, inefficient, cumbersome and unreliable. It requires urgent overhaul.

The World Bank's 'Doing Business 2009' publication ranks Zambia at 146 out of 181 with regard to 'Dealing with construction permits'. Should we regard this as 'acceptable' because we are an African country? Not at all - especially when compared with Kenya's star ranking as No.9. For one or two of our chief decision makers in this area of business to take a flight to Nairobi would surely be money well spent.

Author: Paul Golson,
Executive Secretary ABCEC

When Employment Laws Misfire

By Murray Sanderson

Creating employment is an aim we Zambians constantly talk about. And yet, under the 'Employing workers' category in the World Bank's 'Doing Business' publication, Zambia rates as low as 135 out of 181. Can this disappointing showing be the result of worker-friendly policies?

First, a general point from economics: when a thing is costly we buy less of it. High prices encourage suppliers, but they discourage buyers. The buyers of labour are employers. Set the price of labour higher than employers are willing to pay, and they will either not buy at all, or they will buy less.

Who sets the price for labour? Isn't it the buyers and sellers themselves, the employers and employees? That is certainly true in a free market. But labour markets are often not free, or not wholly free, for political reasons. Workers outnumber bosses, so they have more votes. And politicians want votes, so they pass laws which enforce minimum wages. Such laws are popular. But there is a snag: legislation that boosts wages discourages job creation. This has happened in Zambia, but to point it out is unpopular, so no one talks about it, at least not in public. Let's look at two areas where apparently positive policies have had negative results.

The Minimum Wages & Conditions of Service Act empowers the Minister of Labour & Social Services to issue statutory instruments which set minimum wages for all non-unionized workers. That is fine for people already in employment, but it creates a serious obstacle for the unemployed, especially for those without training or work experience. Most young unemployed Zambians would be glad to accept a job at a rate well below the official minimum wage. But the employer offering it would be breaking the law, and so would the person accepting it. So school leavers are denied the opportunity to get work experience, gain skills and establish a track record. To put it bluntly: our minimum wages law considers only those already in work, it ignores the unemployed. This is an area where we need to think again.

The other big area where labour legislation discourages employment is terminal benefits. Businesses without pension schemes are bound by law to pay 3 months pay per year of service as a gratuity to workers who retire after reaching 55 years of age and completing 10 or more years of service. For long-serving employees that can amount to a huge sum, far more than most businesses can afford to pay. The fear of incurring such situations is bound to discourage businesses from creating permanent employment. No less important, the provisions of this law are very unfair to employees, for the following reasons.

1. The employee who moves to another employer before reaching retirement age loses the entitlement.
2. It is also lost if he or she leaves for any other reason, such as to become an entrepreneur.
3. The same occurs if the employee dies before reaching retirement age and completing 10 years of service.
4. An employee who is dismissed for an offence forfeits the entitlement.
5. All employees can lose out if the employer goes out of business.

Another kind of terminal benefit is redundancy pay, which Zambia by statutory instrument sets at 2 months pay per year of service. This may not sound a lot, but for a company which has to reduce staff numbers because of difficulties it can be a serious problem. So it acts as an incentive to keep the work-force as small as possible.

Other countries seem to recognize this danger, for few of them insist on redundancy payments in excess of one month's pay per year of service. Indeed, among the 181 countries covered by 'Doing Business', Zambia's benefit level is equaled or exceeded by only three countries, Ghana, Sierra Leone and Zimbabwe. Alas, mandatory generosity to workers who lose their jobs can be a major obstacle to job creation.

These considerations suggest that 'worker-friendly' legislation can fail to achieve its purpose, and may seriously discourage employment creation. It is surely time for a careful review of our Minimum Wages and Conditions of Service Act. Even the best-intended laws can misfire.

Author: Murray Sanderson,
Executive Secretary, ZIPPA

Quotations of the Month

"A tried and proven lesson for improving trade, business formation, employment and land registration is simple: simplify, simplify."

-***Temba Nolutshungu***

"Mr. Speaker, one of the key pre-requisites for improving the external competitiveness of the economy is reducing the cost of doing business. Currently, the cost of doing business in Zambia is relatively high, and is due to a number of factors, such as a cumbersome licensing and regulatory framework, poor infrastructure, and high transport and communication costs. The policy and commitment of this Government is to reduce these costs. The Government will therefore step up the regulatory reform process this year so as to achieve a simpler and easier business-licensing regime."

- Minister of Finance,
Hon. Situmbeko Musokotwane MP,
In 2009 Budget Speech

Energy Kiosks Electrify Rural Kenya

By Mwangi Mumero

Mobile telephone may be the biggest revolution yet in Africa. But with the majority of the population residing in rural areas - several kilometres from the national grid - charging cell phones is a challenge.

While the majority of the 14 million mobile phone subscribers in Kenya live in rural areas, statistics indicate that only 10 per cent of the population are connected to the national power grid. However, small power stations using locally generated renewable resources are now allowing villagers to recharge batteries and carry out various commercial activities.

In the last six years, an aggressive rural electrification programme has increased access to electricity, but a large part of the 35 million Kenyans are still using more expensive sources of energy such as kerosene, charcoal and fuel wood.

Recently introduced energy kiosks may well enable rural people in need of electricity to charge mobile phones and electric lamps, and to access other services. "It is a cheaper way of promoting self-dependency in accessing power in the rural setup. Expenses are minimal, and there is little need for technical expertise to run the kiosks", said James Muguta, the Chairman Kiang'ombe Multipurpose Project in Central Kenya.

Kiang'ombe is one of seven pilot energy kiosk projects supported by the United Nations Industrial Development Organisation (UNIDO) in Kenya. Feasibility studies are also being conducted to extend the service to other parts of the country. An energy kiosk is defined as a shop where people from the rural areas can locally buy the power produced from various sources for services like lighting, mobile phone charging, soldering and agro-food processing activities, among others.It is an enterprise that makes money from an energy source, often renewable. These kiosks are centred round very small scale hydroelectric projects - around 1kw – biogas-driven generators, solar panels and generators that use straight vegetable oil (biofuels).

The Kiang'ombe Hybrid Energy Kiosk is located at a small village called Kibai which straddles the Mukengeria River. At one of the small waterfalls, UNIDO in partnership with the Ministry of Energy and the local community have put up a micro-hydropower generation facility that produces about 2KW of electric power. This power is taken to an energy kiosk where it is combined with 0.5KW of solar power. The combined hybrid energy is used to run various services within the kiosk. The power generated will be owned by the local community.

Among the services at the energy kiosk is a recharging facility where locals recharge their mobile phones, car batteries and LED lamps The energy kiosk also serves an industrial facility that houses several small manufacturing enterprises that include a flour mill, a fruit juice processor, a liquid soap processor and a poultry incubator and hatchery.

Initially, the Kiang'ombe Multipurpose Project aimed at producing power for distribution to the 150 households, with each member raising Ksh6000. "With the entry of UNIDO, an energy kiosk became our focus to rise funds for the ultimate aim of getting power to our homes", asserted Kinyua in an interview with African Review. But he added that for their goal to be realised, a bigger more powerful turbine estimated to cost Ksh2 million will have to be installed.

Using their savings and providing labour, the 150 members have been able to construct the power house and weir, and to purchase electric cables to take power from the generation point at Mukengeria River to the kiosk. For its part UNIDO provided the two 0.5 KW turbines, six solar panels, three computers, an alternator, and solar batteries, and helped build part of the kiosk. The kiosk itself is a cluster of prefabricated structures that house all the power-intensive services.

With the economic activities centred on the energy kiosk, the project has been raising funds.

Sources of cash from the kiosk centre include mobile charging, computer training, maize milling, video shows and charging Light Emitting Diode (LED) lamps, which are replacing kerosene lamps. "We have sold 250 LED lamps, of which 120 are regularly charged – twice a month - at the kiosk at Ksh20 per charging. This translates to Ksh57,600 yearly income", said the youthful Kinyua, who has been leading the project for the last five months.

The LED lamps are credited with eliminating toxic indoor pollution caused by carbon monoxide and dioxide. They also reduce fire hazards caused by naked flames. They have a service life of up to 100,000 hours. The lamp lights instantly, can be easily dimmed, is silent with low-voltage power demand while being portable and rechargeable.

Beyond the households, a local primary school has acquired 40 LED lamps as a donation from UNIDO. Each child can now study in the evening easily and recharge the lamps at the kiosk.

"Mobile phones provide the fastest income for they have to regularly recharged - perhaps once in two days. We charge at least 10 phones daily at Ksh5 per charging. This translates to Ksh350 weekly and Ksh18,000 annually", said Magdalene Karani, the kiosk manager and one of the two employees. She added that charging of mobile phones at the kiosk has saved residents time wasted traveling to Kerugoya town, four kilometres away, for the service.

While computer training has in the last year been taken up by only three students, savings are being made for those attending. The kiosk charges Ksh300 for each computer package learnt.

Along with computer training, the facility has internet connection so locals can access their e-mail. There is also a hammer mill for the production of chicken feed, which is sold locally. "We buy maize, rice husk and pyrethrum cake and then grind them in the right formulations to make chicken feed. We then sell the feeds at Ksh20 per kg to the local community", said Karani.

Soap production makes Ksh3800 profit monthly. The liquid soap is retailed locally.
With a satellite dish and electricity available, the local residents have been able to enjoy video shows and current affairs, as well as follow progress of their favourite soccer clubs. However attempted egg incubation has not taken off due to high power demands.

"With our savings and future donations, we plan to link up all our members' households with electricity. We will also be able to sell power to non-members, boosting our income", observed Kinyua.

At least 2500 people are benefiting directly or indirectly from this kiosk. The facility - while being a focus for future industrial expansion - has also created opportunities and expanded services to local communities.

"We want to help the community see how electricity can impact on their lives in terms of income generation, employment and wealth creation", said Alexander Varghese, UNIDO representative in Kenya and Eritrea. According to Mr. Varghese, the villagers will be able to start cottage industries that do not require a lot of energy, at most 10KW.

Communication through mobile phones - now with this charging service available - has boosted local economic activities such as the horticultural farming common in the area. The power kiosks have come at a time when the government has been encouraging more private sector involvement in electricity production to meet rising demand.

Author: Mwangi Mumero,
By permission of 'African Review'

African Think Tanks Suggest Reforms for Zimbabwe

By Temba A Nolutshungu

Nine African think tanks, concerned about conditions in Zimbabwe, and located in Burkina Faso, Ghana, Guinea, Nigeria, South Africa and Zimbabwe, are co-sponsors of the Zimbabwe Papers: A Positive Agenda for Zimbabwean Renewal.

The Zimbabwe Papers contain proposals for reform that, if implemented, would not only rapidly improve conditions for the long-suffering people of Zimbabwe, but also make them once again a thriving and productive nation. The country that was once described as the 'bread-basket of Africa', can regain its former title if it applies sensible policies such as those outlined and explained in the carefully prepared proposals.

Excerpts from the papers describe the reasons for their preparation:

'Zimbabwean citizens have had a hard time over the last decade. Life expectancy has declined, the majority of the people are unemployed, nearly half the people do not have enough food to eat, and the children have suffered terribly from malnourishment and illness.'

'The suffering of the Zimbabwean people is not the consequence of historical or external factors. It is entirely due to policies adopted, decisions made, and actions taken by the government of Zimbabwe. Many people have been the victims of violence perpetrated by the government, the institution that was supposed to protect them and provide them with an institutional environment in which they could lead happy and productive lives.'

'African friends of Zimbabwe, who have observed the suffering of its people with helpless concern for many years, wish to assist in the best way they can. Schooled in political economy, they have prepared documents that offer proposals for policy changes that can be used to bring about reforms to transform Zimbabwe: reforms that can restore it to its rightful place as one of Africa's most thriving, peaceful and prosperous countries.'

'When the opportunity for change arises, the people of Zimbabwe will need to act quickly to put policies in place that will change their lives for the better, and dramatically improve the prospects of future generations. High economic growth is a matter of choice, not destiny. It depends on the nature of the policies, laws, and institutions that are put in place by the people of a country to ensure that they have good governance and economic and social conditions that lead to peace, economic opportunity and prosperity.'

Here are some of the ideas for reform put forward in the Papers.

Currency Stabilisation

Economies are destabilised by currency inflation and crippled by hyperinflation. The death of the Zimbabwe dollar and the formal adoption of a choice-in-currency policy, with the SA rand, US dollar and Botswana pula in most general use, is a positive step towards currency stabilisation and the revival of the economy. Ensuring that there is not a recurrence of currency instability must remain a permanent feature of future economic policy.

Tax Reform

Private capital investment, not aid, is the most essential financial requirement for the revival of the Zimbabwe economy. A competitive tax environment will be necessary to attract capital investment and provide citizens with incentives to rebuild the economy. Low taxes and simplified tax laws will encourage foreign investment and the entrepreneurial activity that is needed to rapidly lift the country out of poverty.

Trade

Lowering trade barriers, improving infrastructure and streamlining customs have the potential to bring about enormous improvements in the people's general welfare. An increased flow of products and people across the country's borders will attract ideas, entrepreneurial talent and technology. More active trade will improve relations with neighbouring countries and bring about greater political stability.

Property Rights

Restoring the inviolability of private property rights is a crucial requirement for the future economic progress of Zimbabwe. A strong constitutional and statutory framework for the protection of property rights against arbitrary seizure is vitally necessary to gain and retain the confidence of potential investors.

Mineral Rights

Abundant natural resources do not automatically translate into prosperity for the people. The allocation and subsequent protection of mineral rights have to be carried out within a transparent framework that is free of arbitrary government decision-making, respected by the country's people, and trusted by investors. Efficient extraction will follow, jobs will be created, and citizens will gain the greatest benefit from the country's natural resources.

Water

That way of life does not mean that the government should provide it. Clearly defined, enforceable and transferable water rights that allow people to buy the water they need, provides the people, including the poor, with greater access to the water than is provided by government monopolisation of water rights.

Health Care

Good health is essential for human flourishing and government's role is to create the circumstances in which people can live healthy and productive lives. This does not mean that government should provide health care, any more than it should provide food, clothing or shelter. Rather, it means that government should create conditions within which the maintenance of good health is possible.

Unemployment

Zimbabwe's general economic problems are not the only reason for its high unemployment rate. The situation is exacerbated by regulations intended to 'protect' employees. If it is difficult to fire employees, firms are less likely to hire people. Employment contracts governed by Zimbabwe's common law will provide employees with protection without creating barriers to employment: reform measures should therefore restore to employees and employers their contractual rights.

Freeing Enterprise

Business regulations in Zimbabwe are confusing, arbitrary and costly; they inhibit business start-ups, repel foreign investment, reduce productivity and depress wages. Regulations that unnecessarily inhibit economic activity should be swept away in order to allow entrepreneurs and businesses to kick start the process of economic growth.

Controlling Violence

Few people would choose to live in a society rampant with violence. Preventing violence should therefore be the highest priority of any government. Zimbabwe reform must reduce violence, crime and arbitrary violation of people's rights.

Free Speech and the Media

Few rights are more fundamental and more crucial to our well-being than the right to free speech and free expression. Freedom of speech and expression, including freedom of the press and other media, freedom to receive or impart information or ideas, and academic freedom, must be guaranteed in the new Zimbabwe constitution

The ideas for reform contained in the Zimbabwe Papers are not comprehensive. They are those that from all accounts appear to be most essential and urgent. A copy of the full report is available at http://zimbabwepapers.wordpress.com/

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Making Entrepreneurship Work for South Africa

By Susan E Anderson

The above title sounds so compelling and purposeful. One can imagine an army of newly minted entrepreneurs marching off to make new and better products, create jobs, and carry the economy into the future.

Unfortunately, this approach embodies a problem characteristic of most economic development initiatives. Looking to the past, we see a pattern of identifying a phenomenon that appears to be related to economic growth or prosperity, then trying to force more of it to happen.

One of the first of these economic panaceas to be identified was through complex economic modelling - saving and investment. Developing countries were urged to boost savings levels and invest heavily in infrastructure. The aggregate figures for savings went up, but the only evidence of this programme now is the crumbling roads and old infrastructure projects left in some countries - not prosperous economies.

Another big aggregate indicator estimated to have serious correlation with economic growth was education. Millions of dollars in aid were given, and countries were urged to make huge investments in human capital by offering free or subsidised education programmes as a way out of poverty. Although many individuals may have benefited from such projects, there has been very little impact seen in moving developing countries out of poverty.

The most recent studies in economic development have identified small and medium-sized businesses (SMEs) and entrepreneurship as the underlying key to economic development and prosperity. As a consequence, the past years have seen every development agency, and every government creating new programmes aimed at funding, educating, and creating entrepreneurs. In South Africa, a variety of agencies like SETA's have been established with a mission to foster entrepreneurship and small businesses.

In trying to make entrepreneurship happen, these programmes succeed. But in many cases they succeed in attracting entrepreneurial efforts geared toward obtaining free funding with the least possible effort, and more work goes into creating an attractive business plan than in planning a business. In a free market, entrepreneurship contributes to economic growth because individuals pursuing their own well-being provide better and cheaper goods and services. In this process, jobs are created, people are made more prosperous, and the economy grows.

The only real way to make entrepreneurship work for South Africa is to try and create the best environment possible for individuals to succeed in making the above process happen. Instead of creating new programmes and spending money to try and force more small business to start up or turn more people into entrepreneurs, we need to remove the barriers to entrepreneurship and the operation of existing small businesses - costly laws and regulations. The Small Business Project's (SBP)

Reducing the Cost of Doing Business in South Africa found that it costs formal sector companies in South Africa R105,175 a year, on average, to comply with regulations. These costs are pure red tape costs - the costs that accumulate because forms have to be understood, filled in, and submitted. The report also noted that small businesses in the informal sector are also being held back from expansion by the high cost of entry into the formal economy.

At the same time that government projects like the SETA are attempting to create more entrepreneurship in South Africa, there are many barriers keeping existing entrepreneurs from creating wealth, jobs and economic prosperity in South Africa. Instead of trying to make entrepreneurship work in South Africa, government should step aside and let it work.

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Promoting Charters

How best to promote customer service charters? We can all agree on the need for an effective charter in every government institution. What a boon that would be for ordinary Zambians! But a general introduction of charters is not the answer. Try to run before you can walk, and you fall flat on your face.

The first three charters were published with much fanfare over a year ago, by the Zambia Revenue Authority, the Ministry of Lands and the Department of Immigration. With what results? That is uncertain, because only one charter body, after some delay, has lived up to its commitment to publish performance results. Congratulations, ZRA!

Now we need some real progress. ZIPPA, with approval from the Management Development Division of the Cabinet Office, will soon hold a workshop for the first three charter institutions. Its purpose - to review the experience of the pioneers and to make plans to do better. Also present will be two more institutions who are about to publish charters - the Ministry of Tourism and the Department of Passports, National Registration and Citizenship. We hope also to bring in a consultant with experience of implementing charters abroad.

Other important participants will be members of the public. Customers have a major role to play in pressing for service and monitoring performance. Those with the task of providing service need the help of customers who demand it. ZIPPA will gladly email charter details in response to requests sent to zippamail@gmail.com. We shall also welcome reports - whether positive or negative - from members of the public. Let's promote a partnership between customers and providers.

Budget Submission

As reported in the April Journal, ZIPPA was invited by the Clerk of the National Assembly to submit comments on the 2009 National Budget. We complied, and sent a copy to the Minister of Finance, who asked us to resubmit our comments in good time for the 2010 Budget. This has now been done, as follows.

1. Personal Income Tax

Personal income tax, with the focus on Pay as You Earn (PAYE), is the most controversial part of the national budget, since it affects us all. So it needs to be based on a settled principle, generally accepted as fair. It should not depend on unpredictable decisions in the annual Budget.

With this requirement in mind, the following alterations deserve consideration.

a) Inflation Linking

Most developed countries now link personal tax to inflation. The tax-exempt threshold and the income bands then expand annually in step with the previous year's inflation. In our 2009 Budget such action is proposed for the threshold, which is to be raised from K600,000 to K700,000. The increase of 16.6% matches almost exactly the annual inflation in 2008. It would, we suggest, have been appropriate to apply inflation linking also to the income bands, instead of raising each by a flat K100,000. Inflation linking is integral to fair taxation. It protects taxpayers against tax-creep through inflation.

If the principle of inflation linking was embraced as standard practice, contention would be avoided, and personal tax would become readily accepted by taxpayers as fair.

b) Flat Tax

Increasingly around the world, starting from Eastern Europe, countries have in recent years been adopting 'flat' taxes, with a single low rate for all, regardless of income. Flat taxes, which replace tax bands above the exemption threshold, have two great merits, simplicity of assessment and ease of collection. Tax evasion is much less common at low rates. Hence this year's proposed reduction of customs duty on clear beer from 75% to 60%, for the sake of 'improved tax compliance'. Many countries have found that a low flat tax is the best way to capture the informal sector. Could next year be the right time for Zambia to lead the flat tax revolution on the continent of Africa? Off-shore Mauritius has already shown the way.

Some flat tax countries. 1994: Estonia 21%, Lithuania 24%. 1995: Latvia 25%. 2001: Russia 15%. 2004: Slovakia 19%, Ukraine 15%. 2005: Romania 16%, Georgia 12%. 2007: Kazakhstan 10%, Mongolia 10%, Macedonia 10%, Albania 10%. 2008: Mauritius 15%, Czech Rep. 15%, Bulgaria 10%.

2. Infant Industries

The budget contains an increase in duty on mobile phones to help an investor establish a manufacturing facility. Such protection is fine, provided it is limited to a specific period, like 2 or 3 years. Lack of such a provision tends to create perpetual infants, which become a permanent burden on the local consumer. New manufacturers should be expected to grow up, so they can compete against imports and even start exporting to neighbouring countries.

3. The Threat of Inflation

The 2008 Budget forecast inflation of 7%. Actual inflation was 16.6%, while domestic borrowing was 1.4% of GDP. The 2009 Budget forecasts that domestic borrowing will rise to 1.8% of GDP, but that inflation will fall to 10%. Is that realistic? Domestic borrowing amounts to printing money, and inflation is caused by increased money supply. Past experience has taught us - or should have taught us - that high inflation is Economic Enemy No.1. It destroys savings, prevents wealth creation and stops development. It will therefore be of the utmost importance in 2009 for the government to tie spending to revenue actually collected. It will be essential to operate a cash budget.

4. Long Term Saving

Long term saving deserves to be encouraged. This could be done by greatly increasing, or better still removing, the cap above which monthly pension contributions become taxable. In this regard there should be no discrimination between NAPSA and other pension schemes.

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ZAMBIA INSTITUTE FOR PUBLIC POLICY ANALYSIS

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