

# Accelerating economic growth & policy reforms to optimise Zambia's demographic dividend

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A young man welding in a workshop. Photo: Albert Gonzalez Farran/UNAMID/Flickr

Zambia's Vision 2030 seeks to turn the country into a prosperous industrial middle-income nation that provides opportunities for improving the well-being of all its citizens. The country has experienced steady economic growth in the past decade, averaging at 6.7 %, and graduated into lower middle-income status in 2012, with a per capita GDP of \$1,839 in 2013<sup>1</sup>.

Despite this impressive growth, more than 60 % of the population still live in poverty and 83 % work in the informal sector where underemployment rates are high<sup>2</sup>. Zambia's economic growth has not been inclusive partly because it is driven by sectors that are not labour intensive (like mining) and therefore do not create enough decent jobs for the rapidly growing number of people joining the labour market. The economic growth and wealth creation pillar of Vision 2030 recognises this challenge and seeks to address it by promoting investment in sectors that employ relatively more people, such as agriculture, manufacturing and tourism. The Vision also seeks to enhance the country's global competitiveness by enhancing its human capital through investments in education, health and other social sectors.

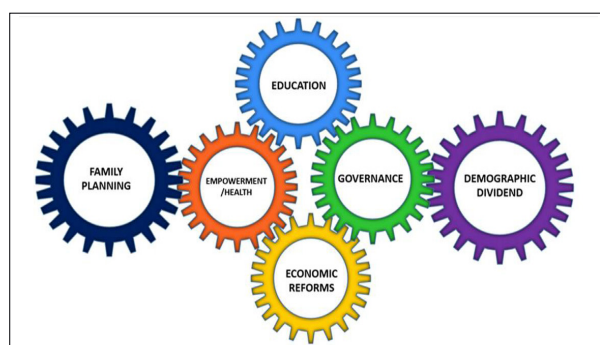
Vision 2030 also recognises the country's high fertility and consequent high child dependency burden as a major challenge that needs to be addressed in order to create an enabling environment for sustainable socio-economic development. Zambia's high fertility has resulted in a very young population, with 45% of the population being below 15 years of age<sup>3</sup>.

If Zambia experiences rapid fertility decline, its development prospects will be enhanced through the *demographic dividend*. This is the economic benefit that arises from a significant increase in the ratio of working-age adults relative to young dependents that results from rapid fertility decline

if this change is accompanied by sustained investments in education, skills development, health, job creation and improved governance. It is estimated that a quarter to a third of the enviable economic growth that countries in East Asia made between the 1970s and 2000s could be attributed to the demographic dividend<sup>4,5</sup>. It is key to note that the demographic dividend is neither automatic nor guaranteed. In order to earn it, the labour force should be well educated, skilled, healthy, and gainfully employed (*Figure 1*). In addition, there should be good governance and accountability in use of public resources and service delivery.

This policy brief highlights the economic policy reforms and investments that Zambia should embark on to accelerate economic growth, job creation and wealth creation, which are critical for the country to harness a sizable demographic dividend.

**Figure 1: Five policy wheels for creating and earning the Demographic Dividend**



All five policy wheels are interrelated; they reinforce each other and should be implemented concurrently to drive the country towards the economic prosperity that can accrue from the demographic dividend.

Source: Adapted from African Union Commission (2013)<sup>6</sup>



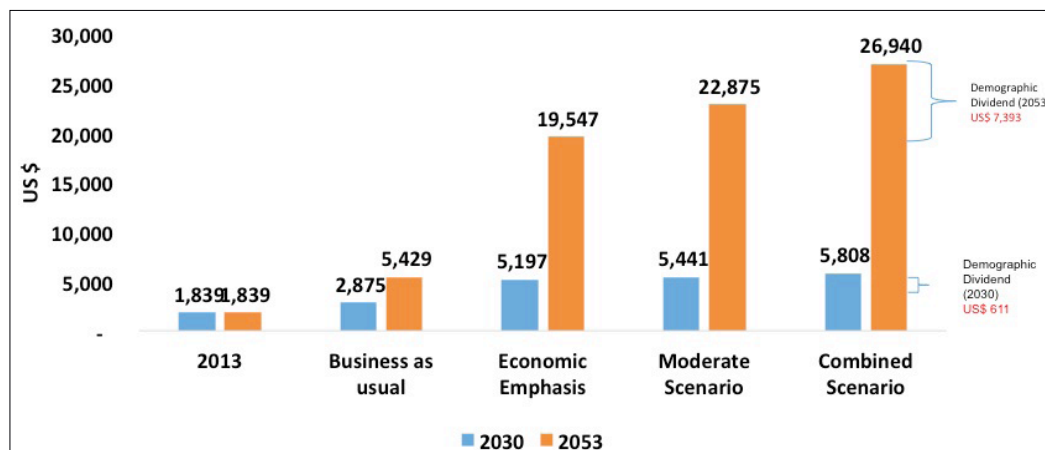
### Zambia's potential demographic dividend

The steady growth of the Zambian economy over the past decade provides a firm foundation on which the country can build on to decisively address its development bottlenecks and achieve the socio-economic transformation envisaged in Vision 2030. Modelling of the potential impact of the demographic dividend in Zambia shows that the country can harness a massive demographic dividend if it follows the right policies<sup>7,8</sup>.

If Zambia follows the Economic Emphasis Policy Scenario that

maximises its economic investments and productive efficiency to the levels reached by the Asian Tigers, but makes little investment in the social sectors like education and family planning, the current income of US\$ 1,839 will increase to US\$ 19,547 by 2053 (Figure 2). However, if Zambia follows the best-case Combined Scenario where the country simultaneously prioritises investment in economic reforms, family planning, education, health, and governance, the GDP per capita will increase to US\$ 26,940. This will earn the country US\$ 7,393 beyond what it would have if it only focuses on economic reforms. This is more than three times the current GDP per capita.

Figure 2: Projected per capita GDP under the four scenarios



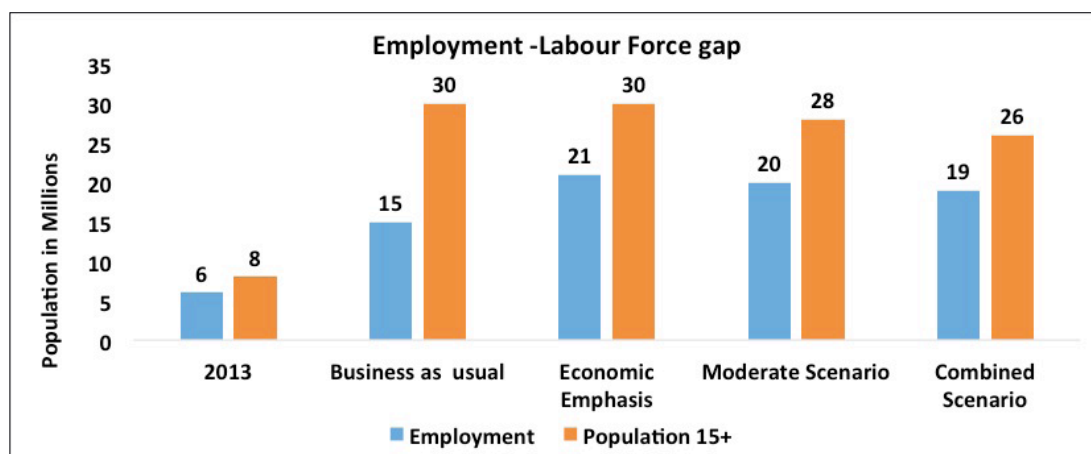
Source: Ministry of Finance, UNFPA, AFIDEP, 2015

### Zambia will face a serious employment challenge due to high population growth

The model results also show that Zambia will face increasingly huge challenges in creating ample decent jobs for the working-age population. The employment gap will increase from the current 2.3 million to 14.5 million people under the Business-as-usual Scenario,

9.0 million for the Economic Emphasis Scenario, and 7.0 million for the Combined Scenario in 2053 (Figure 3). This is because of Zambia's current and past high population growth rate. As such, the country should improve its economic productivity and capacity to create enough jobs to match growth of population in the working-ages and avoid the pitfalls of a large unemployed adult population evident even in the Combined Scenario.

Figure 3: Projected gap between total population aged 15+ and employed population



Source: Ministry of Finance, UNFPA, AFIDEP, 2015

In the last decade, Zambia achieved a strong economic growth, averaging 6.7% per year since 2003<sup>9</sup>. This growth was mainly driven by the extractive industry; copper and cobalt are the major export earners and sources of government revenue. Copper contributes about 70% to export earnings. The country enjoyed increased Foreign Direct Investment (FDI), particularly for financial services, extractive industry and infrastructure development. According to a recent Ernst & Young report, Zambia was ranked among the top ten biggest FDI recipients in Africa in 2013, with a 31% increase between 2012 and 2013<sup>10</sup>.

The robust economic growth over the past decade has not translated into significant reductions in poverty and improved gener-

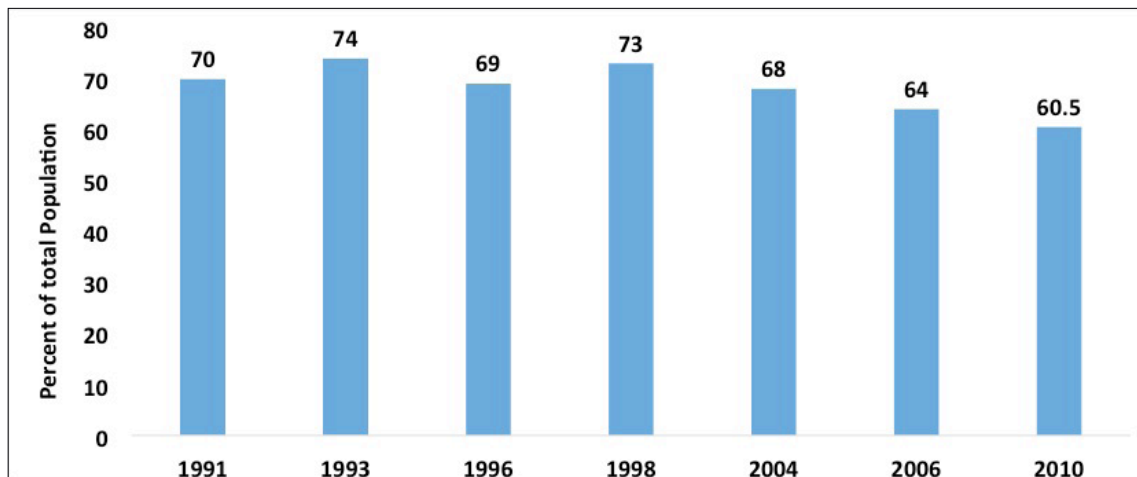
al living conditions for the majority of the Zambian people. Job creation has not been commensurate with the gains registered from economic growth. This failure reflects important macroeconomic and policy constraints. These include: (1) low savings and investment ratio as a %age of GDP, reflecting an inefficient domestic resource mobilisation that constrains domestic investment; (2) vulnerability to external shocks, particularly those arising from Zambia's continued dependence on the mining sector; (3) low access to finance; (4) the high cost of financial services that stifles productivity growth particularly for the Micro, Small and Medium sized Enterprises (MSMEs); and (5) a significant infrastructure deficit, particularly in the energy and road sectors<sup>11</sup>.

### More than half of the population live below poverty level

Poverty levels have not declined fast enough in Zambia and about 61% of Zambia's population live below the poverty line (Figure 4). In 2010, the proportion below poverty line in rural areas was 77.9% compared to 27.5% in the urban areas<sup>12</sup>. High levels of income inequality is another major factor; the Gini coefficient (equality in income or consumption expenditure distribution) increased from 0.53 in 1990 to 0.57 in 2010<sup>13,14</sup>.

**“For many youth in Zambia, the most urgent need is to provide them with skills to earn a living and contribute positively to the economy”**

**Figure 4: Poverty headcount ratio at national poverty line (% of population)**



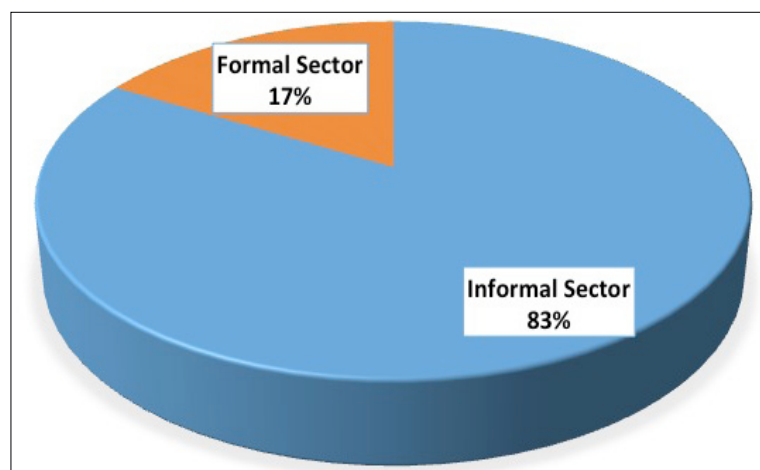
Source: Living Conditions Monitoring Survey, 2010

*The population is faced with high underemployment rates and poor quality jobs*

The relatively low unemployment rate (7.9%) in 2012 masks a big challenge of under-employment. According to the 2012 Zambia Labour Force Survey, 70% of those in employment are under-employed<sup>15</sup>. Youth unemployment rates are even worse. For instance, those aged 20-24 had the highest unemployment rates at 16.6 %,

compared to the national average of 7.9%. Of those employed, 83.4% work in the informal sector, mainly in subsistence agriculture (Figure 5). The informal sector offers limited prospects for improving living standards of people because it is characterised by low earnings, productivity, capital investment, and application of technology, and it limits tax revenue for the Government.

**Figure 5: Distribution of employment by type in Zambia: Formal vs informal, 2012**



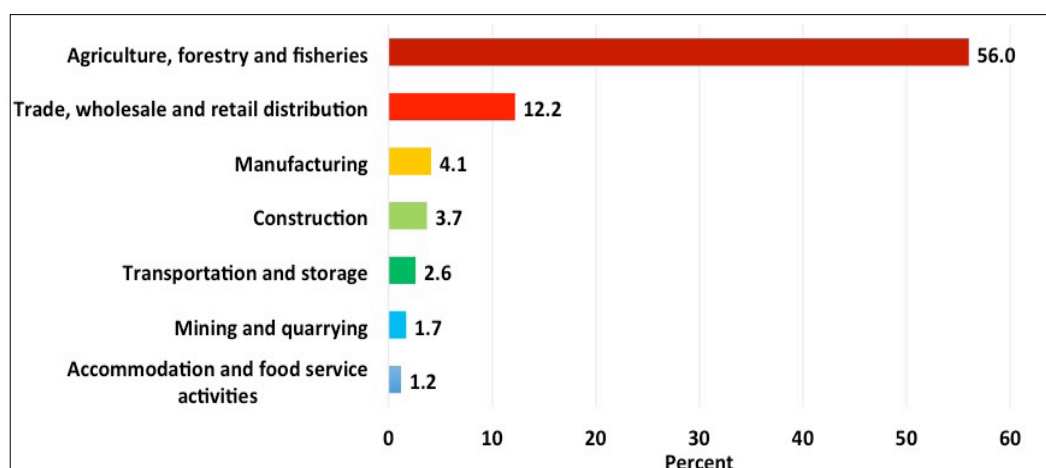
Source: Central Statistical Office (2013)

*The largest employer (the Agricultural sector) is highly under-developed*

Although agriculture is the main source of income and employment for most Zambians, it receives limited investments compared to the extractive industry. Agriculture employs about 56% of those in employment, while the mining & quarrying sector only employs 1.7% (Figure 6). In addition, agriculture contributes about 18% of the GDP, compared to 2% from the mining sector<sup>16</sup>. However, the sector has not experienced consistent and sustainable productivity growth due to low mechanisation, poor access to markets,

low access to finance and modern farm inputs, poor economic infrastructure in rural areas and under-funded research and extension services. Thus, the agriculture sector's potential to contribute to the country's development remains largely underexploited in terms of output, employment and exports. To achieve Vision 2030's ideal of transitioning the country into an industrialised economy, modernising the agriculture sector to enhance its productivity would be a good starting point. Value addition through agro-industries should be prioritised and promoted as it provides a bedrock for not only transitioning to an industrialised economy but also provides quality jobs for the growing labour force.

**Figure 6 Distribution of the employed persons by selected industries (%), Zambia 2012**



Source: Central Statistical Office (2013)

**“To achieve Vision 2030’s ideal of transitioning the country into an industrialised economy, modernising the agriculture sector to enhance its productivity would be a good starting point”**

### *Low industrialisation and use of technology undermines economic productivity*

Low levels of industrialisation result in serious missed opportunities for more robust, diversified and sustainable economic development characterised by limited use of advanced technologies and weak employment creation. Although Zambia's manufacturing sector has grown overtime, the growth rate has generally been uneven, from 5.8% in 2006 to 2.5% in 2009 and 4.2% in 2010. This decline has been due to significant drops in productivity in the textiles and clothing, leather and leather products

and fabricated metals sub-sectors, attributed mainly to the high cost of doing business and reduced demand for locally produced products<sup>9</sup>. Primary commodity exports expose the country to volatile global commodity prices and economic instability. For example, economic growth dipped between 2010 and 2013 due to global reduction in copper prices. Zambia's Vision 2030 seeks to transform the economy from a primary commodity driven to an industrialised economy with expanded industrial base and increased value addition. This will help the country diversify its economies and reduces exposure to external global shocks.

### *Weak economic infrastructure increases cost of doing business*

Infrastructure serves a central delivery mechanism in achieving sustainable economic development and is an essential driver of competitiveness critical for ensuring the effective functioning of any economy. The state of infrastructure remains inadequate to sustain and match the desired levels of growth due to weak structural and management capacity resulting in over commitments, high cost of construction and low investment. Poor infrastructure is thus a major challenge to growth, especially rural development, economic diversification and human development in Zambia. It is worth noting that the use of ICT in the provision of

public services is extremely limited and this constrains innovation and adds to the cost of doing business. Infrastructure development, is one of the Government's priority areas, and is upheld in both Vision 2030 and the Revised 6<sup>th</sup> National Development Plan (R-SNDP). The aim is to achieve availability of reliable and affordable public infrastructure services for sustained economic development. Improving infrastructure, including electrification, communication, and transport systems with specific attention to the rural areas will connect the productive areas to the markets, improving economic integration between these areas. It is essential that investment into ICT, particularly internet-related facilities is increased to create an even better investment climate.

### *Mismatch between skills acquired and labour market needs persist*

Poor quality of education has resulted in a mismatch between skills mix imparted by the education system and the labour market needs. Many Zambians who have gone through the education system find difficulty getting decent jobs because they have inadequate skills for such jobs. This has implications on productivity – as labour productivity in Zambian firms is much lower compared to its regional competitors. As such, many companies in Zambia are forced to hire foreign experts or invest considerable resources in

staff training to cover the various skills gaps. The poor skills could be attributed to the low enrolments in tertiary level and vocational institutions, which are key in imparting skills to the youth. According to Vision 2030, only 2% of the country's population had completed a Bachelor's degree or above by 2006. In addition, the quality and current number of TEVET institutions are inadequate. In 2014, the Revised 6<sup>th</sup> National Development Plan noted that the TEVET system could only absorb about 5% of the 300,000 youth who leave the school system at both grades 9 and 12 each year.



## Policy Actions for economic reforms and creation of adequate quality jobs

For Zambia to achieve inclusive development and maximise its demographic dividend, job creation should be central to its economic strategies. In particular, the country should:



The Victoria falls in Zambia which are a major tourist attraction. Photo: Jason Wharam/Flickr

- Diversify the economy and reduce overdependence on mining, prioritising expansion of labour intensive sectors such as manufacturing and tourism.
- Modernise the agriculture sector to improve productivity and prioritise value addition through agro-industries as the bedrock for transitioning to an industrialised economy.
- Fast-track investments, especially in rural areas, in economic infrastructure, transport, communication and energy to enhance efficiency and lower the cost of doing business.
- Create an enabling environment for private sector development to step-up direct foreign and domestic investment and facilitate creation of significant levels of decent jobs.
- Mainstream the informal sector that employs majority of the youth and women and promote small and medium sized enterprises.
- Promote efficiency in production and improve marketing efforts to hasten integration of domestic markets, increase competitiveness and strengthen the national economy.
- Promote an innovation-driven economy by strengthening the national innovation systems in the areas of production and marketing with a focus on the overall strengthening of Zambia's global competitive edge.

## Conclusion

Zambia can harness a sizable demographic dividend; but key policy reforms should be made. The country should exploit its population characteristics and economic opportunities to advance its economic prosperity by implementing appropriate policies. Accelerating infrastructure development, diversification of the economy, and the promotion of rural investments, all outlined as objectives in the country's Revised 6<sup>th</sup> National Development Plan (2013-2016), are salient pillars to the realisation of enhanced socio-economic growth. Additionally, the country should address all barriers of access and use of family planning, reinforce child survival and keep girls in school to create a population with more working-age people than children. These should be accompanied by investments in education, health, economic reforms to create quality jobs, and accountability in service delivery and use of public resources. It is also expected that these policy options will serve as key pillars within the 7<sup>th</sup> National Development Plan (2017–2022).

**“For Zambia to achieve inclusive development and maximise its demographic dividend, job creation should be central to its economic strategies”**

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