



# Zambia

## Shared Growth Analytics

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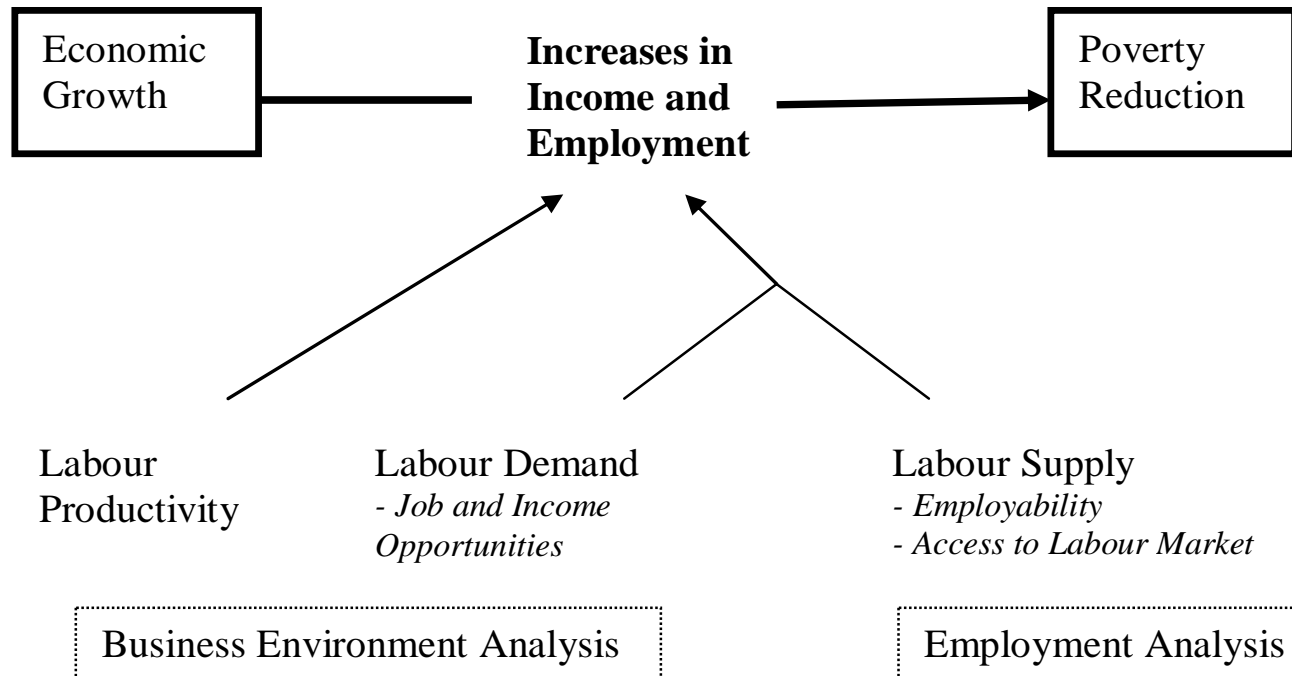


# Starting points

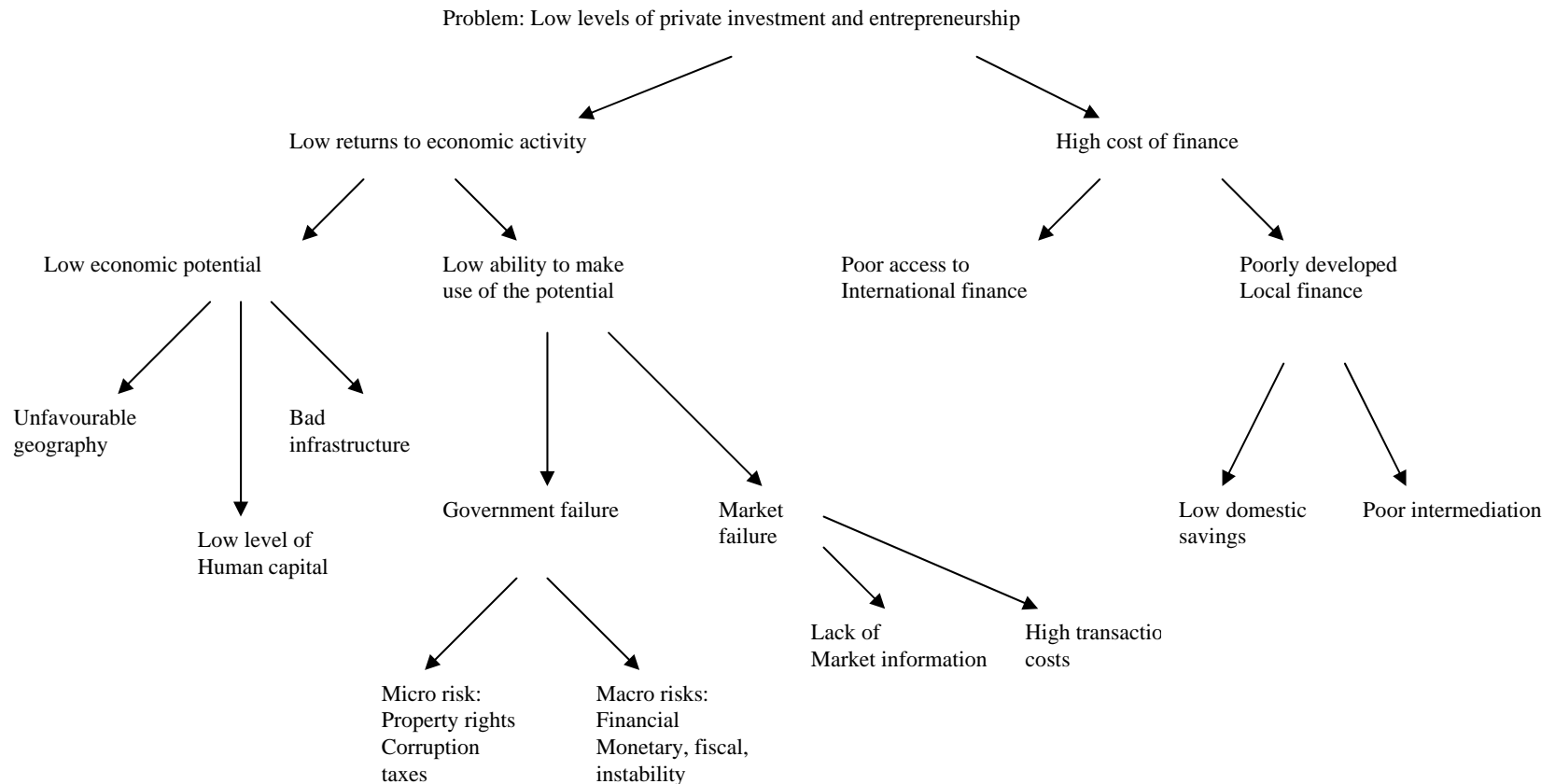
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- **Country specific, diagnostic** approach and conclusions.
- The perspective of the poor – the **poor as economic actors**.
- **Employment and income** is the most important link between economic growth and reduction of income poverty.
- Emphasising **micro-macro links**.
- Extension from the Growth Diagnostics:
  - Individuals rather than firms
  - Distributional aspects

# Interaction between business environment analysis and employment analysis



# Business Environment Analysis: Private Returns and Costs





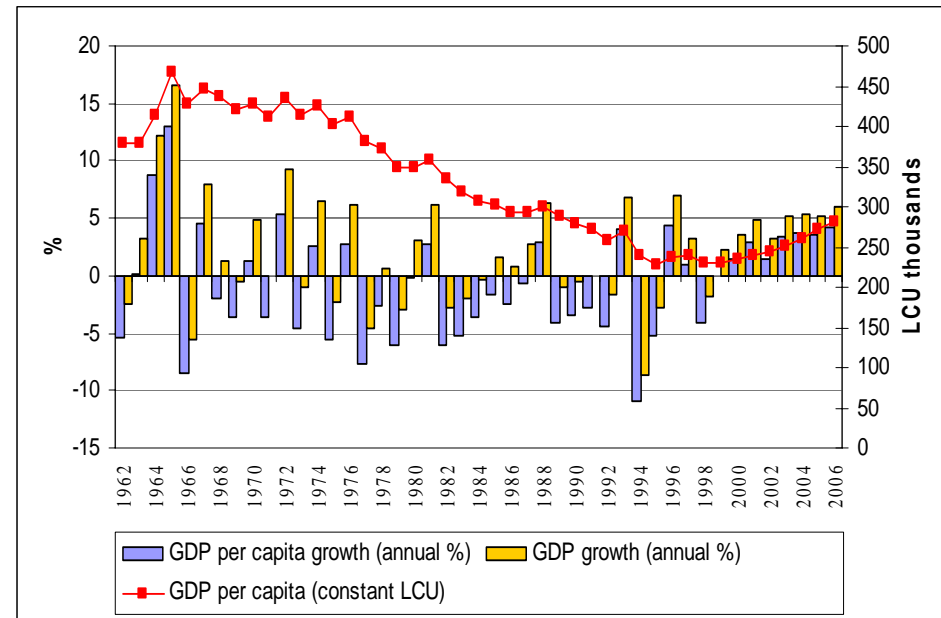
# Three Main Parts

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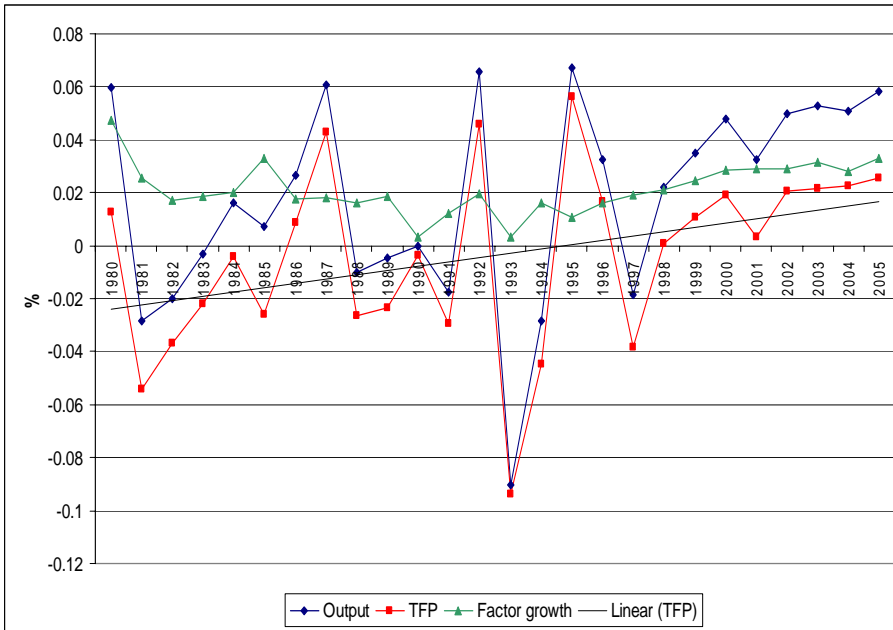
- The overall dynamics and what it tells us about the potential in different sectors
  - Growth-Poverty Pattern, Sector Dynamics and Productivity Dynamics
- Identifying the productive activities of the poor
  - Employment Analysis
- Going through the extended tree with the perspective of sustainably increasing the income of the poor
  - Employment Analysis, Business Environment Analysis
  - The relevant branches will differ depending on the preceding analyses

# Zambia has been growing rapidly in recent years, but ...

- It is still one of the poorest countries in the world
- Per capita income is still much below its pre-independence level
- Poverty rates have declined only slightly and remain high



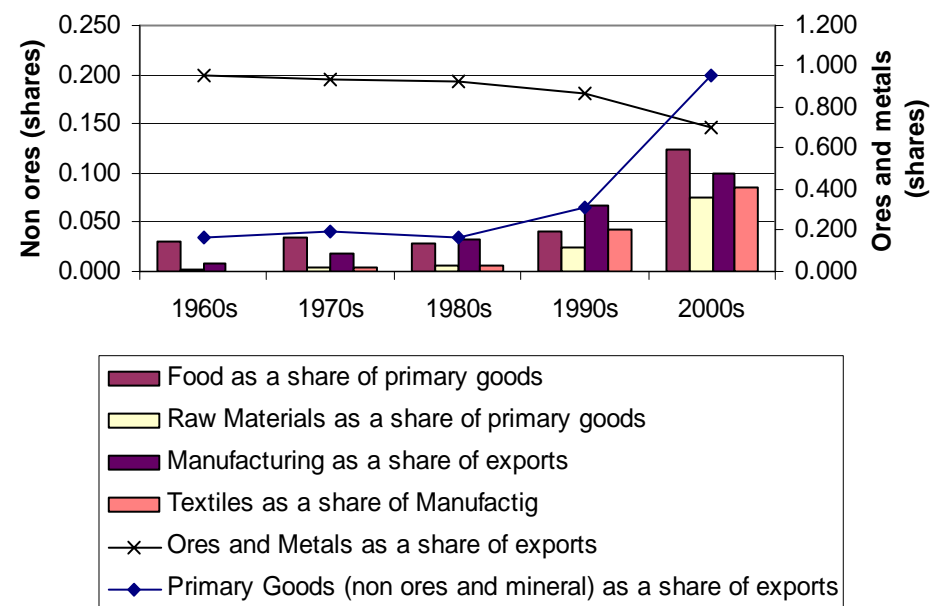
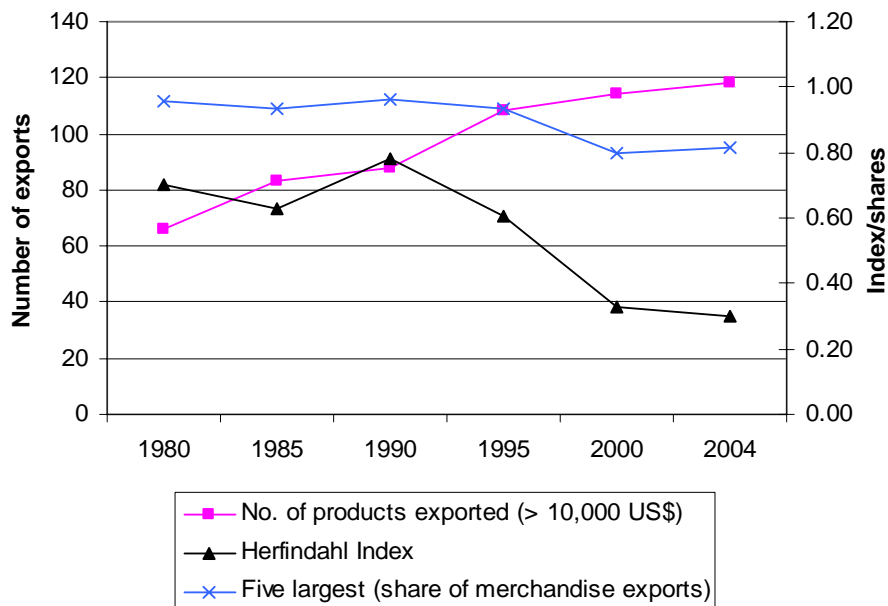
# Growth has been accomplished through productivity gains and growth in industry and services



	2001	2002	2003	2004	2005	2006	Average
Total	4.5	4.5	5.8	6.1	5.8	6.7	5.6
Agriculture	-0.5	-0.3	0.8	0.7	0.4	0.3	0.3
<b>Industry</b>	<b>2.0</b>	<b>2.8</b>	<b>2.5</b>	<b>3.2</b>	<b>2.3</b>	<b>2.6</b>	<b>2.6</b>
Construction	0.6	1.0	1.4	1.5	1.6	1.3	1.2
Mining	1.0	1.2	0.3	1.1	0.2	0.6	0.7
Manufacturing	0.5	0.6	0.9	0.5	0.4	0.6	0.6
<b>Services</b>	<b>3.0</b>	<b>1.9</b>	<b>2.5</b>	<b>2.2</b>	<b>3.1</b>	<b>3.8</b>	<b>2.8</b>
Banking	0.0	0.3	0.3	0.3	0.3	0.3	0.2
Utilities	0.4	-0.2	0.0	0.0	0.1	0.3	0.1
Other services	0.5	0.1	0.2	0.2	0.3	0.4	0.3
Real estate	0.4	0.4	0.4	0.4	0.4	0.3	0.4
Public administration	0.5	0.1	0.1	0.0	0.3	0.6	0.3
Transport	0.2	0.1	0.3	0.4	0.5	1.4	0.5
Trade	1.0	1.0	1.2	1.0	1.2	0.4	1.0

# Zambia has managed to broaden its export base

- By capitalizing on its comparative advantage in land-intensive primary goods
- Non-traditional farm exports play a more prominent role
- A move away from copper and into other base metals and precious stones



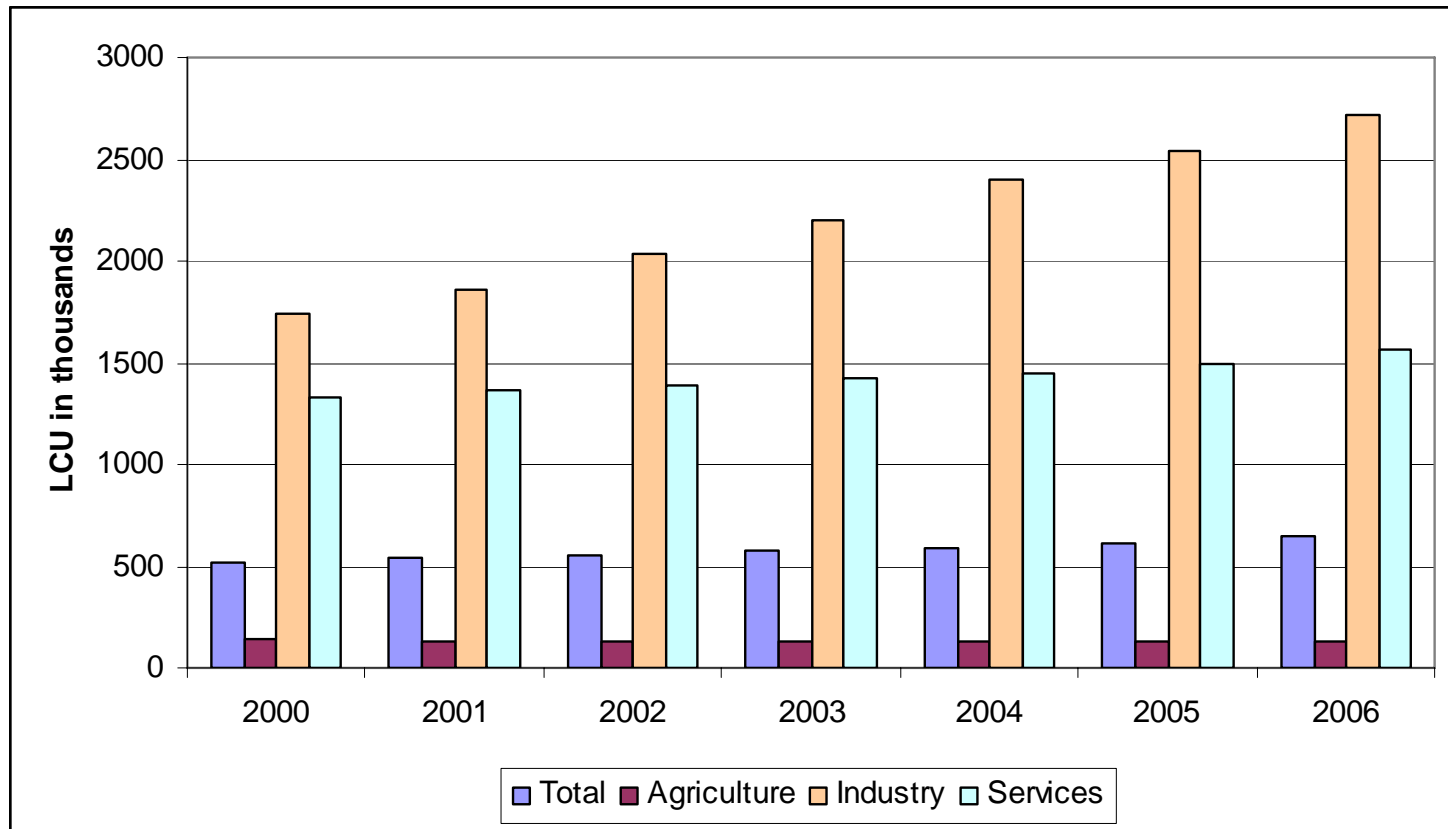
# Why were the poor unable to benefit from growth in the past 10 years?

Where are the poor and what do they do?

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- Two thirds of the population and 72% of the poor live in rural areas
- Recent data suggest increasing urban-rural migration and rural poverty
- The vast majority of the poor are employed in agriculture

# Labor productivity in agriculture is much below average labor productivity



# Most farmers are smallholder, subsistence farmers

**Table 2. Mean Shares of Household Income by Source, by Quintile Areas**

	Quintile of National Distribution					
	All	Poorest 20%	2	3	4	Richest 20%
Food crop sales	6	7	6	6	6	5
Nonfood crop sales	2	1	2	3	2	2
Non-farm business	10	11	10	10	13	11
Livestock and other ag. Income	2	2	2	3	2	3
Salary	6	3	5	6	7	11
Remittances	6	7	6	6	7	5
Pension	0	0	0	0	0	0
Nonagricultural rent	0	0	0	0	0	0
Other income	11	13	12	12	11	9
Consumption of own production	55	57	55	54	55	52

Source: LCMS III



# Characteristics of the urban poor

- The poor operate or are employed in informal businesses and rely on multiple activities as a source of income
- The urban poor typically lack secondary and tertiary education to secure jobs in the formal sector

**Table 3. Mean Shares of Household Income by Source, by Quintile, Urban Areas**

	Quintile of National Distribution					
	All	Poorest 20%	2	3	4	Richest 20%
Non-farm business	24	25	27	27	26	19
Salary	50	38	40	46	50	60
Remittances	6	8	6	5	6	5
Other income	15	20	19	16	14	13
Consumption of own production	5	9	7	7	4	3
	100	100	100	100	100	100

Source: 2002-03 LCMS

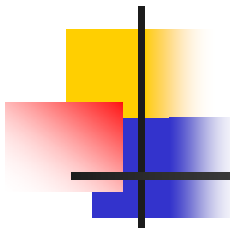


# Two perspectives going through the tree

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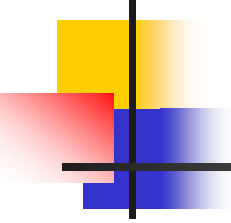
- Rural:
  - self-employed, farmers
- Urban:
  - Self-employed, informal sector
  - Wage-employed
- Many constraints apply to both areas

# Are employability or access to productive assets constraining the rural poor?



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- Generally poor access to material assets, marginal differences between the rich and the poor quintiles
- Land or land rights not a constraint?
- Education does not differ significantly between the rural rich and rural poor. Availability has improved in primary education
- Effects from HIV/AIDS, but mainly an urban phenomenon. Health services availability improved



# Is the high cost or access to capital constraining the rural poor?

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- Poor financial intermediation in general – especially severe in sparsely populated areas
- Government-provided agricultural credits ended in 1997
- Why so few loans in rural areas? Do farmers need them?
  - Only 7% wanted land titles for collateral
  - But, 42% of the poor stated credit as a constraint compared to 13% who stated low agricultural prices or access to the market
  - Need more information...



# Do low social returns imply low returns to farming?

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- Landlocked:
  - Air transport, but for low-weight high-value products (not the products of the poor..)
  - Not a constraint for regional trade and international transit (5 of the major roads in SSA at low cost)
- Domestic Transport Infrastructure
  - Limited and poor quality in many areas
  - One ton one km US\$0.07 (0.02 in SA)
  - 50% are more than 9 km from a food market, and 25 km from an input provider



# Are government failures a reason for low private returns?

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- Policy uncertainty the forth major constraint in general but also a problem in agriculture
- Distortive policies in the fertilizer market:
  - Not supporting the small farms
  - Crowding out private providers



# Are market failures a reason for low private returns?

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- Large-scale simultaneous investments needed to overcome coordination failures.
  - Lack of information (prices, input use, marketing, new technologies, etc). Extension services limited and limited private initiatives.
  - Lack of market access due to the roads.
- Problem for farmers as well as off-farm activities.

# Is employability constraining the urban poor? Yes.

## ■ Education

- Worker skills and education are not perceived as a major obstacle to private sector growth in Zambia
- But lack of and poor quality education is a major obstacle to employment beyond menial work

**Table 4. Mean years of schooling of household head**

	All	Poorest 20%	Richest 20%
Rural	5.3	4.4	6.2
Urban	9.3	6.6	11.1

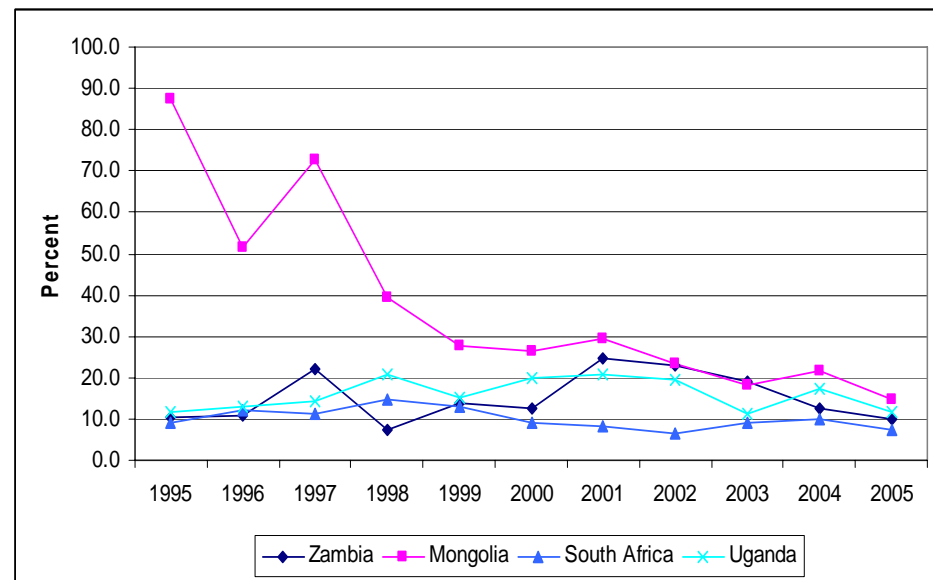
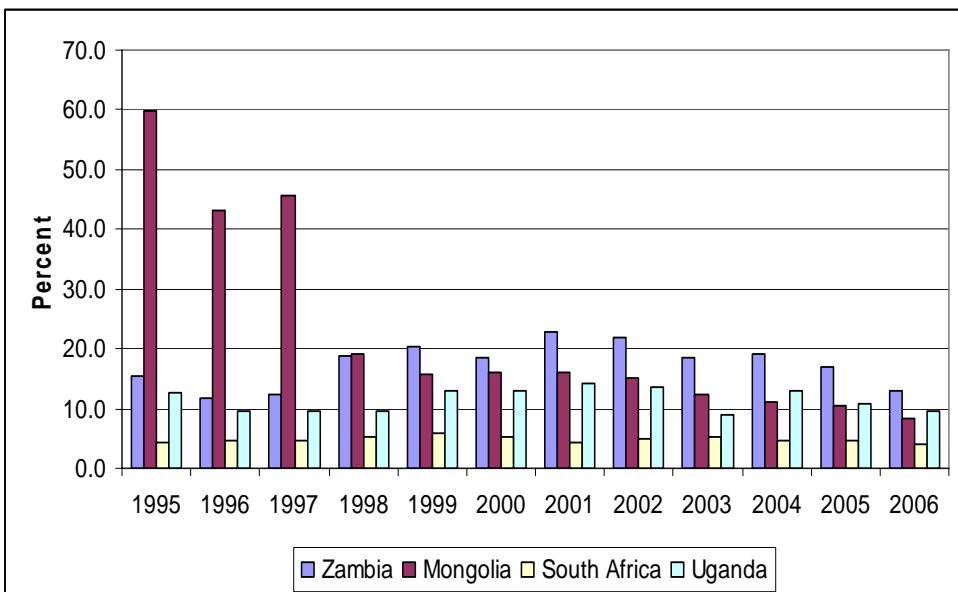
## ■ Health

- The high prevalence of HIV/AIDS undermines the stock of labor and its productivity
  - more devastating in Zambia than in many other SSA countries
  - More devastating in urban Zambia than in rural Zambia – it affected 22 percent of the urban working-age population compared to 11 percent in rural areas
- Poor access to medical services, unsafe water, malaria and other diseases make the situation worse

# Is the high cost of capital an obstacle to the income growth of the urban poor? Yes

On average, risk premiums are high but the real cost of capital in Zambia is below that of Uganda, Mongolia and close to that of South Africa

- However, high cost of capital and poor access for small firms is a problem





# Small domestic companies have poor access to and high cost of capital

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- According ICA 2004, nearly 50 percent of larger firms had a loan, while only 19 percent of small firms had a loan
- The cost of these loans was more than 10 percentage points higher than that of large firms
- Informal firms –not represented in the survey – are likely to face even more severe constraints
- Reasons – poor financial intermediation limited by the small size of the banking sector, inadequate public registries, info on creditworthiness, limited profit opportunity



# Do low social returns imply low returns to urban economic activity?

- Poor quality infrastructure
  - High cost basic services such as domestic transport, energy, water, telecommunications
  - Among a group of 42 developing countries, Zambia has the second highest share of 'indirect' costs most of which attributable to service-related inputs in production
- Poor access to basic services with small firms waiting longer than large firms to gain access
  - Informal firms perhaps significantly more disadvantaged
- Negative effects on growth and productivity of HIV/AIDS
  - HIV/AIDS costs the Zambian economy almost 1 percent in GDP growth per year
- Education probably not a binding constraint at this point



# Are government failures a reason for low private returns?

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- The macroeconomic situation has improved substantially since 2004
- The main macroeconomic concern surrounds the appreciation of the kwacha
- Three factors contributed to the appreciation. These include debt relief, scaling up of aid and foreign direct investment into mining
- The kwacha appreciation is already having a negative impact on the exporting firms and import-competing domestic firms



# Are market failures a reason for low private returns?

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- Coordination externalities are abundant in Zambia and affect negatively the growth of small companies
  - In tourism – those firms without an access to global reservation systems, and the supply chain
  - In the gemstone mining sector – domestic infrastructure reduces operation to only 6 months out of a year
- Lack of innovation is not a problem



# Summary of the main binding constraints to shared growth in Zambia

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- Negative coordination externalities which have resulted in:
  - poor access to markets, inputs, services and information.
  - high indirect costs:
    - most of which attributable to infrastructure service-related inputs into production including energy, transport, telecom, water, but also insurance, marketing and professional services
    - Continued real appreciation is another serious threat to the competitiveness and job creation and reinforced the need for productivity enhancing investments
- The high cost of capital and limited access to capital is also a major constraint to growth of the small, domestic-oriented firms
- Limited access to secondary and tertiary education which is essential if the poor are to benefit from future growth of the non-farm economy
- HIV/AIDS is a major constraint on employability and growth