



Indaba

“Impact of the Global Economic Crisis on Zambia- A wake up call for Zambia’s economic Transformation”

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Obiageli Katryn Ezekwesili

Vice President, Africa Region
World bank



The World Bank Group



INTRODUCTION

It is a real honor and pleasure for me to be here today. Zambia is one of the few countries in Africa that has remained steadfast to the tenets of democracy – a fact that explains the peace and stability that welcomes every visitor. It is a virtue that must never be taken for granted as, over the longer term, this will empower Zambians to chart their course towards shared and sustainable growth.

All over the world today, leaders are grappling with the current economic crisis and how to deal with it. The G-20 leaders met recently in London for the same purpose: how to respond to the impact of a potential contraction in the global economy of 1.7 percent and a 6 percent drop in the volume of global trade. While it is true that the crisis didn't originate in Africa, it is certainly one whose impact African leaders must have a game plan to deal with.

REFLECTIONS ON THE ECONOMIC CRISIS

In a gathering of this nature, it is important to have the right context and framework that will serve as a guide as you discuss the way forward. The impact of the Global Crisis is being transmitted to the developing world through at least four different channels: (i) rapid decline in commodity prices; (ii) reduced investment; (iii) decline in remittances – exacerbated by reverse migration and unemployment; and (iv) the specter of a decline in aid.

Most countries in Africa are confronted with variations of these four issues. In neighboring DR Congo, government officials in Katanga warn that as mining companies slash production, more than 300,000 jobs are likely to be lost. The same is happening in South Africa, where more than 64,000 mining jobs have already been lost. In Kenya, remittances from Kenyan diaspora – a major source of foreign exchange – are beginning to dry up.

Tourism revenues in countries such as Mauritius, Tanzania and Seychelles are also starting to decline rapidly. In fact, for Seychelles, the tourism sector is expected to contract by 25 percent in 2009.

It is obvious that countries are hurting and people are losing jobs. But what is even more striking is that for each job lost, there is a family whose livelihood is severely threatened, making the already difficult target of meeting the mdg by 2015 even more distant. As we have seen from the experiences of Latin America and Asia during the crises of the 1980s and 1990s, when governments face a cash squeeze, as is the case today in most of Africa, they often resort to cutting social programs with hugely negative implications on the poor.

That is why we estimate that if the present trend continues, an additional 700,000 children are likely to die before they reach their first birthday. It is also likely, as was the case in Latin America and Asia, that the current crisis could evolve into a social and human crisis with resulting unrest and deprivation.

Zambia too has not escaped the crisis. With the price of copper falling by about 50% - from US\$8,000/ton to US\$4,000/ton - not only is the revenue-generating capacity of copper threatened, there is huge risks of mine closures and a scale back in investment.

The cyclical nature of mining revenues is not new for Zambia, as evidenced by the periods of low prices during 1998 – 2003, followed by the periods of high prices in 2004 – 2008. Interestingly, the cyclical nature of copper prices also plays itself out in urban-rural poverty levels. While urban poverty levels decline during periods of rising copper prices, empirical evidence shows that the reverse is the case for rural poverty levels.

The message seems clear: first, while copper is a major source of foreign exchange for the economy, it does not appear to be very effective in making a dent on rural poverty.

Second, the future of a country like Zambia does not depend on its endowment of mineral resources, but rather on how the proceeds from such resources are applied towards the development of a solid basis for future growth. Copper can only be an asset to the extent that its proceeds are utilized for the development of human capital and investment in physical infrastructure that will support economic growth.

The question therefore is: how can Zambians make its natural resources work for it? This question brings up such issues as:

- (i) Are the resources from mining being efficiently utilized for the attainment of development goals;
- (ii) Are Zambians getting value-for money with regards to the regime that grants access to mining rights;
- (iii) Is there transparency in the reporting of mining revenues and the accounting of expenditures;
- (iv) Does the mining sector create opportunities for forward and backward linkages – especially for small and medium enterprises?

This Indaba, I believe aims to find answers to such questions. I also believe that this Indaba will serve as an opportunity to evaluate Zambia's progress on the major drivers of its vision 2030 and hopefully provide the needed fillip for Zambia's economic transformation.

ATTAINING ZAMBIA'S VISION 2030

Zambia has a vision to emerge as a prosperous middle-income country by 2030. It wants to do this by (i) seeking to diversify and develop a strong industrial sector with a modern agriculture sector; (ii) making technology proficient, adaptable and innovative; and (iii) investing through human and natural resources. These objectives are certainly attainable.

However, international experience demonstrates that the most attainable visions are those that are accompanied by a very clear strategy, which is followed thorough by a specific set of actions that are regularly monitored, with clear accountability for the delivery of these outcomes. Transforming Zambia into a middle income country places a special responsibility on the political establishment, who must provide the leadership to take decisions that might sometimes not be popular but at the same time will put the nation on a critical path of accelerated growth. The world is full of such examples, whether it is the east Asian economies in the 1970s and 1980s or India in the 1990s. I am certain that the experiences of Malaysia and Mauritius – two countries that have emerged as middle-income



countries through sustained focus on pro-growth policies – and which you will hear of later today, will help to demonstrate this. It will be particularly important to learn how Mauritius has used its tourism sector as a driver for growth and in the process created backward and forward linkages that created employment for small and medium enterprises.

Attaining this vision also places a responsibility upon citizens, who must not only hold their leaders accountable but must also support genuine efforts that are being made to reform the economy.

This Indaba is therefore a great platform for both government and citizens to engage in an open dialogue about the challenges ahead and the difficult options in dealing with them. Citizens must not only be part of the solution but also be strategic monitors of progress made.

THE ROAD AHEAD WILL NOT BE EASY:

Transforming Zambia into a middle income economy will not be an easy task and will require political will at the highest level and a national political consensus. But, given the natural wealth of this nation, I am confident that it can be done. I am also convinced that it will only happen if the unfinished policy reform agenda is addressed. All too often I hear leaders tell me that their countries would develop faster if they only had more resources. I believe that if the policies are right, resources normally follow.

Policy matters. The evidence is obvious. The market-based principles that enabled 64% of Africa's population to experience economic growth of between 5.9 and 8.1% per year during 1997-2007 were all about policy. The revolution in the telecom sector in many African countries is just one example of how policy has changed lives of citizens for the better.

Currently, Zambia remains a very high cost business destination that limits its ability to be competitive. Improving the business environment therefore must be high on Zambia's policy agenda. This includes licensing procedures; cost and time to export goods; lack of access to finance especially for female entrepreneurs; and stringent labor laws that encourages casualization.

Significant improvement in the "doing business" ranking will be an important target for Zambia. The Deputy Prime Minister of Mauritius last year told us an amazing story of how he was able to push for the needed reforms that transformed the country into one of the least cost business environments in the world. It needs commitment at the highest levels to make this happen.

President Wade of Senegal was so piqued that Senegal was not amongst the top 10 business destinations in Africa, that he promised that in the next doing business ranking, he would make sure that Senegal is one of top reformers. And this happened in 2008. So how far is the government of Zambia willing to go?

But it is not only about policy. It is also about Government and the people. Empowering citizens to lead the development drive will be crucial including the conscious effort at mobilizing Zambian diaspora to contribute to national development and the emergence of an indigenous Zambian private sector. And government must deliver its end of the bargain by increasing its own efficiency. During the

last few years, government has demonstrated an impressive ability to manage the economy judiciously and responsibly. Now it must strive even more to accelerate its own reform efforts and improve the efficiency in the services it delivers – from the large state owned enterprises to the local health or education providers.

AGRICULTURE

The single biggest element in that transformation for Zambia has to be a renewed focus on agriculture. With your abundant land resources and your abundant water resources, there is little doubt that Zambia can emerge as a bread basket for the region and beyond. Why has this potential not been realized?

The answer is not hard to find. Despite massive increases in the expenditure on the fertilizer support program, agricultural productivity has not increased. In fact, during the past five years, the rate of growth of agriculture was less than 1 percent per year and was actually negative during some of those years. I am not saying that fertilizer is not important. It is! But agriculture needs more than fertilizer to thrive. It needs irrigation; it needs research and extension; it needs rural roads; and it needs clear and transparent trade policies that allow farmers to sell their produce in the most profitable markets.

What does this mean? It means that government must put in place policies that will encourage private investment in agriculture. The new agriculture marketing act, now under preparation, is an important step in that direction. At the same time government needs to both expand and improve the efficiency of its own investments to support agriculture, especially in infrastructure. For example, Zambia must ensure that increasing amounts of land are brought under irrigation and the agencies responsible for this must be held accountable for results.

As the World Bank's 2008 world development report highlights, GDP growth originating in agriculture is about four times more effective in raising incomes of the extremely poor than GDP growth originating outside of the agriculture sector.

The experience of China in implementing agricultural reforms is particularly important. Most of its reforms during the 1970s focused on the farmers – giving them the freedom to sell their produce themselves, instead of handing them over to party collectives. The resulting increases in income spurred innovation that has seen more than 200 million win the fight against poverty.

If agriculture is to emerge as one of the main growth drivers for Zambia, there must be the supporting policies to help bring products closer to markets – including global and regional markets.

TAKING ADVANTAGE OF LOCATION

Zambia's geography cannot be changed, but distances can indeed be shortened or bridged by more efficient use of technology and infrastructure. Zambia must learn to take advantage of its location, think regionally, and invest in its road and rail network to minimize transit time.

Countries all over the world have also found that improving telecommunications is another extremely effective way in which to reduce distances and telecommunication reform is considered low hanging fruit, ready for the picking.



Zambia has, unfortunately, not been able to address the challenges it faces in the telecommunications sector and telecommunication costs are high and access is low. The experience from India demonstrates that an economy can go from having one of the most inefficient and expensive telecommunications systems to one of the more efficient and cost effective ones in a relatively short period of time if the policy environment is right and the operators are subjected to competition – and India is not alone in this respect.

So, agriculture development is not just about agriculture – it must also be about roads, especially feeder roads that allow the rural farmer to access markets in Lusaka; about the farmer using mobile telephony to access market information that will ensure that she gets the best value for her products. It is also about access to energy if Zambia is to see an emergence of agri-business; and it has also got to be about the policies in the petroleum sector to help reduce the very high prices of fuel that have such a strong effect on transport costs.

Despite the huge potential of this country to tap into the clean, renewable energy sector, including hydroelectric power, access to energy is still very low at just 3 percent of the rural population. It is important to remember that not long ago, Zambia used to be an exporter of energy. The reasons for the low access are not hard to find. No new investment in generation has taken place in Zambia in 30 years. Why? Only a third of electricity users are metered, resulting in losses of about 27 percent of total output of Zesco. More than half of Zesco's operating expenses go to wages and salaries and it does not perform efficiently. Tariffs are not sufficient to cover the cost of new generation. There are significant problems with billing and collection and arrears are large. All these issues will need to be addressed if Zambia's want access to electricity.

A 2007 study conducted by the bank revealed that state-owned utilities in developing countries incurred losses of about \$180 billion a year in the early 1990s due to inefficiencies in water, railroads, electricity and roads – this loss was nearly as much as the annual investment taking place in those sectors. At a time when resources are scarce, can Zambia afford inefficiency?

HUMAN CAPITAL

A path that has proven time and again to be the surest route to sustainable development and growth is the investment in human capital. This is certainly not news.

Zambian economists, policy makers and ordinary citizens say that the single most important investment their country needs to make must be on its people – on their basic needs, especially health and education.

There are numerous examples of countries that have used education to announce their arrival on the world stage: Singapore has no known mineral resource, yet it is amongst the world most advanced economies, thanks to its excellent education system that is built around the development of skills that are not only relevant to the economy but also allow citizens to be creative and innovative. Like with primary education, Singapore did not limit higher education to vocational and technical education.

After the 1991 economic crisis, India built the foundation of its transformation on education. – especially on high-tech and computer related skills; in technology-based services that targeted accounting, finance and banking operations.

A recent report entitled “breaking the curse” by Actionaid identifies the failure of Africa to invest in education and skills development as a major reason why it has not been able to fully exploit the benefits of its mineral resources.

CONCLUSION

The challenges Zambia faces are enormous, but they also provide an unprecedented opportunity to rapidly transform the economy. It is an opportunity because after this crisis ebbs, foreign investors will return but they will be cautious and invest first in those countries that have kept to the reforms they had initiated; those countries that have demonstrated a willingness to strengthen governance; to embrace the rule of law and to modernize local capital markets.

This Indaba offers Zambians a chance to deliberate on the variety of options that it faces as well as its most critical path to shared-growth and sustainable development. While there is general agreement that natural resources might not be the sources of growth for the future, it is also important to agree how the economy can use its vast agriculture potential, its abundant water resources, and its significant tourism potential to drive future growth.

What would be important in the next few days is to determine how ready you are to learn from the rest of the world and embrace the tough choices that will have to be made in order to embark on the journey towards attaining the vision 2030 – which must include imagining a Zambia without copper. As your partner in development, our role will be to help Zambia each step of the way along its chosen path through our knowledge and experiences of other countries; our ability to get you the best advice in the world and through our financial resources.

I thank you and God bless Zambia.



The World Bank Group
Lusaka Country Office
Pyramid Plaza
746 Church Road
2nd Floor
P.O. Box 35410

Telephone
(+260-211) 252811 /
253 219 / 254812
Fax: (+260-211) 254 283
Lusaka Zambia
www.worldbank.org/zambia

Streetwise Limited