

Government of Zambia-ILO-IMF Conference

**“Towards a new Growth Strategy for Employment, Decent Work, and
Development in Zambia”**

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Opening Remarks

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Your Excellency, Vice-President Scott; Honorable Ministers Chikwanda and Shamenda; Bank of Zambia Governor Gondwe; distinguished participants...

1. Speaking on behalf of the African Department of the IMF, I and my colleagues are delighted to be here today, working in conjunction with the Government of Zambia and with counterparts in the ILO to support a broad dialogue among key stakeholders on the challenges of promoting rapid employment growth in Zambia.
2. Following agreements reached at an ILO-IMF conference on “Growth, Employment and Social Cohesion”, held in Oslo, Norway, in September 2010, the ILO and the IMF have been collaborating in a number of areas relating to the promotion of employment growth and the design and financing of social safety nets for the poor and vulnerable. This conference, developed in partnership with the government of Zambia, is part of a pilot program being undertaken by the two organizations as part of this collaboration.
3. I would like to underscore that the two international organizations are here today as *facilitators* of a dialogue among Zambians. We are very pleased to see the wide range of representation of different stakeholders in the Zambian economy, including from the trade unions, employer representatives, and civil society.
4. From an IMF perspective, we have some thoughts to put on the table that we hope will contribute to the discussion. At the same time, we hope to deepen our knowledge of the specifics of labor market policies and challenges in Zambia by listening to and participating fully in this debate.
5. Viewed from outside, Zambia has achieved significant economic successes over the past decade. Economic growth has been high, both in the mineral and non-mineral sectors; inflation has been reduced to single digits (7.2 percent at end-2011); public debt is low, at some 22 percent of GDP; and foreign reserves now exceed US\$2.2 billion, equivalent to some three months of import coverage.
6. Notwithstanding impressive macroeconomic performance, not all has gone well in terms of poverty reduction and employment growth:
 - The national poverty rate has declined from 72 percent in 1998 to 63 percent in 2010 – but remains stubbornly high in rural areas, having declined only modestly from 83 percent to 78 percent over the same period. My colleague, Alun Thomas, will later present evidence suggesting that rural income growth has not been pro-poor in recent years, instead favoring the relatively better off among the rural population.
 - Formal employment growth has been quite modest over the past several years, with much of the employment growth occurring in low-productivity sectors, such as

subsistence agriculture. About one-third of the urban labor force is estimated to have been unemployed in 2008 (the most recent year for which data are available)

7. Clearly some modifications are needed to government policies to ensure that growth remains strong while also being truly inclusive – ensuring that all Zambians share more equitably in the fruits of economic development. Allow me offer some thoughts on areas where, from an IMF perspective, Zambia’s development strategy needs refinement.
8. The mining sector has an important role to play in supporting, and providing funding for, Zambia’s development – but, given the capital intensity of production, cannot become a direct driver of employment expansion. The key priority for government policy regarding the mineral sector is to have in place an appropriate structure of taxation (including royalties) that generates the maximum benefits for Zambia. This has been a lively area of both debate and policy reform over the past several years, and some closure to the discussion seems to have finally been reached. But continued efforts to enhance capacity at the Zambian Revenue Authority will be needed to ensure full collection of taxes due.
9. Having a large mineral sector, although a blessing, creates challenges of its own – particularly in regard to the “crowding out” of some other forms of economic activity, such as manufacturing. My colleague, Nils Maehle, will present a paper tomorrow that examines the experiences of several countries that have been successful in using mineral resources to achieve broad-based growth – experiences that hopefully provide some lessons of value for Zambia.
10. One lesson that is clear, both from the experience of Zambia itself and from those of other developing countries, is the central importance of putting in place a pro-poor agricultural sector development strategy. The IMF has no special expertise in this area – but clearly such a strategy will need to involve such elements as improving education in rural areas, agricultural extension services to provide new knowledge and technology to farmers, and transport infrastructure roads to facilitate movement of goods from farm to market. Providing high support prices for a single product, distorting production choices at a high budgetary cost, is not an efficient tool to support poor farmers.
11. A second lesson is that, to fund its development programs, the government needs to generate adequate revenues from the non-mineral sector without creating an “anti-employment” bias or driving more economic activity into the informal sector. Taxes on consumption – such as the value-added tax and excise taxes – and on property are an efficient tool for raising revenues without creating such distortions.

12. A third lesson is the need for effective use of government revenues – on infrastructure provision, on education, on the financing of sound sectoral development strategies, and on targeted pro-poor spending. The IMF has long advised member countries that subsidizing the price of a product to all consumers – for example, through general fuel or electricity price subsidies – is typically an inefficient use of scarce budgetary resources, with targeted subsidies to poor consumers being a more effective and cheaper route of assisting the less well-off.
13. Finally, there is the issue of appropriate labor market policies: putting in place policies that protect workers' rights while avoiding creating two very different categories of workers, insiders and outsiders; that facilitate employment growth without increasing the incentives to remain outside the formal economy. I look forward to learning more about this issue in the discussion to come.

Thank you very much.