

## **Shared Growth Workshop on Zambia**

**Sponsored by PREM Poverty Group, PREMVP, and  
Center for International Development at Harvard  
November 19, 2007**

As part of the preparations for the upcoming Zambia Country Assistance Strategy, the PREM Poverty Group, the PREM Vice President's Office, and the Center for International Development, in conjunction with the Zambia Country Team, organized the first *Shared Growth Workshop* at the Harvard Kennedy School on November 19, 2007 to brainstorm strategies to enhance shared growth in Zambia. The workshop provided participants an opportunity to obtain direct feedback from an External Advisory Panel of Harvard faculty members, including Ricardo Hausmann, Dani Rodrik, and Lant Pritchett, on preliminary analysis and emerging growth and poverty reduction strategies for Zambia.

The agenda for the workshop was organized into two main components. The first consisted of a series of presentations by government, civil society, and World Bank representatives. The second consisted of an open and informal discussion on the questions and challenges posed by the External Advisory Panel. The presentations and subsequent discussions with the External Advisory Panel are summarized below, and the agenda and participant list are in the Annex.

### **Summary of Presentations**

**David Ndopu**, Director in the Ministry of Finance and National Planning, noted that despite recent growth averaging 5% per annum, the national poverty rate remains high at 68%. Given the large urban-rural income gap, he highlighted the Fifth National Development Plan's (FNDP) aim to promote rural development, agriculture, and manufacturing and to strengthen infrastructure. He discussed major challenges for the government, including the HIV/AIDS pandemic, resource constraints, and the high costs of energy and transport.

**Father Peter Henriot** of the Jesuit Centre for Theological Reflection represented civil society in Zambia and stressed the need to address poverty and inequality, noting Zambia's low Human Development Index ranking of 165 (out of 177 countries) and a Gini index of 52.6. He noted that Zambia's debt reduction from \$7.2B to \$0.5B provides a window of opportunity but emphasized that human development should be a key priority that is not overshadowed by the country's pursuit for economic growth.

**Jos Verbeek**, Lead Economist for Zambia, highlighted key economic trends, including the contributions of the mining, construction, and service sectors to the increase in average GDP growth from 0.1% (1991-1998) to 4.5% (1998-2006). He also described major challenges for Zambia during FNDP implementation: (1) managing the mining sector, and (2) improving profitability of agriculture. Ongoing and medium term challenges of a complementary nature included infrastructure, political economy, human capital, in particular how to effectively fight the HIV/AIDS pandemic, external finance, and institutional capacity.

**Elena Ianchovichina** and **Susanna Lundstrom**, Senior Economists in PREM, provided an overview of their shared growth analytical approach and presented preliminary findings for their paper on Shared Growth in Zambia. Their analysis points to the following constraints to shared growth: negative coordination externalities, high cost of capital and limited access for small firms, limited access to secondary and tertiary education, and the HIV/AIDS epidemic.

**Kapil Kapoor**, Country Manager for Zambia, stressed the need to address the growing urban-rural gap and solicited input on how Zambia can best increase productivity in rural areas. He also solicited input on whether Zambia should access IDA funds and on ways to manage the copper boom.

### **Summary of Discussion with External Advisory Panel**

Following the presentations, the External Advisory Panel challenged some of the underpinnings and implications of the proposed strategies as well as provided helpful insights for teams to consider in preparing for the CAS. The salient points of the candid two hour discussion between the panel and workshop participants can be categorized into the following four themes: sustainability, drivers of growth, global integration, and the trade-offs in shared growth.

**Sustainability:** The panel raised questions regarding the sustainability of recent growth and social spending that are intricately linked to the copper boom.

*Managing the copper boom (Dutch Disease) is important for more broad-based growth.* Since real exchange rate appreciation stemming from the mining boom can stifle the competitiveness of other sectors of the economy, there was much discussion on the management of the mining sector and the exchange rate. And even though the mining boom may be stimulating domestic demand, in particular for construction, gains in productive capacity may be limited.

*Export diversification can improve the outlook for more sustainable growth.* The panel pointed out that despite recent gains, GDP per capita in Zambia is much worse off today than 35 years ago, and conjectured that this is probably due to a collapse in traditional exports without replacement by new exports. It was noted that finding new products in which Zambia has a comparative advantage is not trivial and picking winners is not likely to pan out by itself. However, creating the proper incentive structures to encourage entrepreneurship and product diversification may better position Zambia for more stable growth.

*Increases in social spending may not be sustainable without broad-based growth.* While some participants stressed the need for increased social spending to tackle poverty, the HIV/AIDS pandemic, and lagging rural development, the panel pointed out that without sustained growth social spending is likely to be volatile and unsustainable. The panel emphasized that a low UNDP HDI ranking does not mean that increased spending on social programs, while crowding out expenditures that make the tradable sector more competitive, is the best solution for human development.

**Drivers of Growth:** The panel provided constructive comments on the growth diagnostics analysis and offered helpful suggestions on ways to refine the search for the binding constraint.

*Understanding factors behind recent growth acceleration can provide valuable clues.* Given the change in average GDP growth rate from 0.1% (1991-1998) to 4.5% (1998-2006), the panel inquired about possible reasons behind this growth turn-around near 1998. It is clear that debt relief and the upward swing in copper prices have contributed to growth, but these events were ruled out as an explanation for the turn-around near 1998. One participant suggested the privatization of the mines as a possible reason as it significantly reduced the leakage of domestic resources. Another proposed greater macroeconomic stability, as indicated by recent lower volatility in GDP growth, as an explanation. While no hard conclusions could be made, this discussion stimulated ideas for additional research.

*Lessons from successful niche exports may help reveal binding constraints.* The panel expressed great interest in understanding why niche exports, such as paprika and honey, were successful in Zambia. What was special about these agricultural products that allowed them to succeed while others did not? The panel indicated that the answer to this question may help us understand which constraints are binding.

*Suggestions were made for further growth diagnostics analysis.* Given relatively low real interest rates (~8%) and large capital inflows, the panel agreed that the cost of capital was not a likely binding constraint for the economy at large. While the story for small firms might be different, the panel encouraged the team to seek additional evidence to support this and other hypotheses.

**Global Integration:** The group discussed Zambia's constraints to global integration as a barrier to long-term growth and explored ways to leverage greater positive spillover effects from investments and policy reforms intended to ease these constraints.

*Improving trade integration and strengthening the tradable sector are important if not crucial for long-term growth.* The group discussed the roles of better integration, both regionally and globally, and of a stronger tradable sector in helping to promote innovation and efficiency as well as in countering inflationary and exchange rate pressures.

*Constraints to global integration go beyond limited access to ports as a land-locked country.* The group listed a number of hurdles that Zambia must overcome to integrate into the global economy, ranging from high costs of transport and telecommunication to the over-regulation of air transport, financial services, and tourism. These barriers serve to protect industries from competition and in turn hinder innovation.

*Careful planning may increase opportunities for positive spillover effects from infrastructure projects and regulatory reforms.* The group explored ways in which infrastructure projects may be designed to support both the mining sector and key rural activities, and facilitate urban-rural integration. Similarly, the group discussed ways in which infrastructure improvements and streamlined regulations for tourism may benefit exports.

**Trade-Offs in Shared Growth:** The panel stressed that with any growth strategy one should be cognizant of the potential short-term trade-offs between growth and social objectives.

*Long-term growth vs. short-term sharing:* The panel pointed out that focusing on the binding constraint in a growth strategy does not necessarily imply that other social objectives should be

relegated to a lower priority. One panel member added that having separate strategies to achieve different objectives (i.e. growth policy and social policy) may be less confusing and more effective than combining them. However, due to complex inter-linkages within the economy, the trade-offs between productivity enhancements in the tradable sector for long-term growth and social spending to address poverty and human development needs in the short-term must be considered. For instance, big spending increases in the health and education sectors, could increase relative prices in the non-tradable sector as well as draw skilled workers away from the tradable sector where skills are needed for product diversification.

*Rural vs. urban development:* While rural development is a key component of the FNDP, the panel expressed reservations about the magnitude of the potential returns given the low population density in rural areas, low potential for agricultural output gains, and low likelihood of success for non-farm activities that require high population densities. In other words, focusing on rural development strategies simply because poverty is primarily a rural phenomenon is not necessarily the most effective means of achieving poverty reduction. The group entertained whether promoting growth poles in urban areas and facilitating rural to urban migration might create better opportunities for the rural poor than a rural growth strategy.

## **ANNEX**

### **Meeting on Zambian Growth and Poverty Reduction**

**Rubenstein Bldg, 4<sup>th</sup> floor – Perkins Room  
Kennedy School of Government  
November 19, 2007**

#### **AGENDA**

##### **12:00 – 12:30 Lunch**

##### **12:30 – 12:45 Introductions**

- Ricardo Hausmann (5 min)
- Louise Cord (5 min)
- Introduction of participants in Boston and Lusaka (5 min)

##### **12:45 – 13:45 Presentations by Zambian Representatives and World Bank**

###### ***Country-Specific Challenges for Growth and Poverty Reduction in Zambia (20 min)***

The major challenges and opportunities facing Zambia in terms of poverty-reducing growth, and the factors that makes Zambia's economic situation unique.

- Director David Ndopu (10min)
- Father Peter Henriot (10 min)

###### ***Constraints to Growth and Poverty Reduction in Zambia (15 min)***

- Jos Verbeek – Overview of the constraints to growth and poverty reduction in Zambia

###### ***Search for the Binding Constraints for Shared Growth in Zambia (15 min)***

- Elena Ianchovichina and Susanna Lundstrom – The approach and key messages so far from the work on the Zambia Shared Growth Policy Note

###### ***Main Challenges from World Bank view (5 min)***

- Kapil Kapoor

##### **13:45 – 14:00 Break**

##### **14:00 – 15:30 Discussion**

- Does the story tell us about the problems in Zambia?
- Is the proposed strategy sensible in addressing the problems (if correct)?
- What would we need to know to be comfortable about diagnosis?
- Other ways to go from diagnostics to the strategy?

##### **15:30 – 15:50 Concluding Remarks on Challenges and Opportunities for Shared Growth in Zambia**

- David Ndopu (5 min)
- Kapil Kapoor (5 min)
- Louise Cord (5 min)
- Ricardo Hausmann (5 min)

## Participants

### *From Harvard:*

- Ricardo Hausmann (Chair of the Meeting)
- Dani Rodrik
- Lant Pritchett
- Nava Ashraf
- Filipe Campate
- Rodrigo Wagner

### *From the World Bank, coming to Harvard:*

- Louise Cord (Sector Manager, PREM Poverty)
- Jos Verbeek (Lead Economist for Zambia, Africa Region)
- Aaditya Mattoo (Lead Economist, DECRG, Trade specialist - part of the Zambia country team)
- Bruno Boccara (Lead Economist for Benin, Africa Region)
- Pierella Paci (Lead Economist, Employment and Migration Team, PREM Poverty)
- Elena Ianchovichina (Senior Economist, PREM Economic Policy and Debt - author of the Zambia Shared Growth Note)
- Susanna Lundstrom (Senior Economist, PREM Poverty - author of the Zambia Shared Growth Note)
- Kenneth Simler (Senior Economist, PREM Poverty)
- Roy Katayama (Economist, PREM Poverty)
- Anke Reichhuber (JPO, Agricultural Specialist, Africa Region)

### *In Lusaka, connected through VC:*

- David Ndopu (Director, Economic and Technical Cooperation, Ministry of Finance and National Planning)
- Father Peter Henriot (Civil Society Representative, Jesuit Centre for Theological Reflection)
- Joy Phumaphi (Vice President for the Human Development network, WB)
- Kapil Kapoor (Country Manager, Zambia WB office)
- Marie Sheppard (Senior Private Sector Development Specialist, Zambia WB office)
- Paavo Eliste (Senior Economist, Africa Region, Agricultural Specialist - part of the Zambia country team)