



Plot 123 Kudu Road, Kabulonga, Lusaka
P.O. Box 50882 / +260211264409
info@zambiataxplatform.com
www.zambiataxplatform.com

PRESS STATEMENT

Promoting Value Addition is Crucial in Enhancing Domestic Productive Capacity

Lusaka, 17th August 2021: Value addition describes the process of economic transformation provided to a product or service before it is offered to customers which results in a higher net worth. The challenge, however, to adding value and boosting domestic productive capacity for a country like Zambia that is commodity-dependent, makes it vulnerable to commodity-price fluctuations. Commodity price cycles impact economic growth through several channels, including price volatility and declining terms of trade in the long run, which results in revenue erosion. Such a reduction limits capacity to fund development projects, thereby affecting the ability to grow and advance human development. This also induces high budget deficits (when export revenues decline), exchange rate fluctuations and ultimately, unsustainable debt.

On a micro level, the effects of commodity prices harm firm profitability and erode real household incomes. This may directly affect food security and spending on health and education as well as other areas of social welfare. To shield the economy from the detrimental effects of commodity-dependency requires investments in product diversification. Two forms of such diversification include: *vertical* diversification, (that is adding value to primary commodities) and *horizontal* diversification, which entails producing and exporting more products. The products of the latter kind of diversification should mainly be driven by the agriculture sector of various crops and livestock in Zambia. This process also calls for not only producing but also improving quality of products (including packaging) and broadly acknowledging environmental value or conformity with technical standards. In this way, the economy can move to higher segments of the value chain. To achieve this, however, requires the transfer of technical skills, innovation, improved access to technology and infrastructure among others, to participate favorably in the production chain and capitalize on the country's comparative advantage. Zambia's central location with neighboring countries makes it suitable to trade competitively and its abundance in natural resources more so, the vast potential in agriculture and mining, provide raw materials for value addition.

The Zambia Tax Platform is a multi-stakeholder group that provides critical analysis of Zambia's tax policy regime, tax administration and promotes sustained advocacy on improving public finance management.

Value chain development (VCD) can support pro-poor development and job creation through strengthening enterprises, business relationships, improving market structures and the business environment. Zambia's current export structure is heavily dependent on the extractives industry of non-ferrous metals (mostly copper) which represents over 76% of foreign exchange earnings whereas manufacturing plays a limited role in the economy both in terms of output and exports. This asserts the view that the country is less competitive on the international market for manufactured goods and faces challenges of penetrating global markets. Nonetheless, by promoting the production and exports of value-added goods in key sectors such as agriculture and manufacturing, can increase the country's foreign exchange earnings and wealth creation. As Zambia engages in regional and international trade, it is necessary for the country to ensure that its position is not disadvantaged and can benefit substantially from the various trade agreements. Consequently, this calls for strengthened support and coordination of domestic enterprises by stimulating their production capabilities through technical training, market research and development, access to credit and exposure to technology use to achieve structural change and export readiness.



Issued By

Ellen Makinishi (Ms)
Private Sector Enhancement Expert
Tel: +260211264409
Phone: +260968015985
Email: pse@zambiataxplatform.com
Website: www.zambiataxplatform.com