

# Ensuring An Inclusive, Job Rich Poverty Reducing Growth Process

Grayson Koyi

**Economics Association of Zambia**

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# Outline of Presentation

- Conceptual Framework: Inclusive Growth(IG)
- Context : The Growth-Poverty-Inequality Scenario
- Binding Constraints of Inclusive Growth in Zambia
- Crafting the Future: How to Promote Inclusive, Job Rich Poverty Reducing Growth Process.

# Inclusive Growth Framework

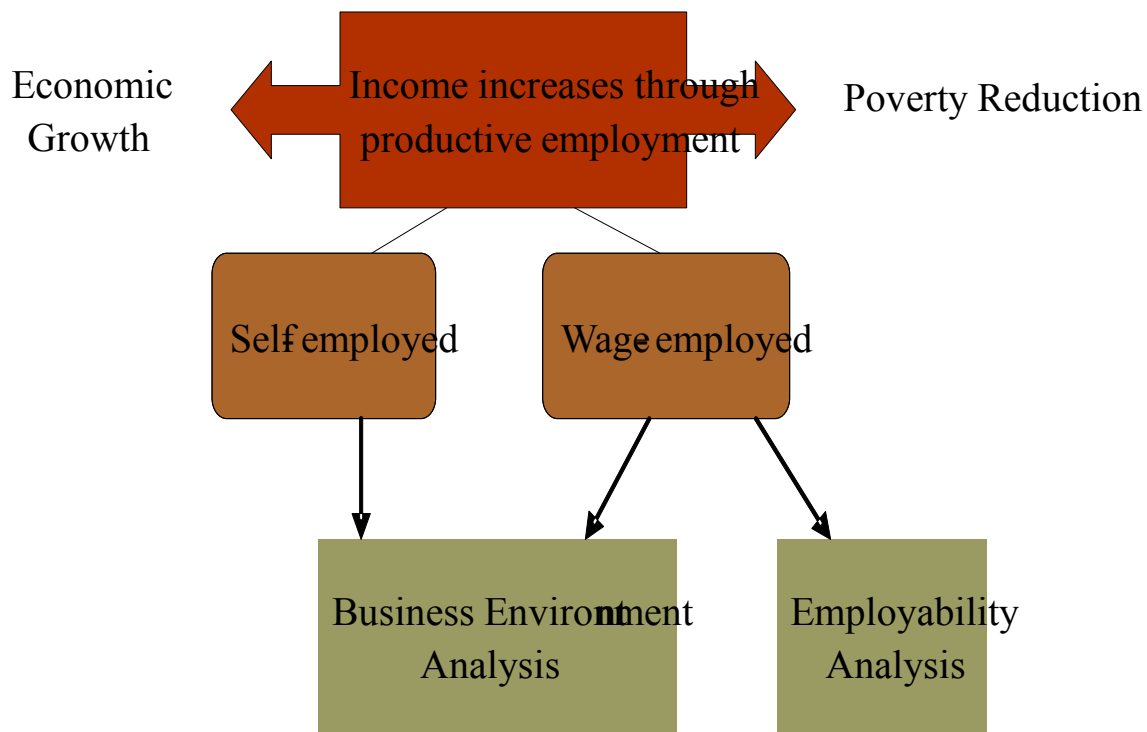
- **Inclusive Growth (IG)** refers *both* to the pace and pattern of growth (Commission on Growth and Development, 2008);
  - Pace and pattern of growth are considered interlinked and need to be addressed together.
  - *Concerned with not only at what rate you are growing but how are you growing.*
- IG adopts a long term perspective and is concerned with sustained growth.
  - (a) For growth to be sustained in the long run, it should be *broad-based* across sectors.
    - Issues of structural transformation for economic diversification take a front stage.
  - (b) It should also be *inclusive* of the large part of the country's labour force.
    - Where *inclusiveness* refers to equality of opportunity in terms of access to markets, resources and unbiased regulatory

- Broadly, the economic agent in the IG framework is the individual rather than the firm
  - Since it is assumed that the main instrument for a sustainable and inclusive growth is productive employment.
- However, IG Framework includes an analysis of individuals rather than firms alone and therefore consists of both the Business Environment Analysis and an Employability Analysis.
  - The business environment analysis, is used to identify the constraints preventing firms from investing in the economy to generate growth or to accelerate growth where this is occurring at a rate deemed lower than perceived potential (Hausmann, Rodrik and Velasco, 2005) .

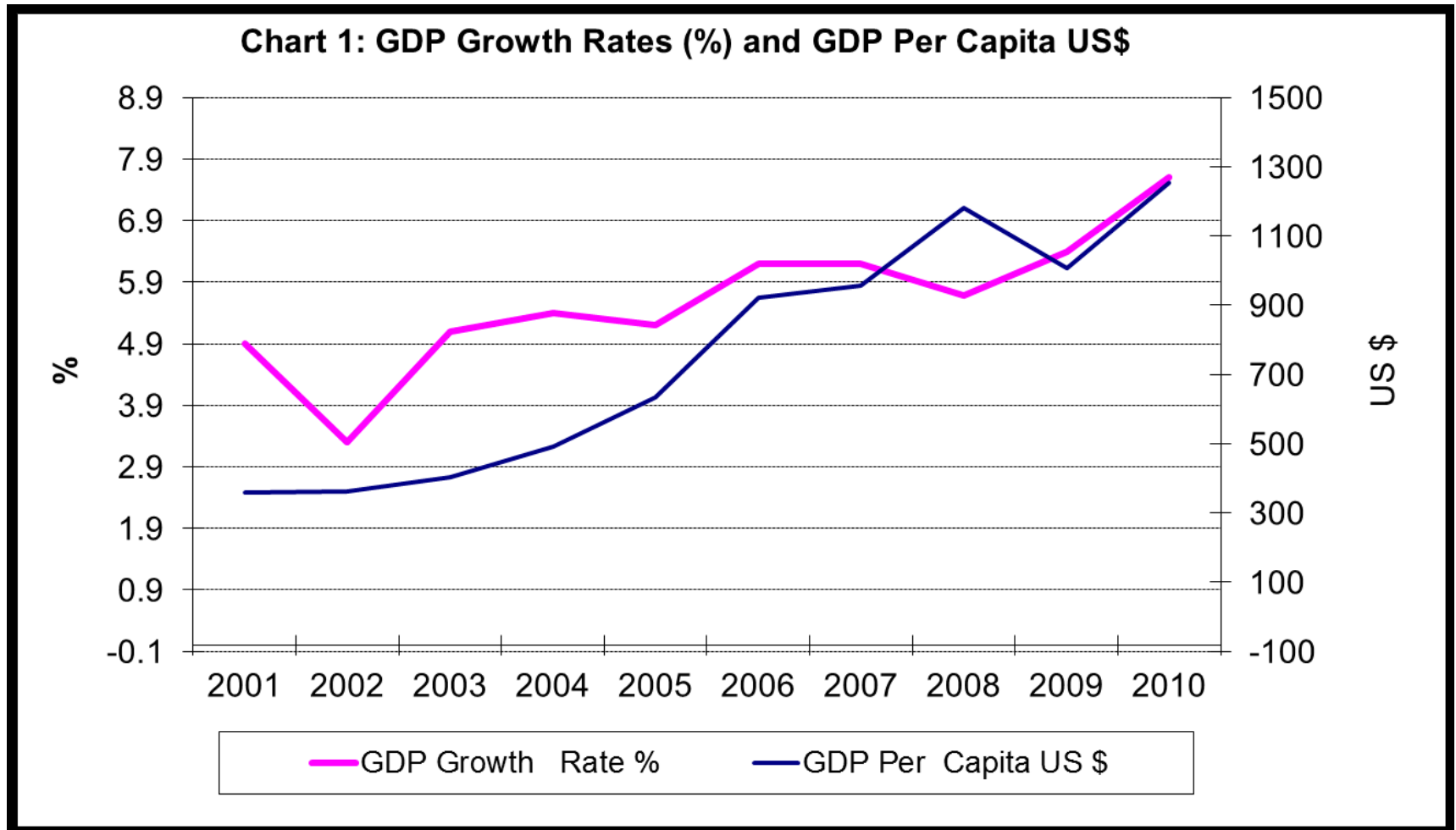
- The Employability Analysis is a diagnosis of the productivity attributes of individuals either as wage earners or as self-employed workers.
- The IG framework thus goes beyond the factors preventing growth to also ascertain whether growth translates into increased household incomes and, ultimately, reduced levels of poverty.
- One of the shortcomings of this methodology, however, is the difficulty involved in analysing non-economic factors - implementation capacity issues for example - which are very important and a major concern for an economy such as Zambia

# Figure 1: Inclusive Growth Framework

(adopted from Ianchovichina and Lundstrom, 2008)



# Context: Growth + Equity

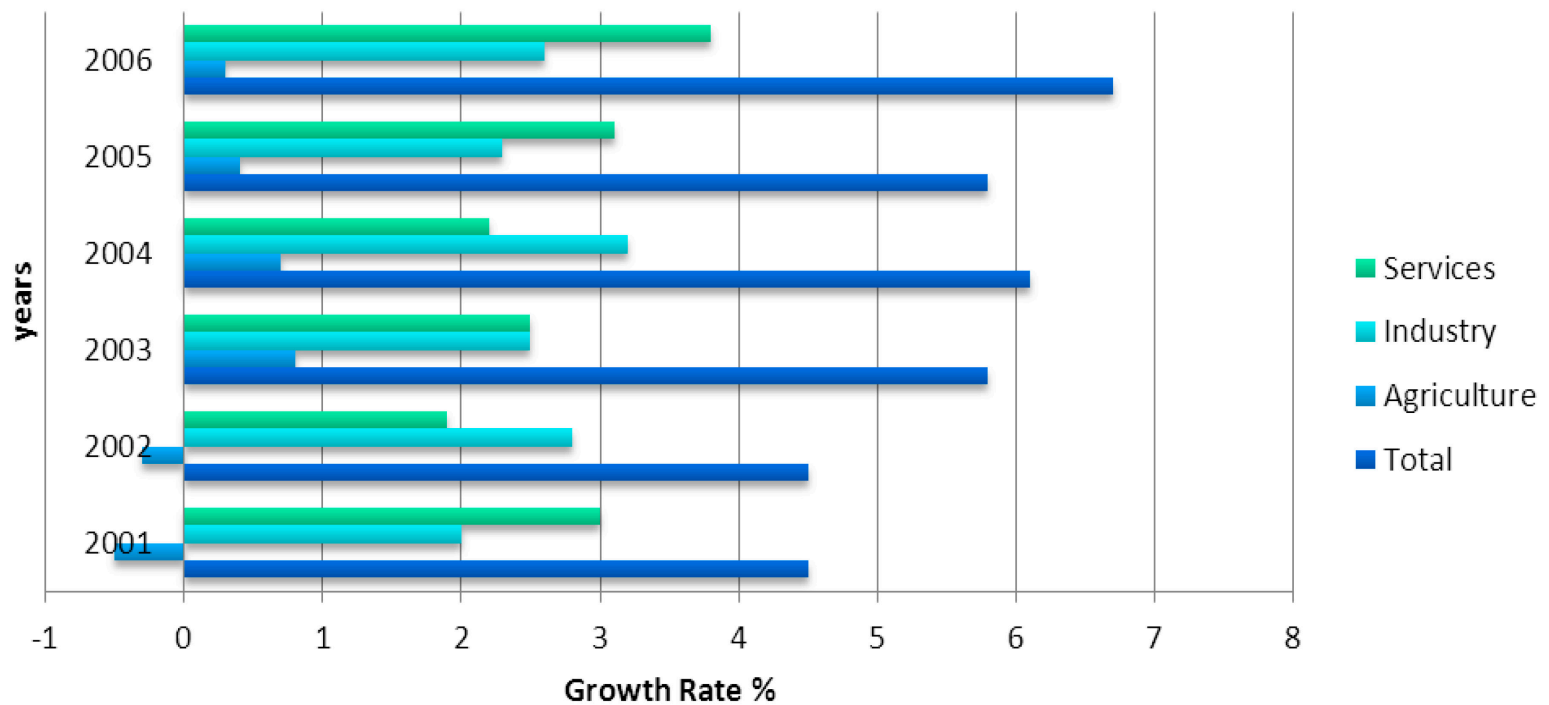


- Over the last decade, Zambia's economy has been growing strongly:
  - With positive real GDP growth rates, averaging 5.6% per annum between 2001-2010 ;
  - Rising per capita GDP from less than US\$350 in 2001 to US\$1,253 in 2010
- The mining boom has helped to propel this growth, especially after 2004 when copper prices and output increased significantly.
- In aggregate terms, however, much of Zambia's recent growth has come from the services and industrial sectors and less so from agriculture (See Chart 2).



# Industrial Contribution to RGDPGR

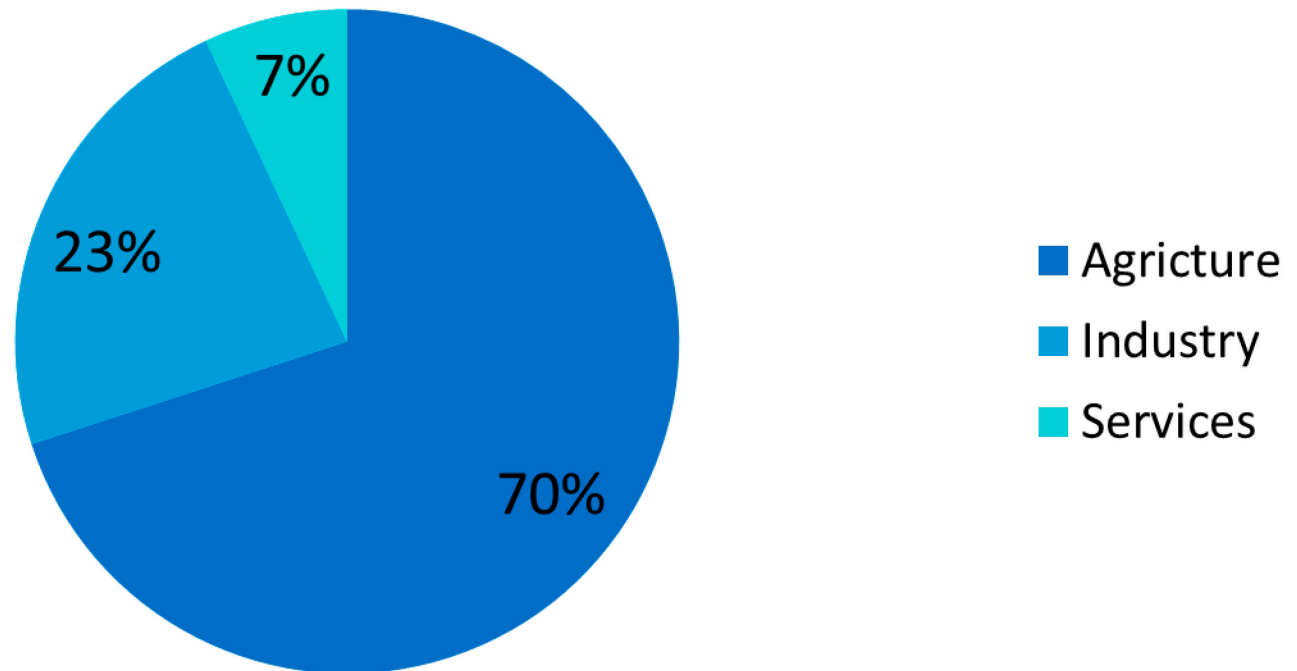
Chart 2: Industrial Contribution to RGDPGR (%), 2001- 2006



- Agriculture is a sector of special interest
  - Most people (about 70 percent) in Zambia, and especially the poor, are employed and derive their income from farming
  - However, this is the sector that has not been growing and so its contribution to real growth in the recent past has been marginal.
  - This lack of agricultural growth suggests that the benefits of recent economic growth have largely bypassed the poor in Zambia who derive their incomes from farming activities.
  - Besides, the capital intensive nature of growing sectors such as mining implies that increases in investment flows to this sector have not generated the number of jobs required to lift a significant share of people from poverty.
  - Constraints to agricultural growth need to be correctly

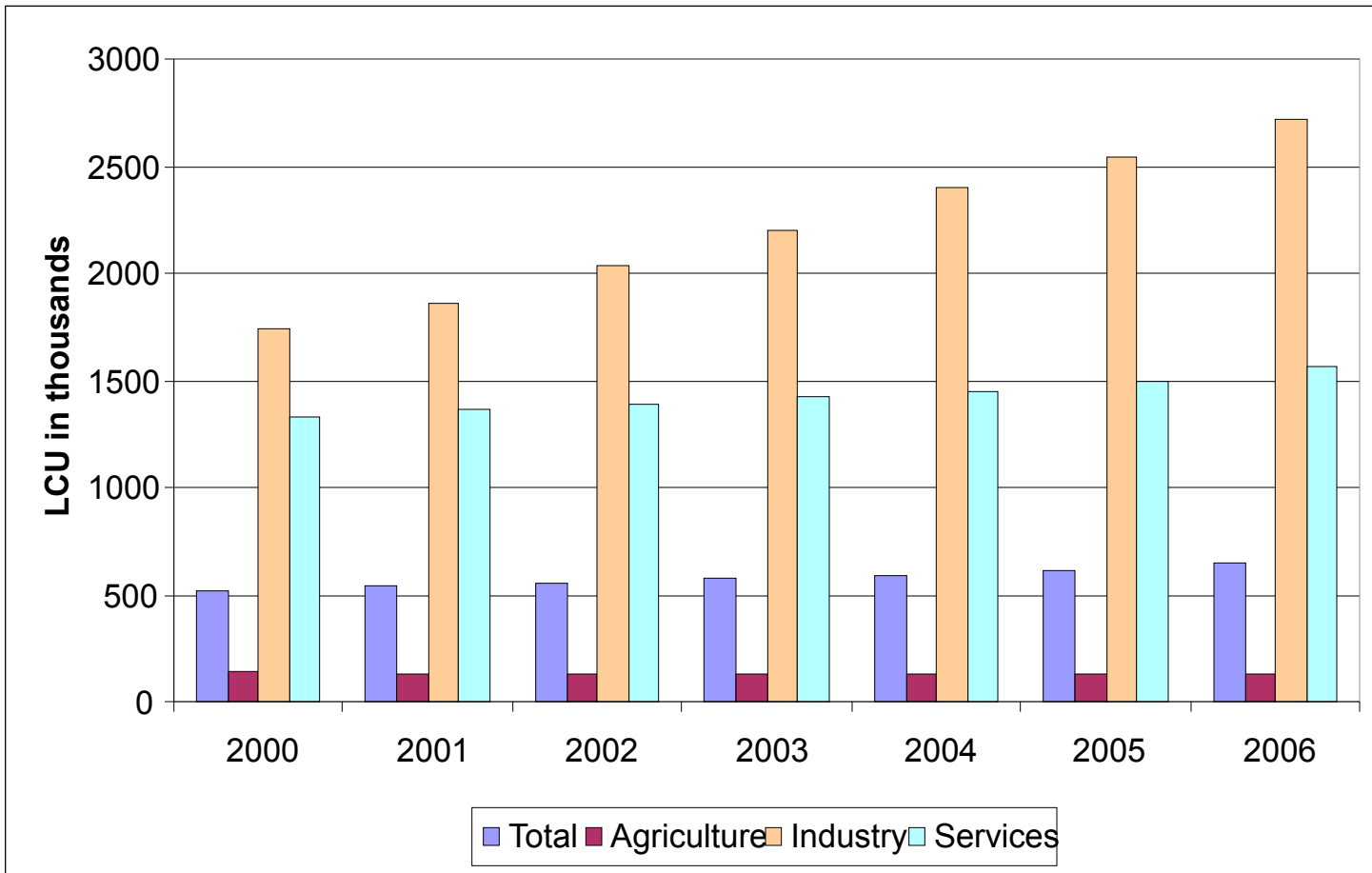
# Distribution of Labour force by sector

**Chart 3: Distribution of labour in Zambia by sector, 2005**  
( % of total labour force)



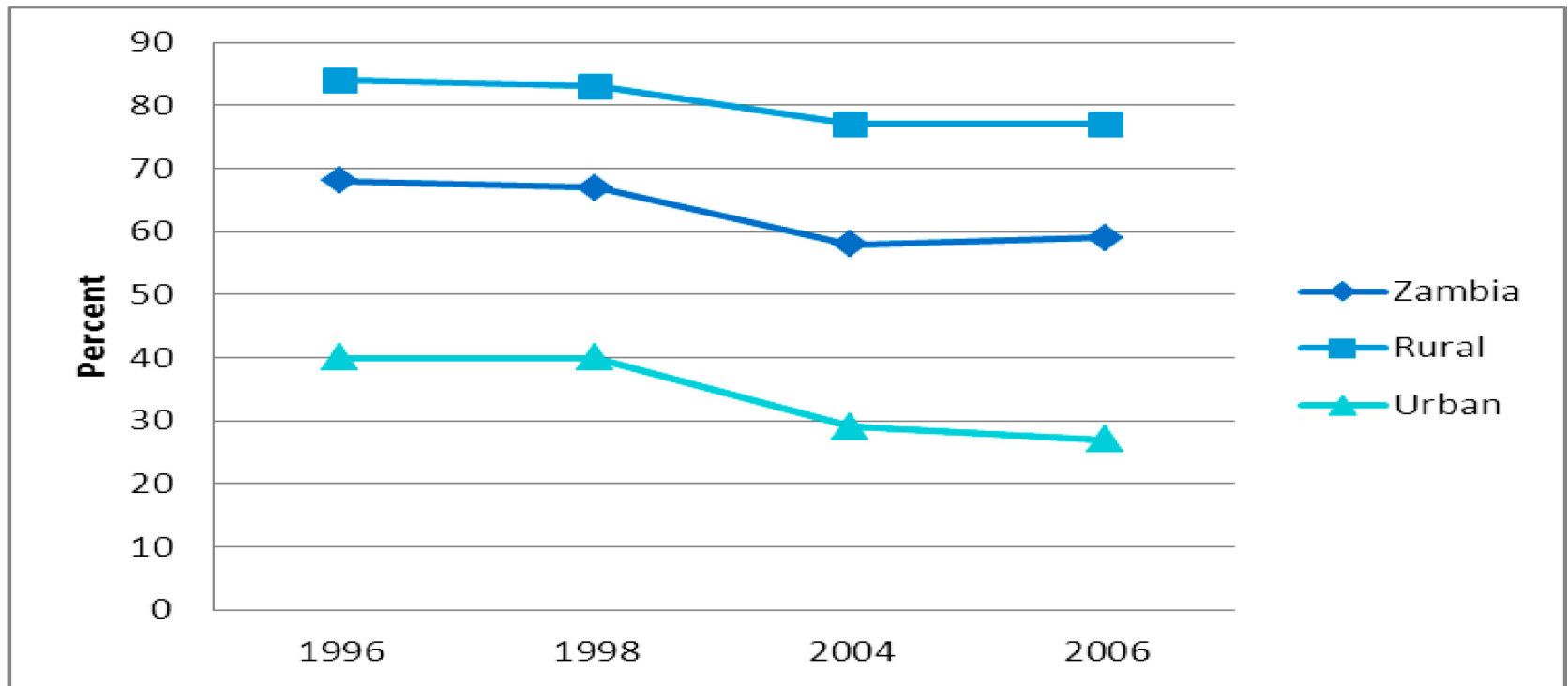
- Another dimension is that labor productivity in industry and services is much higher than in agriculture (Chart 4).
- The huge gap between farm and non-farm labor productivity implies that Zambia, which has 70 percent of its labor force employed in agriculture , uses its labor extremely inefficiently.

# Chart 4: Real value added per worker in Zambia



**Source:** Ianchovichina and Lundstrom (2008:17)

# Chart 5: Poverty Trends, 1996 - 2006



- Poverty levels on the whole have fallen slowly from 73% in 1998 to 64% in 2006, with Zambia far from attaining the Millennium Development Goal (MDG) on poverty despite recent strong economic performance.
- Rural poverty lies at the heart of the problem. Whilst the poverty head count in urban areas dropped from 53% in 2004 to 34% in 2006, rural poverty rose from 78% to 80%.
- This would suggest that the benefits of the last decade of economic progress have completely bypassed the rural population.
  - The main reason for this lack of inclusive growth lies in the underperformance of the agriculture sector which employs most people in Zambia.

# Trends in Inequality, 1996 - 2006

	1996	1998	2004	2006
Zambia	47.4	48.8	52.7	52.6
Rural	40.8	41.4	45.7	43.5
Urban	42.2	44.5	46.6	46.8
Central	40.9	49.6	47.3	46.5
Copperbelt	41.2	44.8	48.8	48.4
Eastern	43.9	40.2	46.9	44.4
Luapula	38.9	41.7	41.7	43.6
Lusaka	42.8	47.1	48.4	47.7
Northern	38.9	39.3	47.8	47.4
North-Western	39.3	39.9	47.5	43.0
Southern	42.5	46.0	51.6	49.3
Western	44.4	44.4	46.5	47.5



- In terms of inequality, the Gini coefficient actually increased from 40.8 in 1996 to 43.5 in 2006 .
- For the two most urbanized provinces, Copperbelt and Lusaka, where economic activity has increased, the incidence of poverty was below the 2006 national poverty line.
  - The Gini coefficient in both provinces also declined between 2004 and 2006 .
  - This seems to suggest that when inequality is high to start with, it acts to reduce the impact of growth on poverty reduction.

# Binding Constraints of Inclusive Growth in Zambia

- **Low Quality of Human Capital** - This is at the root of the low levels of employability of the Zambian population and is one of the main explanations for the lack of inclusive growth seen in the last ten years.
  - The poor have limited access to secondary and tertiary education.
    - As a result, they are unable to benefit from the higher wages that are the outcome of higher levels of education.
    - Available information suggest that wage earnings are positively and significantly influenced by educational attainment and, to a lesser extent, on-the-job training.
    - However, Skills shortages at all levels limit economic growth.

- **Poor Infrastructure Services** - Despite progress in extending infrastructure services, these still fall far below the level required to promote accelerated economic and inclusive growth in Zambia.
- Poor infrastructure is undermining the country's export competitiveness and constraining both growth and job creation

# Lack of Agriculture Inputs

- Analysis of LCMS data shows that the most prevalent constraint to poverty at national level is lack of agricultural inputs.
- However, a split between rural and urban shows that the prevalent constraint for the urban area is lack of employment and low wages.
- Further disaggregation to provincial level indicates that urban provinces are constrained by lack of employment and low wages while rural provinces show some diversity in constraints.

- **Coordination Failures** - Despite export diversification, Zambia still suffers from low levels of export sophistication – an indicator of coordination failure.
  - This suggests that the value-added of the country's basket of export goods does not match that of other countries with a similar per capita income and is worse than a number of other SSA countries.
- The country is therefore failing to provide sufficient non-traded inputs or complementary goods and services to enable enterprises to innovate, market their products successfully, and generate profit.
- Coordination failures can also be seen in the approach to employment promotion where the approach remains disarticulate

# Crafting way forward

- Ensuring an inclusive job rich and poverty reducing process will need to rest on at least the following building pillars:
  - ***Re-orientation of the educational doctrine for enhanced skills development***
  - ***Promotion of productive employment through a coordinated approach***
  - ***A productivity-induced agricultural growth***
  - ***A governance system that is decentralized, participative, transparent and accountable to the people***
  - ***An inclusive financial system, and***
  - ***Infrastructure development***

- ***Repositioning vocational and technical education for enhanced skills development and poverty reduction***

- The role of vocational and technical training should be re-positioned and overhauled so that it can be in the forefront of skills development.
- Currently, the role of vocational and technical training has been relegated to the fringes.
- These institutions can go a long way in enhancing skill levels in the country and thus growing the country's human capital
- Besides, to ensure that growth is widely shared, the educational system has to be inclusive, which means that it must reach both girls and boys; making sure that all the citizens, no matter what the income of the parents, are able to live up to their potential.

- ***The institutional framework for employment must have leadership and improve on coordination***
- There exists a structural problem in the nature and operation of the institutional framework for formal employment generation in Zambia.
- Different sectors and institutions are implementing employment related policies, strategies and programmes without a clear interface or mechanism that ensures elimination of possibilities of duplication or indeed one that can reinforce best practices.
- If this structural problem is to be overcome, there has to be a more harmonised and well - coordinated approach
- At the heart of the employment promotion agenda must be productive employment



- ***Promotion of a diversified agriculture is the key to ensuring food security and poverty reduction for the majority of rural households***
- There are two schools of thought in rural development literature.
- One is migration to urban areas of able members of households and then get remittances flowing back to rural from these migrants.
- The other school is to anchor poverty reduction on Agriculture by increasing productivity in the sector.
- For Zambia, the later is a more suitable strategy.

***A governance system that is decentralized, participative, transparent and accountable to the people***

- A decentralised approach to policy implementation is cardinal to ensuring an inclusive growth process.
- If policies have to be effective, they should recognise the regional advantages and therefore they should be implemented and monitored closer to the target population.
- The process of implementing the decentralisation plan need to be hastened.
- A decentralized approach has to go hand in hand

## ***An inclusive financial system***

- A financial system that not only links to big businesses, but also to small and medium-sized enterprises; a microcredit system; and an inclusive financial system.

## ***Infrastructure:***

- Investment in infrastructure should remain an important priority for growth, but for faster transformation and inclusiveness, it will need to be better prioritized.

- Thank you!