



**Brief on the SADC Protocol on Industry
for the
Committee on National Economy, Trade
and Labour Matters**

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1.0 INTRODUCTION

This Brief has been prepared by the Parliamentary Budget Office (PBO) in response to a request from the Committee on National Economy, Trade and Labour Matters on the ramifications of the ratification of the Southern African Development Community (SADC)'s Protocol on Industry. Pursuant to *Article 63 (2) (e) of the Constitution of Zambia (Amendment) Act No. 2 of 2016*, the National Assembly is required to approve international agreements and treaties before they are acceded to or ratified. Further, Section 5 of the Ratification of International Agreements Act No. 34 of 2016 has provided for Approval of proposal for ratification by National Assembly. The SADC Protocol on Industry has 37 Articles to facilitate its implementation in the Region. The brief mainly focuses on the economic aspects of the possible implication of the Protocol.

2.0 BACKGROUND TO THE SADC PROTOCOL ON INDUSTRY

SADC was formed following the endorsement of the Declaration and Treaty for establishment of SADC by Heads of State or Government of the majority ruled Southern Africa in 1992.

The Southern African Development Community (SADC) aims to, among other objectives, foster development and sustainable and equitable economic growth including poverty reduction through regional integration, among other strategic pursuits. Article 21 of the SADC Treaty identifies seven core areas of cooperation with Trade, Industry Finance and Investment being one of the focus areas. To attain the objectives of SADC, Member States must work together to address regional shortcomings for mutual benefits.

To facilitate attainment of the overarching SADC objectives, protocols provide codes of procedure and practice on various issues, as agreed by Member States and ultimately foster mutual relations among Member States, several legal instruments such as protocols have been put in place. A Protocol is a legally binding document committing

Member States to the objectives and specific procedures¹. Presently, SADC has thirty-three (33) Protocols², inclusive of those not yet entered into force.

Industrial development is at the centre of SADC's regional integration agenda alongside competitiveness and market integration. The Regional Indicative Strategic Development Plan (RISDP2020-2030) and the SADC Vision 2050 form part of the SADC framework seeking to deepen regional integration. Further, the SADC Industrialisation Strategy and Roadmap (SISR 2015-2063) also aim to promote SADC's economy and deepen regional integration through industrial structural transformation.

Following the approval of the SISR and the consideration of industrial development issues in existing Protocols, SADC membership deemed it necessary to have a Protocol on Industry that would help to enhance the level of industrial development both nationally and regionally. During its meeting held from 14th to 16th August, 2019 in Dar es Salaam, United Republic of Tanzania, the SADC Council of Ministers approved the Protocol on Industry, documented and recommended it to the Summit for final approval and signature signing. The Summit endorsed the Protocol on Industry and eleven Heads of State and Government in August 2019 signed it.

3.0 OBJECTIVES OF THE SADC PROTOCOL ON INDUSTRY

Realising that Articles 12 and 21 of the SADC Treaty places industrial development as one of the core areas of integration and co-operation in the Region, a Protocol on Industry was developed with the aim of building a diversified, innovative and globally competitive regional industrial bases to enable the Region to achieve sustainable and inclusive industrial development. Pursuant to the main objective, the specific objectives of the Protocol include the following³:

- (a) promoting industrialisation in an equitable and co-ordinated manner;

¹<https://www.sadc.int/pages/sadc-protocols>

²SADC Treaty, Protocols, Charters, Agreements: Status of Instruments in Force, April 2024

³ 2019, SADC Protocol on Industry

- (b) promoting and attracting investments in industrial and related sectors;
- (c) facilitating the development of globally competitive Small, Micro and Medium Enterprises (SMMEs);
- (d) promoting technology transfer, skills development, research and development and new emerging industries and technology; and
- (e) promoting the integration of gender in all industrial developments, policies and programmes within the region.

Notably, the Protocol on Industry is designed to act as a binding instrument that is envisaged to entrench and give legal effect to the SISR and its related Cost Action Plan. The creation of an industrialisation strategy and roadmap stemmed from the recognition that despite having abundant natural resources, most SADC Member States remain among the world's poorest because they largely export these resources in their raw or unprocessed state.⁴ Further, the Protocol is expected to give the legal mandate to the SADC Secretariat to coordinate and provide oversight to implement regional industrial development measures, including the SISR.

Comment *To the extent that this is an enabling framework, it is important that the Committee familiarises itself with the SISR. The Committee may further wish to find out from the Ministry of Commerce trade and Industry on Zambia's preparedness to implement the road map.*

4.0 ENTRY INTO FORCE – ARTICLE 33

According to Article 33 of the SADC Protocol, it is expected to enter into force thirty days (30) after depositing of the instrument of ratification with the SADC Executive Secretary by the minimum required number of Countries. It was envisaged that the Protocol will be ratified by the required minimum number of SADC Member States by

⁴ Trade Law Centre (TRALAC), <https://www.tralac.org/news/article/14195-sadc-develops-regional-industry-protocol.html>

2020⁵. However, as of April 2024, only six Member States⁶, out of the 16 SADC countries, had ratified the Protocol and deposited the instrument, falling short of the required minimum of eleven countries for the Protocol to take effect. The Countries that have ratified the Protocol include: namely Angola, Botswana, Namibia, Seychelles, Mauritius and Mozambique⁷. The success of the Industry Protocol depends on the involvement of all SADC Member States to take advantage of the economies of scale that accompany a high number of Member States involved in executing activities associated with the Protocol⁸.

Comment *The Committee may wish to find out from the Ministry of Commerce, Trade and Industry why the Protocol has taken time to be presented to the National Assembly and the reasons why the protocol taken long to come into effect?*

5.0 SITUATIONAL ANALYSIS OF THE INDUSTRIAL STATUS OF ZAMBIA

The National Industrial Policy of 2018 which is aimed at fostering new industrial capacity, promoting the diversification of production, facilitating the creation of inter-sectoral and inter-industry linkages, promoting the establishment of cooperatives across value chains, promoting the development of industry specific skills and facilitate the shifting of economic activity towards higher value-added activities to spur sustainable economic growth is one of the key industrial documents in the country. The implementation of this policy is expected to result in greater citizen involvement in wealth and job creation through value addition activity nationwide by fostering backward and forward linkages, promoting the development of value chains and building a diversified industrial base around priority sectors. A diversified, innovative and globally

⁵ Trade Law Centre, 2024

⁶ SADC Treaty, Protocols, Charters, Agreements: Status of Instruments in Force, April, 2024

⁷ SADC Treaty, Protocols, Charters, Agreements: Status of Instruments in Force, April 2024

⁸ January 19, 2023-SADC continues to encourage Member States to ratify the Protocol on Industry

competitive industrial base with high levels of citizen involvement is the only way to guarantee sustained growth of the economy⁹

The Eighth National Development Plan (8NDP) also outlines agriculture, mining, manufacturing, and tourism as vital for Zambia's economic growth. Yet, challenges persist, such as limited diversification, industrialisation, and private sector competitiveness, exacerbated by inadequate infrastructure and policy inconsistency, especially in taxation and export policies. The Revised MSME Development Policy (2023) highlights fragmented interventions and hurdles faced by MSMEs in accessing finance, markets, and technology. To address these, the 8NDP focuses on skills development, research, digital capacity, and water management, aiming to enhance industrialisation through value chain development and investment promotion, aligned with the Protocol's measures.

6.0 MEASURES AT NATIONAL LEVEL - ARTICLE 5

In order to achieve the objectives of the SADC Protocol on Industry, the Member States are required to implement various measures as outlined in Article 5 of the Protocol. These measures include formulation and implementation of strategies to promote industrialisation, support SMMEs, foster public-private partnerships, ensure regulatory stability, enhance value addition and productive capacity.

Proposed measures in the 8NDP aimed at advancing industrialisation in the 8NDP include the following.

6.1 Strengthen the legal framework for public-private partnership (PPP)

To leverage on PPP financing for developmental projects, the Public-Private Partnership Act No. 18 of 2023, among others, was formulated to strengthen the framework for managing fiscal risks, such as fiscal commitments and potential contingent liabilities.

⁹Trade Law Centre, 2024

6.2 Undertake Farmer Input Support Programme (FISP) reforms

The scope of the Comprehensive Agriculture Transformation Support Programme (CATSP) will include provision extension service support, access to finance, support to value-addition. The CATSP has been designed in response to both national, continental and international aspirations for the agricultural and agri-business sectors in general and the agri-food system in particular. The programme aims to increase job opportunities, increased agricultural exports, reduction in food imports, and increased incomes and wealth creation opportunities.

6.3 Undertake Energy Sector Reforms

To improve performance of the energy sector, the Government intends to implement reforms to remove the inefficiencies in the fuel supply chain by among others, supplying fuel through pipelines and undertaking procurement reforms to standardise supply contract prices.

6.4 Promote Value-Addition and Manufacturing

To successfully diversify and industrialise, the Government will implement interventions aimed at accelerating growth in the manufacturing sector. Among them will be ensuring increased local content and investment for value-addition to products from the agriculture, forestry and mining sectors as well as trade facilitation.

6.5 Separate Ministry for Micro, Small Medium Enterprise

Although both large enterprises and MSME are expected to advance industrialisation, they face unique challenges. The Protocol has responded to these unique challenges by having a separate Articles on MSMES and respective obligations by state parties. In the case of Zambia, MSMES make a significant share of domestic and export earnings and provide a large share of income to the majority of the working population in Zambia. Limited access

to affordable finance, limited access to local and foreign markets, poor uptake of technology.

7.0 THE INDUSTRIAL DEVELOPMENT FRAMEWORK

The policy, legal and regulatory framework governing industrial development in Zambia is fragmented across various institutions. This is because industrialisation is an issue that affects and profoundly influences various dimensions of society, including economic, social, environmental, technological and health aspects. Some of the pieces of legislation supporting industrialisation include the following:

7.1 National Industrial Policy, 2018

The policy is aimed at fostering new industrial capacity, promote the diversification of production, facilitate the creation of inter-sectoral and inter-industry linkages, promote the development of industry specific skills and higher value-added activities to spur sustainable economic growth. This policy underscores the importance of maintaining consistency, transparency, and commitment to a supportive and predictable economic environment. Just like the Protocol, the policy emphasises the significance of the financial sector in industrialisation through the provision of affordable finance to enterprises.

7.2 Zambia Development Agency Act, 2022

The Zambia Development Agency (ZDA) has a mandate to encourage the development and growth of industries in the Country that are efficient in their use of resources, innovation and internationally competitive. The Agency also has a function to promote the growth of exports, promote regional development, cooperation and integration. Fundamentally, under section 5 (3) (j), ZDA is required to facilitate the implementation of international obligations and commitments under international treaties in relation to the purposes of the Act. Therefore, ZDA will be one of the institutions required to facilitate the implementation of the SADC Protocol on Industry.

7.3 Revised Micro, Small and Medium Enterprise Development Policy

The Policy aims at providing a framework that addresses the challenges in order to achieve sustainable growth of the MSMEs and contribute to Zambia's socio-economic transformation.

7.4 Investment, Trade and Business Development Act No. 18 of 2022

The Act among other things provides for enforcement of investment protection and promotion of agreements between an investor and Government.

7.5 The Banking and Financial Services Act No. 7 of 2017

The Act regulates provision of banking and financial services.

7.6 SADC Protocols in Force related to industrial development

Although the SADC Protocol on Industry is the overarching instrument envisaged to foster industrial development and build competitive markets in the SADC Region, Zambia is already on a path of propelling prospects for developing its industrial capacity. Some of the SADC Protocols that directly support industrial expansion that Zambia has ratified include the following:

NO.	SADC PROTOCOLS IN FORCE	Date of Entry into Force
i.	Protocol on Energy (1996)	17 th April, 1998
ii.	Protocol on Finance and Investment (2006)	16 th April, 2010
iii.	Protocol on Fisheries 2001	8 th August, 2003
iv.	Protocol of Forestry 2002	17 th July, 2009
v.	Protocol on Mining 1997	10 th February, 2000
vi.	Protocol on Trade 2000 ¹⁰ (Amendment)	25 th January, 2000
vii.	Protocol on Transport, Communication and Meteorology 1996	6 th July, 1998
viii.	Protocol on Science, Technology and Innovation 2008	28 th September, 2016
ix.	Protocol on Trade in Services 2012	13 th January, 2022

Zambia's ratification of these instruments related to industrial development demonstrates the Country's commitment to address structural challenges, transform its industrial sector, and broaden its export base. By aligning with SADC's strategic goals, but most importantly enforcing robust implementation of national strategies, there is great potential to boost local manufacturing capabilities, and foster a robust and competitive industrial landscape.

7.7 Status of SADC Intra-Trade

Regional intra-trade, albeit low, has recorded an improvement in SADC Region, rising to 23 percent in 2022, from 19 percent in 2021.¹⁰ Notably exports from the region primarily consist of unprocessed or minimally processed goods, largely originating from the agricultural and mineral sectors, resulting in very low value returns¹¹. This is against the backdrop of the region being endowed with abundant and diverse natural resources. With respect to Zambia, imports increased by 12.4 percent to US\$ 9.2 billion in 2023 from US\$ 8.1 billion in 2022, while exports decreased by 8.4 percent to US\$ 10.5 billion in 2023 from US\$ 11.5 billion in 2022¹². Of the top five major export destination, only South Africa and Democratic Republic of Congo (DRC) are from the SADC Region, accounting for 3.4 and 9.8 percent of export earnings, respectively. Further South Africa and Tanzania are among the top five major sources of Zambian imports accounting for 35Percent share of total imports. The statistics reveal that intra-regional trade still remains low and much of trade takes place with countries outside the SADC Region¹³.

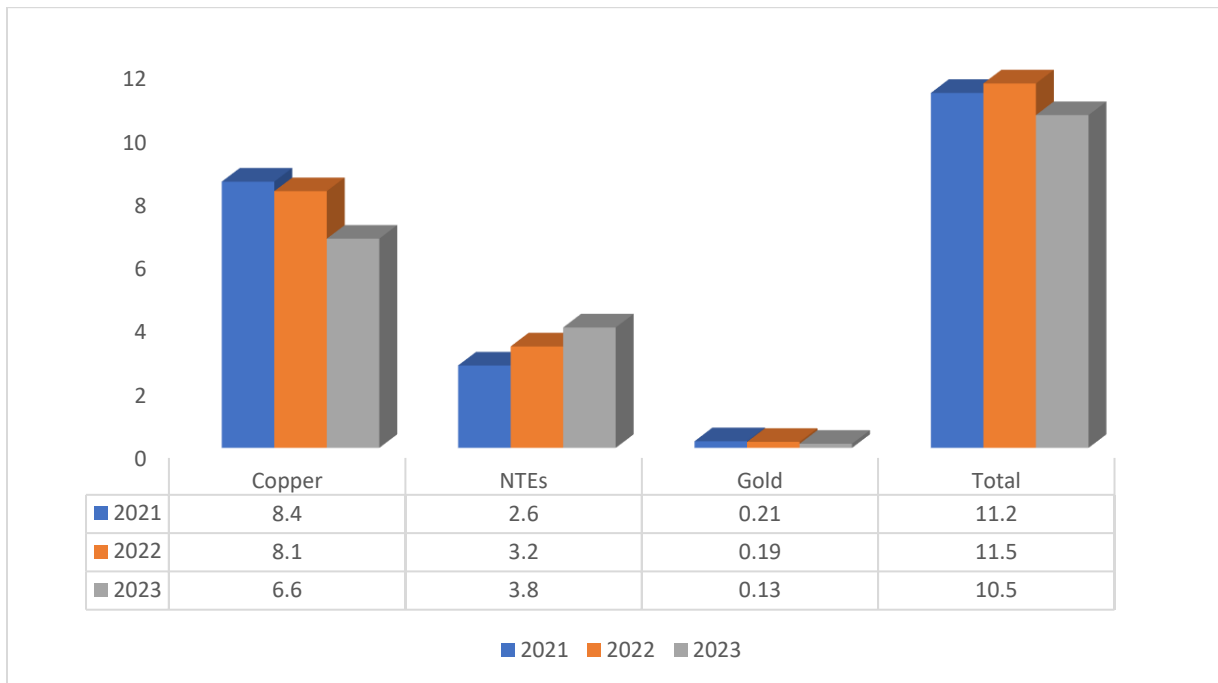
¹⁰African Union Regional Integration Report (2021)

¹¹ SADC Industrialisation Strategy and Roadmap (2015-2063)

¹² 2023 Annual Progress Report on the Implementation of the 8NDP

¹³Zambia Statistic Agency Monthly Bulletin, April, 2024

Figure 7.7 Export Earnings (US \$' billion), 2021-2023



Source: Bank of Zambia

Figure 7.7 above shows that Exports declined by 8.4 percent to US \$10.5 billion on the back of reduced copper earnings due to lower production, export volumes and realised prices. However, non-traditional exports (NTEs) rose by 19.1 percent to US \$3.8 billion and accounted for 36.0 percent of total exports. Key contributors to the growth in NTEs were electricity, sulphur, cement and lime as well as iron and steel. Gold earnings fell marginally to US \$0.1 billion from US \$0.2 billion despite higher prices on account of lower production.

Although Non- traditional exports rose for the period under study, it is important that these gains are sustained while copper production rebounds in order to achieve the much needed diversification required to spur economic transformation and job creation as envisaged in the 8NDP.

8.0 EXPECTED BENEFITS OF RATIFICATION OF THE SADC PROTOCOL ON INDUSTRY

The ratification of the Protocol is followed by implementation; if this implementation is done effectively and efficiently, certain benefits can be expected. Below are some of the expected benefits.

8.1 Financial Provisions

Joint regional industrial projects and programmes under this Protocol maybe financed from development financing, contributions by state Parties and grants or donations received from the private sector, international organisations and other co-operating partners.

With Lending rates for working capital and long-term financing reported high in the fourth quarter of 2023 and commercial banks having projected high lending rates in the first quarter of 2024 due to further tightening of monetary policy to curb rising inflation¹⁴, signing the protocol can provide an alternative for cheaper commercial loans, and long-term financing required for industrialisation. This is because through development financing, the Protocol will enable the accessing of concessional loans which is in line with the 2023-2025 Medium Term Debt Strategy which seeks to minimise Zambia's cost of debt by restricting external financing to concessional loans, particularly from Multilateral Development Banks (MDBs) such as World Bank and African Development Bank. Moreover, the Protocol is also in line with 8NDP which seeks concerted efforts to ease access to affordable finance, especially for MSMEs.

8.2 Empowerment of Women, Youth and Persons with Disabilities

Article 19 of the Protocol emphasise member states' commitment to implementing industrialisation policies that promote gender equality and

¹⁴Credit Conditions Survey Report, Fourth Quarter 2023

empower marginalised groups such as women, youth, and persons with disabilities. This aligns with the MSME Development Policy, which recognises the impact of cross-cutting issues like gender, disability, and HIV/AIDS on MSME development, stressing inclusiveness regardless of gender, race, or religion. However, gender disparities persist within MSMEs, with men owning 73 percent of businesses compared to 27 percent owned by women in 2022. Additionally, the labour force participation rate in Zambia stood at 67.3 percent for males and 52.1 percent for females in 2023. Addressing these gaps and creating an inclusive environment for women, youth, and people with disabilities in the industrial sector is crucial for Zambia to achieve its industrialisation objectives.

8.3 An Increase in Manufactured Exports

Zambia's trade with SADC is very low relative to other regional groupings and trading partners. As at April 2024 Asia was the second largest market for Zambia's exports (only second to Switzerland) accounting for 28.9 percent of export earnings, while The SADC Exclusive grouping was fourth accounting for 6.6 percent of export earnings. Within this grouping, South Africa was the dominant market with 51.6 percent followed by Botswana with 17.4 percent. Other notable markets were Namibia, Tanzania and Mozambique collectively accounting for 29.5 percent. In terms of imports, Asia is the main source of Zambia's imports (K8.7billion) accounting for 43.2 percent in April 2024. Within this grouping China was the main source of imports accounting for 29.0 percent. SADC Exclusive was second accounting for 38.4 percent of the import bill. Within this grouping, South Africa again was the main source accounting for 77.0 percent. Other notable markets were Tanzania, Namibia, Mozambique and Botswana, collectively accounting for 23.0 percent.¹⁵

The Protocol advances utilisation of regional synergies in value-added production, boosting export competitiveness, and collaborating on the

¹⁵ Zambia Statistics Agency, May 2024

development of regional value chains for various commodities are crucial steps in the industrialisation efforts. The Protocol on Industry adds another dimension to the existing agreements as it will encourage joint mobilisation of resources to support industrialisation programmes.

8.4 Enhanced uptake of Technology Approaches

Zambia, like many nations, encounters obstacles in embracing advanced technology across different sectors. Despite the potential for technology to spur economic growth and boost productivity, various factors contribute to a disparity in the adoption of high-tech approaches. These factors encompass inadequate infrastructure, financial access, skills deficits, and regulatory hurdles. For instance, as of January 2024, Zambia's internet penetration rate stood at approximately 31.2 percent, indicating some degree of internet access but also implying a substantial portion of the populace lacking access to digital technologies and online resources. Limited access to reliable electricity and internet connectivity poses barriers to embracing high-tech approaches. By leveraging the SADC Protocol on Industry and addressing technology uptake gaps, Zambia can forge partnerships with other SADC nations to access and implement high-tech solutions across sectors like manufacturing, agriculture, and healthcare.

8.5 Increase in Regional Growth Rate

The SADC Protocol on Industry aims to promote industrial development and cooperation among member states, which can contribute to an increase in the overall economic growth rate of the SADC region. Zambia, as a member of SADC, stands to benefit from this increased regional growth in two major ways. Firstly, the Protocol encourages the development of regional value chains and promotes intra-regional trade.

Secondly, industrial growth driven by the Protocol can lead to the creation of new jobs and opportunities in Zambia. As industries expand and diversify,

they require a skilled workforce, leading to increased demand for education and training programmes. This can contribute to human capital development and poverty reduction.

8.6 Promotion of Small, Micro and Medium Enterprises (SMMEs)

The Protocol is committed to nurturing the growth and active participation of Small, Medium, and Micro Enterprises (SMMEs) in industrialisation initiatives. This commitment entails the development and execution of policies that facilitate crucial linkages between large enterprises and SMMEs, with the aim of formalising, upgrading, and modernising SMMEs while fostering their integration into regional value chains across borders.

Many Zambian SMMEs face challenges related to limited technical skills and managerial capacity. The Protocol's focus on providing incentives, skills training, and access to industrial information can help address these challenges by equipping Zambian SMMEs with the necessary knowledge and expertise to enhance their productivity and competitiveness.

8.7 Private Sector Engagement

The Protocol may help Zambia achieve its goals of integrating strategies aimed at augmenting private sector involvement in industrialisation endeavours. This can be done by ensuring robust private sector engagement in the execution of policy initiatives, and harnessing the potential of public-private partnerships to mobilise resources for industrial projects.

8.8 Infrastructure Development

Africa remains constrained by huge infrastructure gaps, with an estimated annual financing need of between \$130 billion and \$170 billion, and an annual financing gap of between \$68 billion and \$108 billion¹⁶. Therefore, Article 14 provides positive prospects for collaborative industrial development through

¹⁶ Economic Commission for Africa

collaboration in implementing regional infrastructure project and resource mobilisation for building necessary infrastructure.

8.9 Information on Industrial Performance

The National Industrial Policy of 2018 identifies gaps in the availability of timely and relevant industrial statistics in Zambia. The major challenge cited is inability to undertake timely systematic and periodical performance assessments of the industrial sector. Article 18 of the Protocol which is concerned with the collection and sharing of industrial and related information is likely to assist the Country bridge the information gap.

9.0 CHALLENGES ASSOCIATED WITH IMPLEMENTATION OF THE PROTOCOL

The Protocol presents significant opportunities for Zambia's economy. However, Zambia faces constraints that may hinder the Country from fully benefitting from the Protocol. Below are some of the pertinent challenges.

a. Infrastructure Deficits

Zambia faces significant challenges related to infrastructure deficits, including inadequate transportation networks, unreliable energy supply, and limited access to water and sanitation services. These infrastructure gaps can hinder industrial development and competitiveness, as they increase production costs, limit market access, and constrain the expansion of industrial activities.

b. Skills Shortages and Education Disparities

Zambia continues to grapple with critical skill shortages and disparities in education attainment, particularly in technical and vocational fields relevant to industrialisation. Limited access to quality education, especially in rural areas, contributes to a mismatch between the skills demanded by industries and those possessed by the workforce. This skills gap undermines productivity, innovation, and competitiveness within the industrial sector, constraining

Zambia's ability to fully leverage the opportunities presented by the Protocol on Industry. For instance, the lack of skilled workers in emerging sectors such as renewable energy and digital technologies hampers their growth potential.

c. **Limited Access to Finance and Investment**

Access to finance remains a critical challenge for Zambian industries, especially for small and medium enterprises (SMEs) and entrepreneurs. Despite efforts to improve access to credit and investment, barriers such as stringent collateral requirements, high interest rates, and limited venture capital availability persist. This lack of access to finance constrains the ability of industrial enterprises to invest in modern technologies, expand production capacity, and innovate. As a result, Zambia may struggle to fully exploit the potential benefits of the Protocol on Industry, as inadequate financing hampers industrial growth and competitiveness.

The current absence of a national development bank may work to the disadvantage of the Country as some financing is usually channelled through development banks.

d. **Policy Implementation and Institutional Capacity**

Effective implementation of industrial policies and strategies is essential for realising the objectives outlined in the Protocol on Industry. However, Zambia faces challenges related to weak policy implementation frameworks, inherent collaboration challenges due to fragmented interventions regulatory bottlenecks which could hinder investor confidence and hinder industrial development. These may limit Zambia's ability to fully harness the potential benefits of the SADC Protocol on Industry.

10.0 CONCLUSION

Finally, ratifying the SADC Protocol on Industry presents both opportunities and challenges to maximising the Protocol's potential benefits. The Protocol is consistent with Zambia's industrial development initiatives as contained in the Vision 2030, National Industrial, 2028, and the Eighth National Development Plan, and has more potential benefits.

Notably, like many other African countries, the COVID-19 Pandemic exposed Zambia's industrial vulnerability due to restrictions on the transit of goods and the closing of entry gateways. The economic impact of the Pandemic as well as the recent drought's impact on electricity supplies, demonstrate Zambia's economic vulnerability to exogenous shocks and environmental conditions. To attain economic resilience, lessons learned must be applied to the development and investment in local production capacities, as well as the diversification of industry sectors.