# High Poverty Levels in the Face of Sustainable Economic Growth in Zambia

Submitted to the

**Committee on Economic Affairs, Energy and Labour**

30th November 2015

# Contents

## Preamble

This report is a response to the request made by the Committee on Socio-Economic Affairs, Energy and Labour of the National Assembly of Zambia to the Zambia Institute for Policy Analysis and Research (ZIPAR). The report is an analysis of the *High Poverty Levels in the Face of Sustainable Economic Growth in Zambia*. The main highlights of the report are as follows:

1. Zambia has recorded unprecedented growth for more than a decade recording an average growth rate of 7.2 % per annum. Growth over this period was achieved by a combination of factors which include:

- *Economic Reforms*: Zambia's economic reforms in the 1990s were a foundation for the economic growth that would follow. The economic reforms include liberalization of the entire economy which in turn led to trade liberalization, liberalizing of the financial sector and privatization of state owned enterprises to allow the private sector to participate in economic development.

- *Favorable Commodity Prices*: The consistent rise in the prices of copper over the period under review led to a natural boom in the economy. Since copper mining is the major source of government revenue, this meant government had enough resources to invest in other sectors of the economy such as human development.

- *Business Climate*: up to now Zambia is ranked among the top 10 countries in Sub-Saharan Africa on the Ease of Doing Business (EDB) World Bank rankings. Indeed the reforms of the 1990s have gone a long way in transforming the business climate in Zambia making it easy for businesses to thrive and contribute to economic growth.

- *Foreign Direct Investment*: the 1990s reforms, the booming of copper prices on the international market plus the good business climate has turned Zambia into one of the world's favorite investment destinations. FDI grew significantly over the period under review and continues to grow to date contributing to Zambia's economic growth through job creation.

2. The link between economic growth and poverty reduction is sufficiently known in many countries. Strong growth lifts people out of poverty, creates jobs and facilitates for human capital development.

Growth over the period reviewed in this report does not seem to lift many Zambians out of poverty. Poverty and unemployment remains persistently high. However, there are appreciable improvements in health and education.

3. Zambia has implemented many poverty reduction programmes and policies. Some of these include the Farm Inputs Support Programme (FISP), the Food Security Pack (FSP), the Food Reserve Agency agro marketing activities and the Social Cash Transfer Schemes. Regardless, poverty remains persistently high. FISP especially has not lifted a lot of people out of poverty despite increased maize production. Cash Transfers on the other had have been associated with a lot of positive impact on household welfare though the coverage is not countrywide. Scaling up of Social Cash Transfers also has special implications for fiscal consolidation which government is pursuing.

4. That poverty has not reduced significantly despite Zambia recording significant economic growth is a source of worry to policy makers and development stakeholders. Analysts have observed that growth over this period was not inclusive; very few people participated in the economy through jobs which could explain the lack of impact on poverty. The poverty reduction programs and policies were also not fashioned well and failed to target the actual poor correctly for meaningful impact. Going forward it is necessarily to ensure growth is inclusive and poverty reduction programmes and policies target the most vulnerable populations.

5. Lastly, the traditional definition of poverty in Zambia has been income deprivation. According to this definition, the poor are those who fail to afford or meet a pre-defined monetary threshold in terms of earnings or spending. However, the poor lack other equally important basic needs other than money. Hence there is need for poverty reduction programmes to include the aspect of multidimensional poverty which focuses on the actual experiences of the poor. This means poverty reduction programmes should not only focus on increasing the poor's income but on improving their access to basic services such as water and sanitation, clean energy, decent living environments to mention a few.

## Introduction

This report is a response to the request made by the Committee on Socio-Economic Affairs and Energy of the National Assembly of Zambia to the Zambia Institute for Policy Analysis and Research (ZIPAR). The report is an analysis of the *High Poverty Levels in the Face of Sustainable Economic Growth in Zambia.* The report answers four related questions as requested by the committee as follows:

i. Part 1 highlights the key drivers and dynamics of economic development in Zambia.
ii. Section 2 establishes the link between economic growth and poverty reduction in Zambia
iii. Part 3 briefly reviews the performance of key poverty reduction policies and programmes in Zambia
iv. Lastly, Part 4 makes brief suggestions on how to enhance poverty reduction in Zambia.

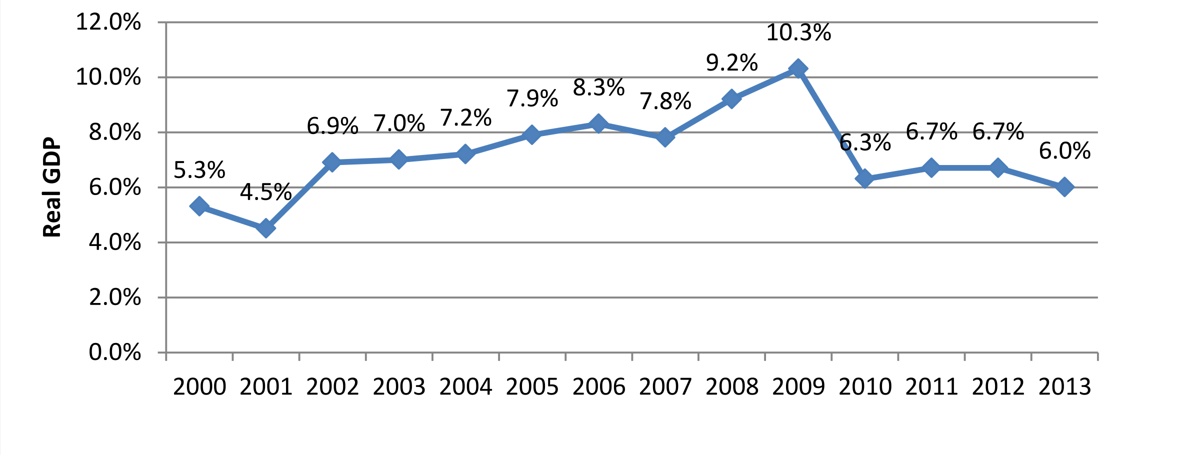
## 1.0 The Key Drivers and Dynamics of Economic Development in Zambia

Zambia's economy has been growing consistently for more than 10 years. Since 2000, growth has averaged 7.2% of GDP (Figure 1) with Zambia being ranked amongst the 10 fastest growing economies in sub-Saharan Africa (SSA)[1] in 2012. Growth is also reflected in the good performance of several macroeconomic aggregates during this period: annual inflation rate, for example, which had peaked at over 100% in the 1990s, was reduced and has been maintained to single digit until recently[2]. Per capita incomes also appreciated significantly making the World Bank to reclassify Zambia into a low middle-income economy in 2011[3].

Growth in the economy has mainly been pushed by growth in sectors such as construction, transport and communication and mining. Construction and transport and telecommunication contribution to GDP more than doubled from 5.3 and 6.0% in 2000 to 11.4 and 12.4% of GDP in 2013 respectively[4].

[1] http://www.blog.kpmgafrica.com/africas-top-10-fastest-growing-economies/
[2] CSO, Monthly Bulletin, 2014
[3] https://www.lusakatimes.com/2011/07/14/world-bank-zambia-middleincome-ranking
[4] CSO, 2014

Figure 1: Zambia's Economic Growth Trends, 2000-2013




*Source: author's own construction using World Development Indicators: [http://data.worldbank.org/products/wdi](http://data.worldbank.org/products/wdi)*

Mining output has also risen significantly following the privatization of copper mines in the early to mid-2000s, registering an annual growth of 20.5% during 2005–10[5]. The high copper prices on the international market up until 2011 also contributed to high revenues from the mining sector. Total Exports increased markedly with Non-Traditional Exports also exhibiting an upward trend. Nominal Non-Traditional Exports grew from US$0.9 billion in 2008 to US$3.3 billion in 2013[6], indicative of some progress with economic diversification and a sign of possible reduced dependency on copper.

Notwithstanding, the last few years have seen a slowdown in the economy. Particularly, the economy has been characterised by large fiscal imbalances, lowering copper prices and policy uncertainties. Real GDP growth has slowed down with the 2016 Budget aiming to achieve an annual GDP growth rate of not more than 5.0%[7]. This is one of the lowest growth rates Zambia has ever aimed for in the past decade. Budget deficits have also become the order of the day. Projected to reach 6.9 % of GDP in 2015[8], the budget deficits are a worrying sign of the fiscal difficulties that the country continues to face. While government aimed at maintaining single digit inflation in 2015, the last quarter of the year has already revealed one of the highest annual inflation rates in the past 10 years (19.5%) for the month of

[5] The World Bank Economic Brief on Zambia (2014)
[6] Zambia's Medium Term Expenditure Framework (2013-2015)
[7] 2016 National Budget Speech
[8] 2016 National Budget Speech

November 2015[9]. This means that even in 2016, single digit inflation will remain unattainable, at least in the short term.

## 1.1 What Factors Contributed to Growth for the Past 10 Years?

Many factors have contributed to the growth of the Zambian economy over the past years. These have been summarized under four main broad categories. These are: the economic reforms initiated in the early 1990s following Zambia's democratization, consistent increase in commodity prices on the international market especially copper, improvements in the business climate locally and the influx of foreign direct investments over the same period.

### 1.1.1 Economic Reforms:

In November 1991, Zambia ushered in an era of fundamental economic and public sector reforms which seemed to lay a foundation for economic revival. Trade and exchange controls were eliminated and free market principles were endorsed. Commodity prices, interest rates and the exchange rate all became market determined. The public sector was also rationalized and downsized to promote fiscal consolidation. Zambia further embarked on a privatization programme founded on the conviction that the private sector, being more efficient than the public sector, should lead the agenda on capital formation, job creation, growth, and development.

The reforms also saw donors return to Zambia with balance of payment support and debt relief initiatives. In 2005 Zambia managed to reach the HIPC[10] completion point which saw donors cancelling most of Zambia's debt. This created a lot of fiscal space for the country and was followed by increases in public investments in education, health and infrastructure. Not long after the economic reforms were initiated, fruits began to bear, with the Zambian economy beginning to look bright. As shown in Figure 1 the economy slowly recovered with positive real GDP growth by around 1999/2000. Per capita incomes also grew significantly to the extent of elevating the country to lower middle income status in 2011 as earlier noted.

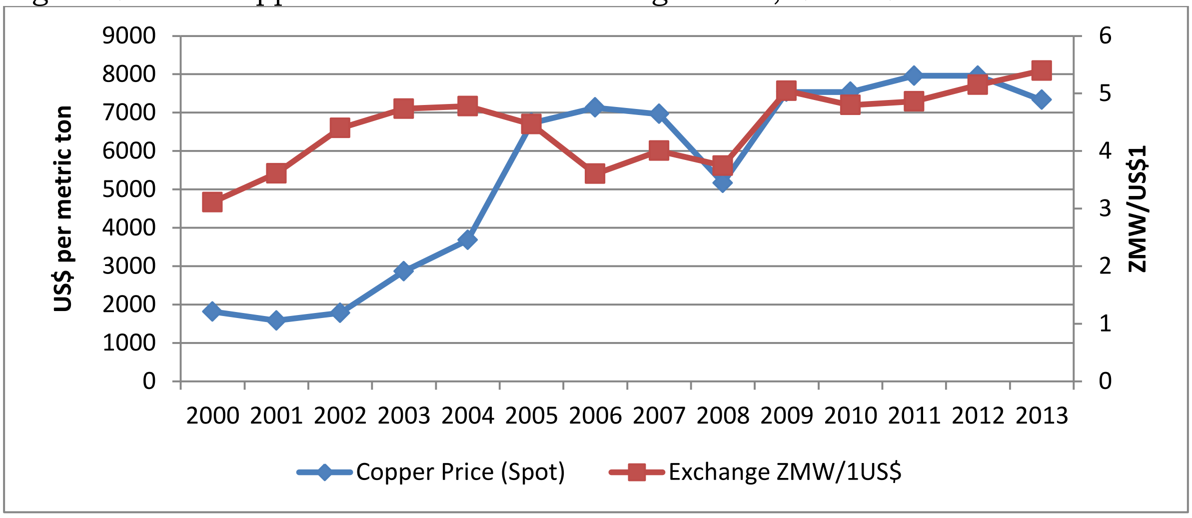
[9] CSO, Monthly Bulletin, November 2015

[10] HIPC is the Heavily Indebted Poor Countries initiative which was initiated by the IMF and the World Bank in 1996, to provide debt relief, to countries with unsustainable debt. The countries numbered 38 in total including Zambia.

### 1.1.2 Favorable Commodity Prices:

Zambia's economy largely depends on the exports of raw materials especially metals (copper and cobalt). Between 2000 and 2014, about 74% of the economy's total annual export earnings on average were from metal exports, an indication that the economy is heavily dependent on international commodity price movements. The level of copper production and the international prices for the commodity will therefore to a large extent determine the growth of the Zambian economy. During the period under review copper prices were on the rise and reached historical levels as shown in Figure 2. Copper production also reached one of the highest levels as earlier stated.

Figure 2: LME Copper Prices and the Exchange Rates, 2000-2013




*Source: IMF, 2015*

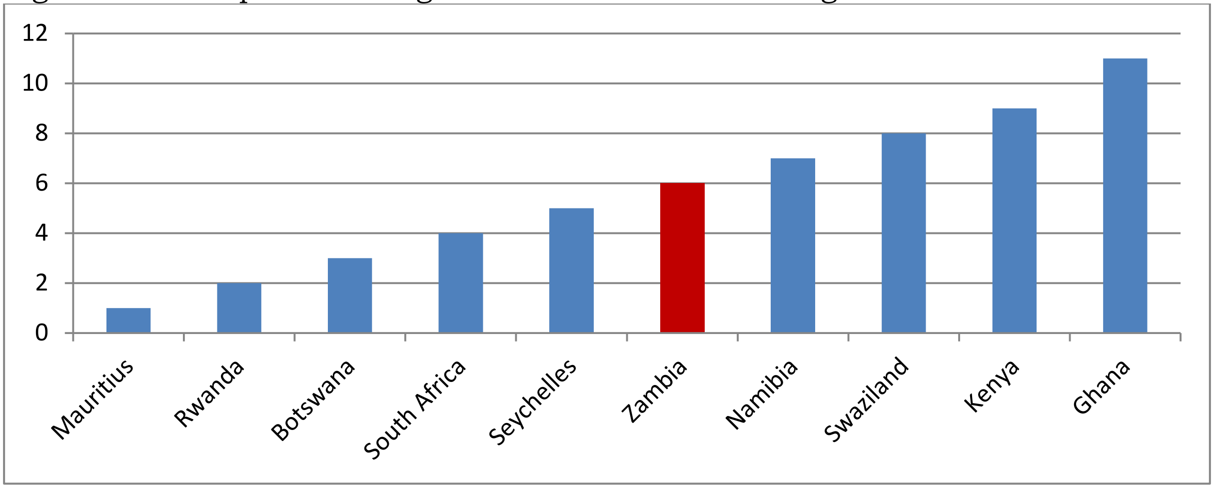
Figure 2 also show the relationship between copper prices and exchange rates. This indicates that Zambia's local currency, the Kwacha is strongest when copper prices are booming, implying that these are also the times when the economy is stable and hence the observed growth in real GDP over the same period.

### 1.1.3 Business Climate:

The business climate has been an important factor in the growth of the Zambian economy over the period under review. Zambia now ranks 6$^{th}$ in Sub-Saharan Africa on the Ease of Doing Business (EDB) rankings by the World Bank alongside countries such as South Africa, Botswana and Kenya. While the country remains a high-cost economy, with infrastructure, financing, labour cost and regulation (corruption) needing to be attended to, these factors in principle, are being addressed. The government set up the

Private Sector Development and Reform Program (PSRP) to champion more reforms to keep improving Zambia's business climate.

Figure 3: The Top 10 Ranking Countries for Ease of Doing Business




*Source: World Bank, 2015: http://www.doingbusiness.org/rankings*

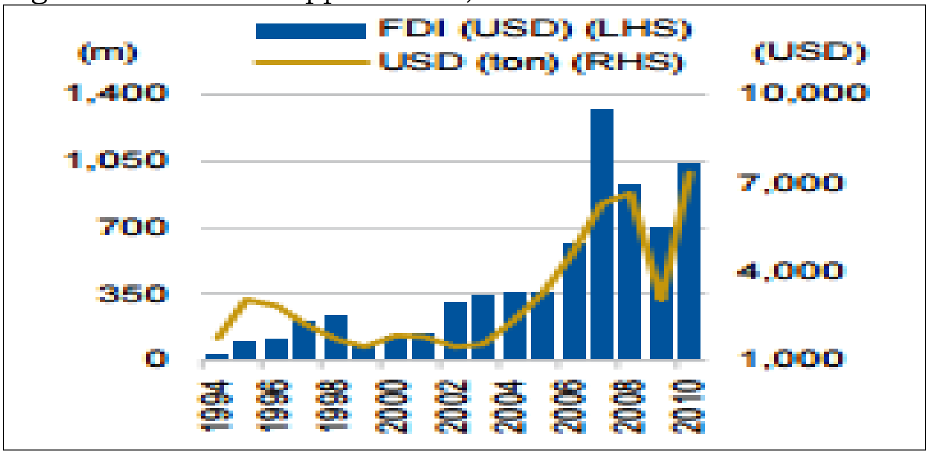
Some of the recent reforms that have made it easier to do business in Zambia include the establishment of a credit bureau which makes it easy for retailers and utilities to exchange credit information[11]. This has improved access to credit information. Zambia has also made paying taxes easier for companies by abolishing the medical levy and by introducing an online system for filing corporate income tax, VAT and some labor taxes[12]. Additionally, registering a business is relatively easier in Zambia than many countries in Sub-Sharan Africa. This is because the threshold at which value added tax registration is required has been raised. All these and other business reforms mean that businesses can easily start and flourish contributing to overall economic growth.

### 1.1.4 Foreign Direct Investment

Economic liberalization, the 1990s reforms, booming copper prices and the general improvement in the business climate in Zambia have made the country one of the World's favorite investment destinations. Over the years under review Foreign Direct Investment (FDI) has been on the increase. This is especially in the mining sector but also other emerging sectors such as construction, agro-processing and agriculture.

[11] World Bank, 2015: http://www.doingbusiness.org/rankings
[12] Ibid

Figure 4: FDI and Copper Prices, 1994-2010




*Source: Fitch Ratings Zambia Report*

## 2.0 The Link between Economic Growth and Poverty Reduction in Zambia

Economic growth is one of the most powerful instruments for reducing poverty and improving the quality of life of populations. A growing economy has a higher chance of lifting its people out of poverty compared to a stagnant one through various channels including some of the following:

- *Growth helps people move out of poverty*: rapid and sustained growth has been associated with reductions in poverty in many developing countries. China is one such classic examples which has seen over 450 million people lifted out of poverty since 1979[13].

- *Growth creates jobs*: Economic growth brings about increased economic activity which in turn generates job opportunities and hence stronger demand for labour. High levels of growth in many cases mean that the majority of the working-age population will be in employment. Macroeconomic factors, such as low inflation, export orientation and low labour taxes which come along with a growing economy help to determine how much employment is created by growth.

- *Growth drives human development*: Amartya Sen[14] described economic growth as a crucial means for expanding the substantive

[13] United Nations, 2012
[14] Amartya Sen, 1999

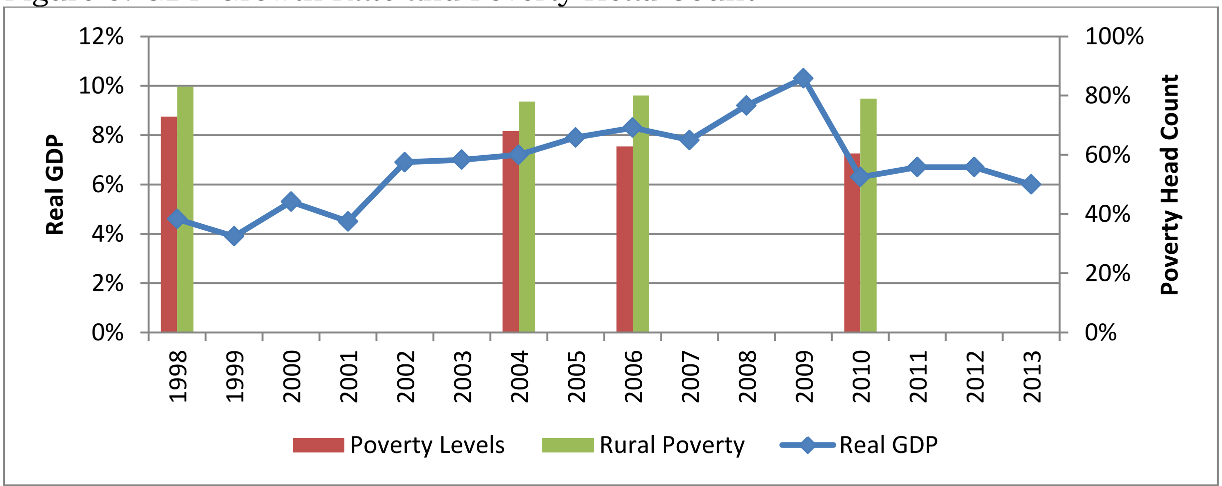
freedoms that people value. These freedoms are strongly associated with improvements in general living standards, such as greater opportunities for people to become healthier, eat better and live longer. Economic growth therefore improves opportunities for families to invest in education and health. Strong economic growth therefore advances human development, which, in turn, promotes economic growth.

## 2.1 Has Zambia's Economic Growth reduced Poverty?

### *2.1.1 Poverty*

The strong growth that Zambia has exhibited for the past 10 years has not resulted in poverty reduction. Poverty still remains high with 60.5% of the population surviving on less than US$1/day in 2010 and more than 40% living in extreme poverty, unable to meet daily food needs[15]. Poverty remains predominantly geographically defined, with extreme poverty highest in rural areas at about 58% compared with only 13% in urban areas[16]. This is despite Zambia achieving substantially high growth rates.

Figure 5: GDP Growth Rate and Poverty Head Count




*Source: author's own construction using World Development Indicators: [http://data.worldbank.org/products/wdi](http://data.worldbank.org/products/wdi)*

The Millennium Development Goals, to which Zambia is a signatory, come to an end at the end of 2015. However, it is now a matter of fact that Zambia will not achieve all the MDG targets including on ending poverty and hunger. Poverty and inequality especially in the rural and peri-urban areas still remain high. The country's Gini coefficient has also worsened and

[15] CSO, 2010, Living Conditions Monitoring Survey Report
[16] Ibid

moved from 0.60 in 2006 to 0.65 in 2010[17], mostly due to poverty in rural areas which are fairly underdeveloped and dependent on subsistence farming. Child malnutrition is worryingly high: with 40% and 10% of children under the age of five stunted and underweight respectively, household poverty and hunger is threatening the wellbeing of future generations.

There are also indications that despite achieving economic growth, the living standards of many Zambians are deplorable[18]. In urban areas, the bulging of population has only resulted in the influx of shanty compounds which are home to thousands of people. These places are hubs for the spread of disease as they lack services such as running water and sanitation and managed waste disposal. The recent outbreak of typhoid in Mufulira[19] and yearly outbreaks of Cholera in many towns is an example of how vulnerable the urban poor are due to lack of services such as clean water. Access to energy is also limited. With only 26% access[20], the majority of the population rely on unclean sources of energy such as charcoal, wood and cow dung which are not only unhealthy but also pose great risks to environmental sustainability. All these exacerbate the poverty experiences of the Zambian population in the midst of sustainable growth.

### *2.1.2 Jobs*

Similarly, Zambia's growth has not created enough job opportunities for the majority of the population. The quality, stability and decency of jobs in Zambia remains well below what the Zambian society desires. In 2012, 94% and 69% of the labour force in rural and urban areas, respectively, held informal jobs[21]. Additionally, 41% and 28% of persons employed in rural and urban areas, respectively, were unpaid family workers that did not receive a financial reward for their work. These indicators points to low quality of jobs, poor remuneration and high levels of jobs insecurity which make it difficult to make a dent on poverty.

Youth unemployment remains high and poses both economic and social risks. With more than 80% of the population falling below age 35[22], Zambia is a very young population. The young and energetic section of the

[17] CSO, 2010, Living Conditions Monitoring Survey Report
[18] ZIPAR on-going study shows that majority of Zambians live under deplorable standards of living lacking access to clean water, toilets and clean energy.
[19] https://www.daily-mail.co.zm
[20] https://www.lusakatimes.com/2013/11/11/26-zambians-access-electricit/
[21] CSO, 2012, Labour Force Survey 2012
[22] CSO, 2010 Census of Population and Housing

population needs employment opportunities for them to be able to earn a livelihood. Absence of this excludes them from the economy leading to desperation and destitution whose repercussions may not be desirable socially.

### *2.1.3 Human Development*

#### *a. Health*

The state of human development leaves much to be desired over the period under review. Zambia has failed to use global development partnerships through the MDGs to advance the status of the health of its people by failing to achieve most of the MDGs on Health. Maternal mortality remains worryingly high. At 398 maternal deaths per 100,000 live births[23], it is considerably risky to give birth in Zambia. Up to now not all children born in Zambia can be expected to live beyond ages 1 and 5 as infant and under-five mortality are still considerably high, each at 45 and 75 per 1000 live births[24] respectively. Malaria continues to be a leading cause of death despite many years of investments in prevention. There is also a steady increase in the cases of non-communicable diseases recently posing new health risks to the population[25].

Table 1: Selected Health System Indicators for Zambia, 2010

| **Indicator** | **2010** |
|---|---|
| Physicians (per 1,000 people) | 0.1 |
| Nurses and midwives (per 1,000 people) | 0.8 |
| Health expenditure, total (% of GDP) | 6.1 |
| Health expenditure per capita (current US$) | 75.1 |
| External resources for health (% of total expenditure on health) | 43.2 |

*Source: World Bank, 2014*

At the back of all this Zambia's health sector faces many challenges. The disease burden is high and is largely influenced by the high prevalence and impact of communicable and preventable diseases. In recent years there has been a growing problem of Non-Communicable Diseases (NCDs), including mental health, cancers, sickle cell anemia, diabetes mellitus, hypertension and heart diseases. In spite of this, rural areas remain unreached as far as NCDs are concerned for a number of reasons including that only 50% of the rural population in Zambia live within 5 kilometers of a health facility.

[23] CSO, 2013/14 Demographic and Health Survey Report
[24] ibid
[25] MOH, 2011-2015 National Health Strategic Plan

Zambia is also facing serious human resources challenges: in 2010 there was less than half of the health workers needed to deliver basic health care services[26]. The same were inequitably distributed to favor urban areas. Geographical challenges and the poor state of transport and communication infrastructure, remains one of the major barriers to health access particularly for rural areas.

Funding to the health sector is also worrisome. Despite being signatories to the Abuja Declaration Zambia is yet to allocate 15 % of its budgets to the health sector. This has implications for how the health sector is managed and run. As Zambia seeks to reduce spending and achieve fiscal consolidation, the 2016 budget allocation to health has been cut significantly[27]. This has implications of meeting the needs of the health sector described above.

*b. Education*

The education sector too had a number of issues and did not deliver to expectations at the time when the economy was growing. Primary school enrolment and completion rates both increased quite well but there are concerns of quality of education. This is because despite economic growth schools remain overcrowded, with too many pupils per teacher in many cases. Progression to higher levels also has lacked supporting improvements in the quality of schooling. Higher education and skills development in particular faces serious constraints ranging from poor and run-down infrastructure, lack of skilled manpower, to outdated curricular that has continued to produce low quality graduates who fail to meet industry needs. Moreover, whereas international experience underscores the importance of the governance of technical and vocational training, and close partnerships with private sector employers, this does not happen in Zambia and links between training institutions and industry are very weak.

[26] MOH, 2011-2015 National Health Strategic Plan

[27] 2016 Budget Speech

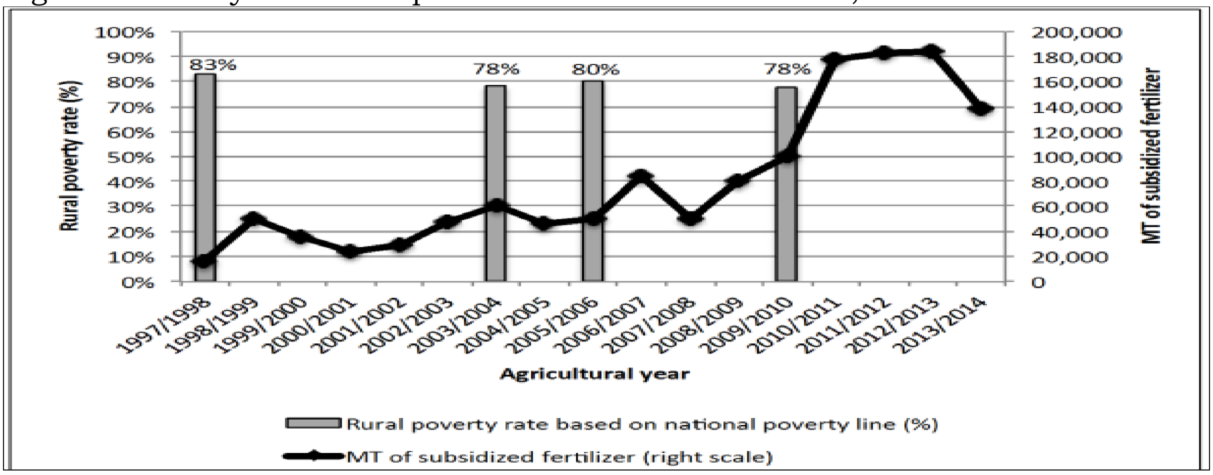
## 3.0 The Performance of key Poverty Reduction Policies and Programmes in Zambia

During the period under review government with support from various stakeholders has pursued numerous poverty reduction policies and programmes. While all of them are important, this report has focused on four of these namely, the Farmer Input Support Programme (FISP), the Food Security Pack (FSP), the Food Reserve Agency (FRA) and Social Cash Transfer Schemes (SCT).

### 3.1 Farmer Input Support Programme (FISP)

FISP is one of the major poverty reduction programmes by government. Established in the 2002/2003 farming season, the overall goals of FISP are to increase production of staple food commodities and to contribute to poverty reduction particularly among the rural population, through the supply of agricultural inputs to small scale farmers[28].

Figure 6: Poverty Levels compared to Fertilizer Distribution, 1997 to 2013




*Source: IAPRI, 2015.*

However, FISP has not had a visible impact on rural poverty as initially intended. While its budgetary allocation and quantity has been increasing from year to year, rural poverty especially remains the same or continues to grow. A series of post-harvest surveys show that maize production has increased over the years, moving from about 1,000,000 metric tons in 2003

[28] Mason and others (2013), A Review of Zambia's Agricultural Input Subsidy Programs: Targeting, Impacts, and the Way Forward

to 3,300,000 metric tons in 2014[29]. Despite this the impact on poverty is very minimal.

A recent study by the Indaba for Agriculture Production and Research Institute (IAPRI)[30] made the following observations:

- Rural poverty rate in Zambia in 2010 was unchanged from its 2004 level (78%) despite government's devoting nearly 50% of its agricultural sector Poverty Reduction Program spending to agricultural input subsidies during the same period.
- FISP fertilizer raises smallholder incomes (by raising maize production and crop incomes) and reduces the severity of poverty but has no statistically significant effect on poverty incidence. This means that FISP does not prevent households from becoming poor.
- The lack of impact of FISP on poverty incidence among smallholders is that very little FISP fertilizer is actually allocated to poor households. In most cases it is the wealthier households who access it. These also happen to have bigger pieces of land and hence can get more inputs. Thus, the poor are not affected by FISP.

### 3.2 Food Security Pack

The Food Security Pack (FSP) programme has been in place since 2000/01. Unlike FISP (which is a cost-sharing program) FSP is a 100% grant targeted toward vulnerable but viable farmers that cultivate less than 1 ha and are not in gainful employment[31]. Beneficiaries must be female-, elderly-, or child-headed, keeping orphans or abandoned children, headed by terminally ill individuals, and/or unemployed youth[32]. The objective of the Food Security Pack Programme is to empower the targeted vulnerable but viable households to be self-sustaining through improved productivity and household food security and thereby contribute to poverty reduction.

However, it is unclear in terms of the impact of the FSP on poverty reduction. No evidence clearly exists in terms of whether the livelihoods of beneficiaries have improved sustainably. Additionally, since the beginning of FISP, FSP has been dwarfed in terms of the amount of resources that are

[29] CSO: Post-Harvest Survey Data, several years.
[30] Mason and others (2013), A Review of Zambia's Agricultural Input Subsidy Programs: Targeting, Impacts, and the Way Forward

[31] Ministry of Community Development: http://www.mcdmch.gov.zm/department-social-welfare
[32] Ibid

allocated to it. This is because in almost every year more than 90% of GRZ's spending on input subsidies go to FISP[33]. As such most analyses tend to focus on FISP rather than FSP in terms of impact on poverty. Some analysts have actually recommended that FSP should be incorporated into FISP without having to be run separately[34].

### 3.3 Food Reserve Agency

The Food Reserve Agency (FRA) is a grain marketing board/strategic food reserve which was established by the Food Reserve Act of 1995. The FRA's goal is to ensure national food security and stabilize crop prices by maintaining a national strategic food reserve, thus helping to raise income and reduce poverty among smallholder farmers[35]. However, there is very limited evidence on the effectiveness of FRA in raising incomes and reducing poverty among small farmers especially those in the rural areas. Despite FRA being around for nearly 20 years and claiming nearly 50% of Zambia's agricultural sector Poverty Reduction Program expenditures, poverty rates remain high in Zambia especially in the rural areas. A study by Tembo and others (2015) suggest some of the following:

- FRA activities raise the incomes of those households that are able to sell to it, hence improving their welfare. However, very few smallholder farmers grow enough maize to sell to the FRA. Mainly it is those with more land who also tend to be relatively wealthier households. Based on this the impact on poverty is limited to very few households
- Selling to the FRA also come with high transaction costs and may discourage small farmers from doing so due to the frequent long and uncertain delays between when farmers deliver their maize and when they receive payment. While wealthier households may be able to wait months to be paid, this is much more difficult for poorer, cash-constrained households.
- FRA's tendency of pricing the maize above the market price hurt small farmers who are net purchasers of maize as they have to face relatively high prices. This affects their poverty situation, thus FRA contributes to increasing poverty when it was meant to do the other way round.

---

[33] Mason and others (2013), A Review of Zambia's Agricultural Input Subsidy Programs: Targeting, Impacts, and the Way Forward

[34] Various National Budget Speeches

[35] Fung and others (2015), Can Crop Purchase Programs Reduce Poverty and Improve Welfare in Rural Communities? Evidence from the Food Reserve Agency in Zambia

### 3.4 Social Cash transfers

The Social Cash Transfer programme has been operating since 2003. Its main objective is to reduce extreme poverty and the inter-generational transfer of poverty by enabling poor families to invest in better food, necessary healthcare and basic education so that their children will be more likely to be non-poor in the future. Implemented by the Ministry of Community Development, the programme was planned to be scaled to all districts to reach about 20% of the population nationwide by 2016. The current caseload stands at 151,000 households[36].

Because of its impact, the Social Cash Transfer scheme has been receiving a lot of support including through the national budget. For example, in the 2016 budget alone, allocations to the scheme increased from ZMW180 million in 2015 to ZMW302 million in 2016 which represents a 67% increase. The following are some of the impact stories that have been associated with Social Cash Transfer Schemes as reported in an impact evaluation report supported by the Ministry of Community Development:

- SCT have been associated with increases in food security and ending severe food insecurities for recipient families: more households have been reported to eat more than one meal per day than previously.
- SCT have been associated with increases in food production for crops such as maize, rice and livestock as well as improving asset ownership. Recipient families have also been able to use the money to acquire basic assets including building more decent homes than before.
- SCT have been associated with improvements in the living conditions of recipient families: some households now own pit latrines compared to before. Other households have been reported to own more mosquito nets compared to non-recipient households. Still others have been able to afford purchased lighting and cement the floors of their houses compared to non-recipients.
- SCT have been associated with improvements in child wellbeing: reports show that the prevalence of diarrhea has been reported to reduce for households receiving money. Similarly, more children have been able to receive minimum feeding requirements. Material needs

[36] Fung and others (2015), Can Crop Purchase Programs Reduce Poverty and Improve Welfare in Rural Communities? Evidence from the Food Reserve Agency in Zambia

for children such as shoes, clothing and blankets have also been met using Cash Transfer money.

- Very important, primary school attendance for children from recipient households has increased significantly. Other than just promoting food security Social Cash Transfers also have an effect on school attendance.

## 4.0 How to Enhance Poverty Reduction in Zambia

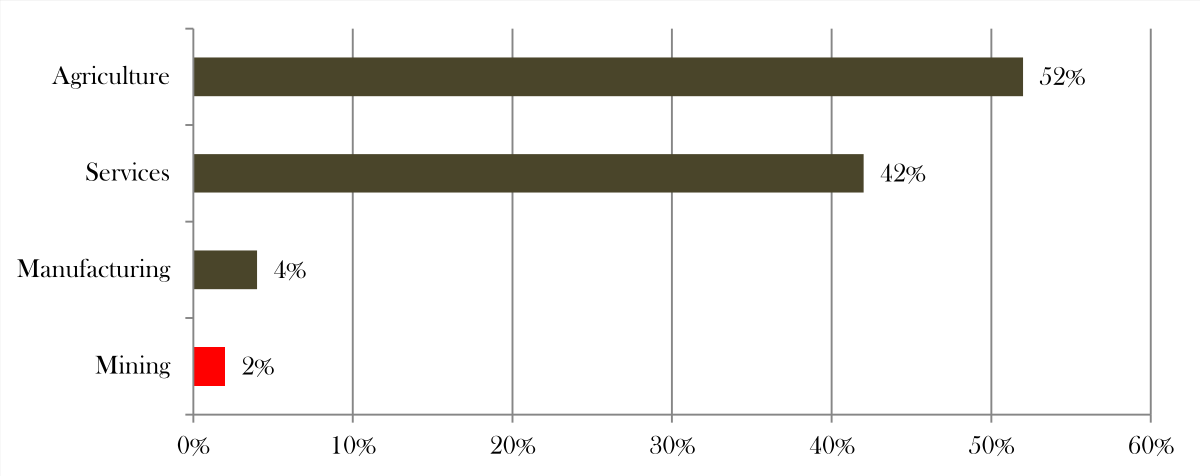
In conclusion the persistent levels of poverty despite Zambia recording strong economic growth worry policy makers and development stakeholders. Clearly, Zambia's impeccable economic growth has been faulted for not being inclusive enough. The following are some of the ways in which poverty reduction can be enhanced:

i. *Promote Inclusive Growth through Economic diversification*

Over the period under review, and for many years before, the Zambian economy has continued to depend on the copper industry as the main foreign exchange earner and source of government revenue. This failure to diversify the economy 51 years after independence is one of the major reasons why poverty is wide spread in the midst of growth. However, Zambia's future development will depend significantly on the diversification of the economy. Over the period under review the economy failed to create adequate, good quality jobs because rapid and sustained poverty reduction requires inclusive growth that allows people to contribute to and benefit from economic growth. This means growth should be broad-based across sectors, and inclusive of the large part of the country's labor force. This has not been the case in Zambia. Jobs remain limited and concentrated in few sectors such as mining.

The mining sector compared to other potential industries is relatively more capital intensive and will always employ fewer workers per firm or industry. According to the 2012 labour force survey (Figure 7), the mining industry accounted for a mere 2% of the total employed people, compared to agriculture (52%) and services (42%). Yet the entire economy continues to depend on this sector for exports and revenue. The fact is that copper industry earning the economy the much needed revenue and foreign exchanged especially when copper prices boom but its contribution to employment will remain a drop in the ocean.

Figure 7: Mining Industry Contribution to Total Employment, 2012




Given that jobs are the way in which poverty reduction can be realized, reducing poverty will remain a pipe dream for Zambia. The following are some of the recommendations on diversification highlighted in ZIPAR's recent analysis of the 2016 national budget[37]. These are some of the issues to consider promoting diversification and making the economy inclusive so as to reduce poverty:

- Zambia needs to diversify agriculture and agro processing to increase the variety and quality of products especially in the dairy, horticultural, aquaculture and meat products subsectors. The key point about diversification is to pursue production that commands high value so that foreign currency inflows can rapidly increase which speaks to agro based diversification or in limiting the imports that excessive drain foreign currency.
- Zambia needs to formulate and implement a National NTEs Development Strategy to exploit the uniqueness of NTEs that represent a single opportunity for the country to induce resilience in its foreign earnings performance yet they only account for a fifth of total exports.
- Zambia should deal with bottlenecks that stifle export diversification and industrialization such as low availability of affordable finance, difficulties in accessing good export market information on prices, market size and preferred product quality, low technology diffusion,

[37] 2016 National Budget Speech

limited exposure to strong export networks and adverse deterioration in macroeconomic variables such as the exchange rate.

*ii. Review FISP and FSP*

The second important factor in order to enhance poverty reduction will involve the review of current poverty reduction programmes and policies. The FISP, FSP and FRA policies and programmes in particular need to be reviewed if poverty reduction is to be achieved. Based on earlier sections, the following are some of the recommendations regarding FISP, FSP and FRA and how they can help to enhance poverty reduction:

While FISP was meant to target the poor, its impact on poverty cannot be clearly observed because relatively wealthier households have more access to inputs than their poorer counterparts. The poor, who should be receiving inputs will in most cases, fail to meet the cash requirements that cooperatives charge for them to be able to get subsidized inputs. To mitigate this, government should consider reworking its targeting mechanism or start giving free inputs to those who cannot afford to buy.

The FSP on the other hand has eliminated the barrier of cash contributions and gives inputs for free. However, since the becoming of FISP, the budget for FSP seems to have been swallowed reducing the coverage of FSP beneficiaries significantly. The reason for this is unknown, but it is probable that FISP is more politically attractive than FSP. To enhance poverty reduction there is need to again increase the coverage of FSP.

The FRA, like FISP has more relatively wealthy farmers selling maize to it. This is for reasons given, which are also related to FISP. If more poor households have access to farm inputs they would be in a position to grow enough crops and supply to FRA and increase their incomes. Additionally, the poor face high transaction costs when selling to FRA. These transactions costs should be reduced if more poor people are to be able to sell their produce to FRA. This means improving payment systems and making payments timelier than they are currently.

*iii. Scale Up Cash Transfer Schemes.*

Reports have shown significant impact stories on their effectiveness. Enhancing poverty reduction may mean scaling up such schemes to the national level so that as many poor people as there are can be reached. However, it should be noted that Cash Transfers may only be a short term solution and cannot be relied upon for the long term. Within the context of current economic trends, the Zambian government intends to achieve fiscal consolidation to reduce fiscal imbalances. Cash transfer schemes may impose significant burdens on already stretched budgets and compromise government's intentions. There is need therefore to consider more productive poverty programmes that will in turn lead to economic growth.

*iv. Reconsider Changing Policy Perceptions of Poverty*

ZIPAR is undertaking poverty analyses that use poverty measurements that are not based on income as has been the tradition in Zambia. These alternative measures, referred to as multi-dimensional measures bring to light the actual experiences of the poor. While monetary measures of poverty define the poor as people who lack a pre-defined income or expenditure threshold, multi-dimensional measures focus on deprivations suffered by the poor. Indeed the poor suffer access to services like good health, education and living standards. On a daily basis, the poor are found living far away from schools and health centres, they lack clean energy and rely on charcoal, cow dung and grass for cooking and lighting their homes, the poor also live in houses with no floors. To enhance poverty reduction poverty programmes and policies ought to begin recognizing these deprivations and seek to bring them near to the poor.