

Poverty. The zambian case

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In Zambia, there has been a persistence of high levels of poverty despite the country registering decent rates of growth over nearly fifteen years beginning in the latter half of the 1990s. (In fact, between 2000 and 2013, Zambia maintained an annual growth of 7%, making it one of the fastest growing economies in Africa; See World Bank, 2014). Over the period 1996 and 2010 (a 15-year period), only 0.53% reduction in poverty per annum was recorded. The poverty elasticity of growth over this period was estimated at -0.21 which was one-third of the value for Sub-Saharan Africa and nearly ten times below the global mean. (See UNDP, 2016).

Why has this been the case? To answer this, let us distil some of the findings of a paper by Son and Kakwani (2004) as well as an earlier paper by Naschold (2002) and then relate them to the Zambian situation. The findings of the Son & Kakwani paper are as follows:

- Economic growth with inequality unchanged results in an increasingly proportional reduction in poverty. If growth process were distribution neutral, even a small rate of growth would lead to a substantial reduction in poverty in most countries of the world. This has not happened in reality.
- Faster growth may lead to slower reduction and even rise in poverty depending on how much inequality rises.
- If we can achieve a pro-poor growth (growth that reduces inequality) poverty reduction can be accelerated even with a moderate rate of economic growth. This indicates that even a moderate rate of pro-poor growth can have a greater impact on poverty reduction compared to a higher growth rate but not pro-poor.
- A country with a high level of initial inequality may not be able to achieve a faster reduction in poverty even with pro-poor growth policies.

Naschold (op. cit.) contains the following propositions culled from the author's own research as well as from other sources:

- Growth is less effective in reducing poverty in high inequality countries. What matters for poverty reduction is not the rate of growth but the distribution-corrected rate of growth.
- Growth is less effective in reducing poverty in the *least developed countries* than in other developing countries. As the effect of inequality does not vary with the level of income, the relative importance of inequality for reducing poverty is greater in the poorest countries.

Let me now relate the Zambian situation with the findings listed above:

- Growth in Zambia has not been distribution neutral.
- High growth has led to slower poverty reduction in Zambia due to persistent high levels of inequality. The African Development Report (2015) states that the transformation of growth to poverty reduction is non-linear, with inequality playing an important role. Africa is one of the most unequal continents in the world. And Zambia is listed among ten of the most unequal countries in the world.
- Growth in Zambia has not been pro-poor. Data in the following table demonstrates this.

Table 1: Income distribution statistics for Zambia, 1991 – 2010

Date	Income share of lowest 10%	Income share of highest 10%	Gini Coefficient (%)
2010	3.90	60.2	65
2006	0.20	51.9	60
2004	1.20	27.7	57
2002	1.21	47.7	57
1998	1.59	38.16	66
1996	1.72	37.33	61
1993	1.07	39.28	51
1991	0.18	42.93	59

Source: Zambia Social Dimensions of Adjustment Priority Survey 1991, 1993; Living Conditions Monitoring Surveys 1996, 1998, 2002-3, 2004, 2006, 2010

Thus the lack of a pro-poor stance in the distribution of the benefits of growth (seen from the shares of the bottom 10% and top 10%) and the persistent levels of high inequality (seen from the Gini Coefficient values), have contributed to the unabated levels of poverty in Zambia.

Let us look at the distribution-corrected growth rate for Zambia. The distribution-corrected growth rate is given by: $(1 - \text{inequality}) \times \text{actual growth rate}$. Table 7 shows this rate for Zambia for selected years.

Table 2: Distribution-corrected growth rate for Zambia, selected years.

Year	Inequality (Gini Coefficient)	(1 – Gini Coefficient)	Actual growth rate (%)	Distribution-corrected growth rate (%)
2010	.65	.35	7.6	2.66
2006	.60	.40	5.8	2.32
2004	.57	.43	4.6	1.98
2002	.57	.43	4.2	1.81

Source: Author's calculation based on various Living Conditions Monitoring Survey data

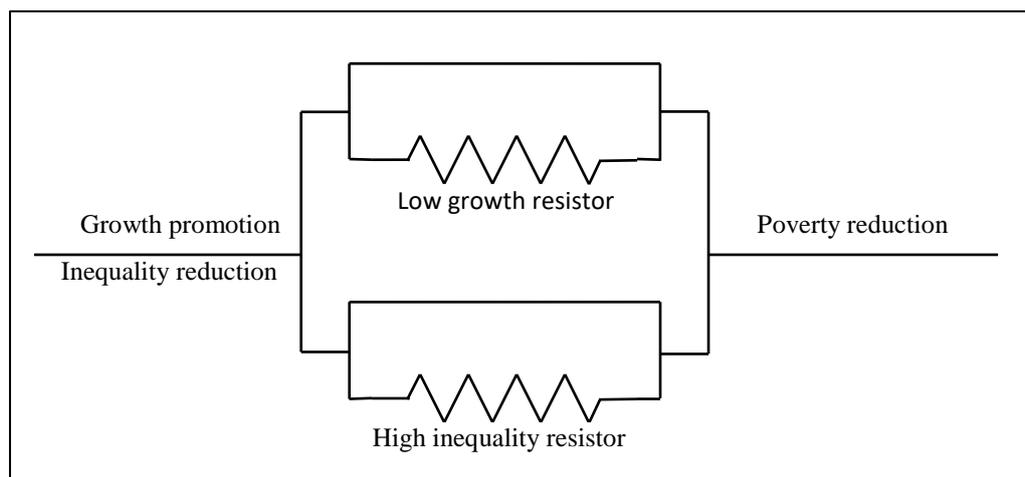
It can be seen from Table 7 that between 2002 and 2010 the actual growth rate increased from 4.2% to 7.6% (an 81% increase). But the incidence of poverty decreased from 67% to 60.5% (only 9.7% decline) during the same period according to LCMS data for those years. This is because the distribution-adjusted growth rate increased by only 47%. The logic here is obvious. If the poor have a low initial share of total income and inequality does not diminish with growth, then the growth cannot be pro-poor since the poor will have a lower share of the benefits of growth.

Moreover, Zambia is still a least developed country and so going by Naschold’s proposition, with high inequality, the impact of growth on poverty reduction is bound to be weaker than in other developing countries.

Furthermore, the high growth trajectory no longer obtains in Zambia today. Growth plunged to 2.9% and 3.3% respectively in 2015 and 2016 from an average of 7.4% between 2004 and 2014; and it is not likely to reach high levels in the near future. A 4% rate of growth is projected by the World Bank for 2017 and even by 2019, the Bank’s forecast is only 4.7%. The Bank further forecasts a decline in extreme poverty (\$1.9 per day PPP terms) from 57.5% in 2015 to 55.8% in 2019, and a decline in overall incidence of poverty (\$3.1 a day in PPP terms) from 73.2% in 2015 to 71.9% in 2019. (See World Bank, 2017).

It is clear therefore that in the Zambian case, the challenge of poverty and development can be effectively addressed only through a simultaneous pursuit of both growth and redistribution policies. As Revallion (2009) stated, effective country performance against poverty requires both pro-poor growth policies as well as pro-poor social policies (various cash transfer programs). I present the following figure to explain this.

Figure 1: Poverty Reduction Circuit



Source: Author’s construction

The figure depicts a “poverty/development circuit” analogous to an electric circuit. The inputs entering from the left are policies and programs for economic growth and inequality reduction. To secure significant poverty reduction and development, you need a policy cum resource flow through the path of *smooth conductors* that are high growth and low inequality. The two zigzag lines represent *resistors* in the form of low growth and high inequality. If the path proceeds through one or both of the resistors, then the process would tend to “blow up” and there will be no poverty reduction worth the name. We, therefore, need to ensure that the policy cum resource flow proceeds through the path of smooth conductors.

In Table 8, I present a broad schema of different factor combinations and their combined effect on growth promotion and inequality reduction:

Table 3: Illustrative scenarios for growth and inequality

Stabilization	Economic environment*	Political environment**	Budget policy	Growth & Inequality impact
S	E	E	A	High
S	E	E	NA	Moderate
S	E	NE	A	Low
S	E	NA	NA	Little or none
S	NE	NE	NA	None
NS	NE	NE	NA	Negative

Source: Author's construction

*Includes macroeconomic policy environment and external environment;

**Includes democracy, good governance, absence of corruption, good external relations.

S: Satisfactory; **E:** Enabling; **A:** Appropriate; **NS/E/A:** Not satisfactory/enabling/appropriate

The idiosyncratic aspects obtaining in Zambia in respect of the above factors will determine the path the country will take on growth, poverty, inequality and empowerment. Zambia's Seventh National Development needs to pay particular attention to the idiosyncratic factors.

With the theme of "Accelerating Development Efforts Towards Vision 2030 Without Leaving Anyone Behind", Zambia's Seventh National Development Plan 2017 – 2021 has five pillars. Their potential effects on growth and equity could be as shown in the following table.

Table 4: Main Pillars of Zambia's Seventh National Development Plan and their potential effects

Pillar	Potential Effects
Economic diversification and job creation	Growth and equity
Poverty and Vulnerability	Mainly equity
Reduced development inequalities	Mainly equity
Enhancing human development	Growth and equity
Conducive governance environment for economic diversification	Mainly growth

Source: Author's construction based on information in World Bank (2017a)

The Seventh National Development Plan envisages a fundamental shift in the way resources are being allocated, taking into account global and regional trends.

Zambia's Seventh Plan indeed has a good theme and a good strategy for tackling simultaneously the twin prevailing problems of low growth and high inequality. But then, we all know that the Achilles' heel of plans and policies in many developing countries has too often been in their implementation. Zambia has been no exception. Hence, eventually, the proof of the pudding will lie in the eating.

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APPENDIX

Poverty and Inequality in Selected Countries

	% della popolazione in povertà	Coefficiente di Gini (%)
Angola	30,13	42,7
Bangladesh	13	32
Botswana	18,24	60,5
Brasile	4,87	51,5
Cina	1,9	42,2
Etiopia	33,54	33,2
Ghana	25,15	42,8
India	21,25	35,1
Lesotho	59,65	54,2
Malawi	70,91	46,1
Malesia	3,8	46,3
Mali	49,25	33
Mauritius	0,53	35,8
Mozambico	68,34	45,6
Namibia	22,6	61,3
Nepal	14,95	32,8
Niger	50,34	31,5
Paesi Bassi	9,1	28
Pakistan	8,3	29,6
Rep. Dem. Del Congo	71	42,1
Sierra Leone	52,33	34
Sudafrica	16,56	63,4
Sri Lanka	1,69	28,6
Swaziland	42,03	51,5
Tanzania	46,6	37,8
Regno Unito	15	32,6
Stati Uniti	15,1	41,1
Thailandia	0,06	39,3
Timor est	46,76	31,6
Tunisia	1,99	35,8
Ucraina	66,79	24,6
Uganda	33,24	42,4
Uzbekistan	66,79	24,6
Vietnam	3,23	38,9
Zambia	64,43	55,6
Zimbabwe	68	50,1

Source: World Bank; CIA

The above table includes only countries for which data are available. Poverty data are not available for most developed countries.

NB: The World Bank defines the poverty line as US\$ 1.9 per day at 2011 Purchasing Power Parity and poverty level is therefore the percentage of population below this poverty line.

The CIA data have been cited for countries like the UK and USA where poverty is defined according to a national poverty line which is much higher than \$1.90 per day. We have used them since it does not affect the categorization of countries in Table 1 of the text.

In respect of inequality, statisticians generally regard a value of the Gini Coefficient exceeding 35% as indicating high inequality.

For purpose of categorizing countries, I have used the following heuristic cut-off points:

Poverty

% population

- < 30% Low
- > 30%, but < 50% Moderate
- > 50% High

Inequality

Gini Coefficient

- < 35% Low
- > 35%, but < 40% Moderate
- > 40% High

Thus Botswana for instance falls in the Low-High category in respect of Poverty-Inequality while Uzbekistan falls in the High-Moderate category.

The choice of the cut-off points may appear somewhat arbitrary but they nevertheless serve to show the weak correlation between poverty and inequality. The choice of alternative cut-off points is not likely to significantly change the categorization.