



Zambia's Resource Curse Rollercoaster: From Middle - Income Affluence to Debt Distress

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***Revving Up Revenues For Development: The
Role Of Domestic Resource Mobilization***

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The left side of the slide features a decorative background with a warm orange and yellow color palette. It includes a line graph with a white line showing fluctuations, a bar chart with vertical bars of varying heights, and scattered binary code (0s and 1s) in a lighter shade. The overall aesthetic is modern and data-oriented.

OUTLINE

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- What is Resource Curse
 - Key Outcomes
 - Zambia's Experience
 - Possible Policy Measures
 - Is Zambia out of the Woods Yet?

What is Resource Curse



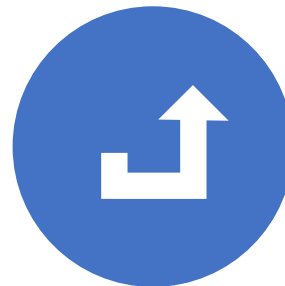
Countries and regions with **abundant natural resources**



Especially concentrated resources such as **minerals** and **fossil fuels**.



They tend to have **lower economic growth** and worse development outcomes



In a number of cases the reverse happens with deliberate policies.

Key Outcomes

- **REVENUE VOLATILITY**
- Natural resources prices more volatile;
- Difficult for Governments to plan;
- Difficult to sustain development programs

- **GOVERNANCE AND CORRUPTION**
- Concentration of revenues may fuel corruption
- Weak Regulation
- Reduced taxation rates
- Incentives to reduce democratic space
- Persecution of opposition to resource development

DUTCH DISEASE

- **Large Appreciation of the Exchange Rate**
- Manufacturing and agriculture harmed by cheap imports;
- Distorted prices fuel capital flight

HIGH CONCENTRATION

- Resource sector out-competes others
- Lures productive/best-educated workers;
- Resource sector provides few jobs and linkages
- Reduced human capacity in other sectors

EXCESSIVE DEBT

- Prospects of future revenues encourage debt
- **Resources act as collateral for loan pushing;**
- Credit downgrades on default **reduces access to new capital**

WARS AND CONFLICT

- Armed conflict over resources;
- Jurisdictional fights over control of resources /revenues;
- Resources revenues could fund other conflicts;
- Armed conflicts disrupt other sectors and food security

Zambia's Experience

A Strong Start

Zambia was born with a **copper spoon**; mining surpluses with DP support built a strong economy

This guaranteed a **middle-income standard** of living for most of the population

To support IS, Zambia invested in a **network of parastatal companies**.

These firms, delivered **everything from bread to motor vehicles**.

Challenges started to emerge in the mid-seventies.

Zambia's Experience

Investment and Concentration issues

Zambia Experienced mining booms in the 1960s and 2010s.

Government used surpluses to finance vast social infrastructure

Mining had relatively little forward or backward linkages

Investment in Capacity concentrated in mining

Infrastructure was targeted to serve mining

Zambia's Experience

Dutch disease effects

Mining expanded while agriculture stagnated; diversification was low

Initial expansion of a dependent import substituting industry

Large mineral boom Inflows suppressed other exports

Distorted spending created a protected subsidized urban class

Massive Urbanization depleted rural centers

Zambia's Experience

Excessive Debt

With the global recession and low metal prices in the 1970s **incomes fell sharply**; little alternative sources of income.

Country did not adjust, built up large debt to sustain spending

Zambia received **HIPC** debt relief in 2005 and **G20 Debt reduction** deal in 2023.

Expectations in the 2010s led to **new debt in Eurobonds**

This also fueled **large bilateral** and commercial debt

Zambia's Experience

Governance issues

Government exerted control on use of revenues with little reinvestment

Copperbelt and mining giant ZCCM was a state within a state

Strong lobby by mining firms sustained privileges

Mining Industry wielded immense powers in the economy

Regulatory and environmental measures not rigorously enforced

Possible Policy Measures

MACROECONOMIC AND FINANCING

- Adopt flexible/market exchange regimes
- Manage the inflows of boom revenues
- Establish Sovereign Stabilization Funds
- Increase domestic savings with incentives
- Cut deficits and Run government surpluses
- Cut the debt three *Rs* - *Restructure, Reschedule, Reduce.*

TAXATION AND INVESTMENT

- Effective taxation on resource industry to smoothen booms and busts
- Invest in education and infrastructure to increase competitiveness of other sectors

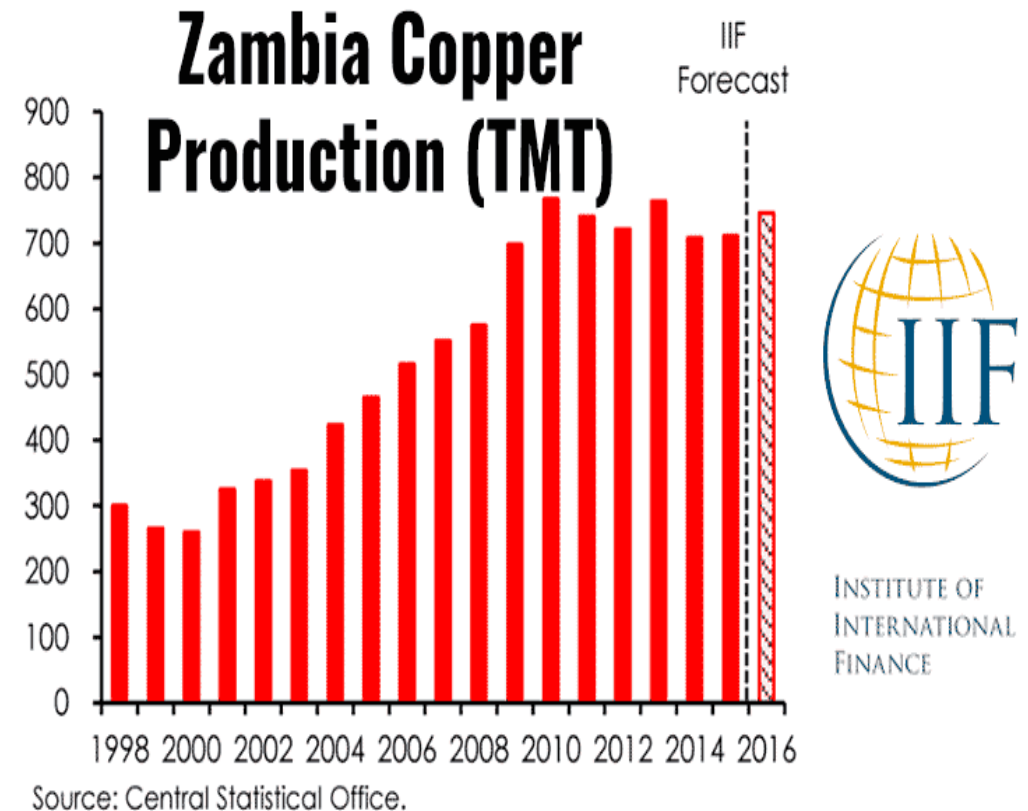
GOVERNANCE

- Improve the rule of law
- Implement strong measures to combat corruption to curb rent seeking
- Strengthen monitoring of human rights
- Embed democratic procedures and institutions
- Increase monitoring of all levels of government including civil service and security.
- Give voice and property rights to populations in extraction areas
- Measures to curb illegal mining to prevent conflicts

Is Zambia out of the Woods Yet?

Mining Still Dominates the economy

- Mining continues to grow significantly as the preferred sector
- Mining revenues continue to dominate at around 40% of total (2021)
- Mining constitutes 80% of total exports (2021)
- Linkages and value addition continue to be limited
- Recent discoveries of new minerals have drawn youth to Gold rush areas
- New investments in the Northwest drive increased output
- Investments in infrastructure geared to serve mining sector



Is Zambia out of the Woods Yet ?

Agriculture Expanded but share of GDP continued to decline

- Earlier macro and sector reforms increased output and exports
- Debt relief created fiscal space to support other sectors
- But share of agriculture in GDP declined overtime.
- Bias against rural sector still marginalizes agriculture
- New mineral discoveries continue to deplete resources from Agriculture
- Potential conflict from unregulated illegal mining operations
- Progress made, Yes, but not out of the woods, Yet.

CONTRIBUTION OF ZAMBIA AGRICULTURE TO GDP
AND VALUE ADDED PER WORKER 2000-2020



Source: World Bank (2021)

THANK YOU

