

# Growth and Inequality in Zambia

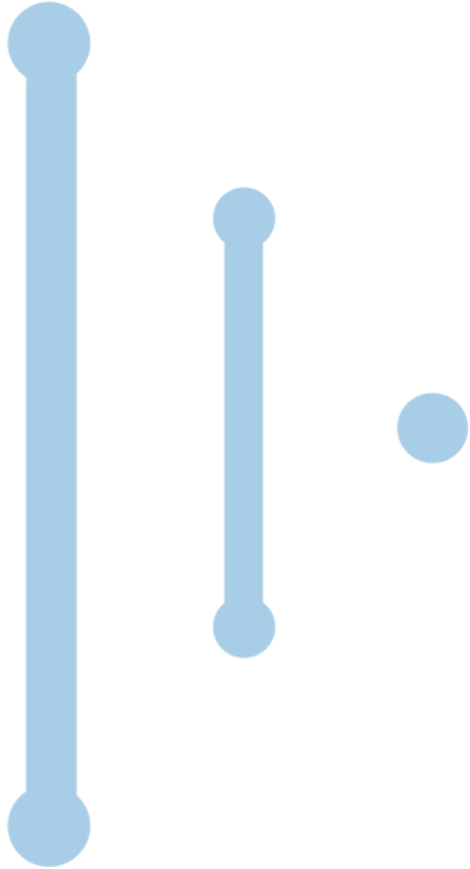
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# Overview of the Presentation

- Growth and inequality
- Some context
- Data
- Findings
  - Income sources
  - Inequality
- Conclusions



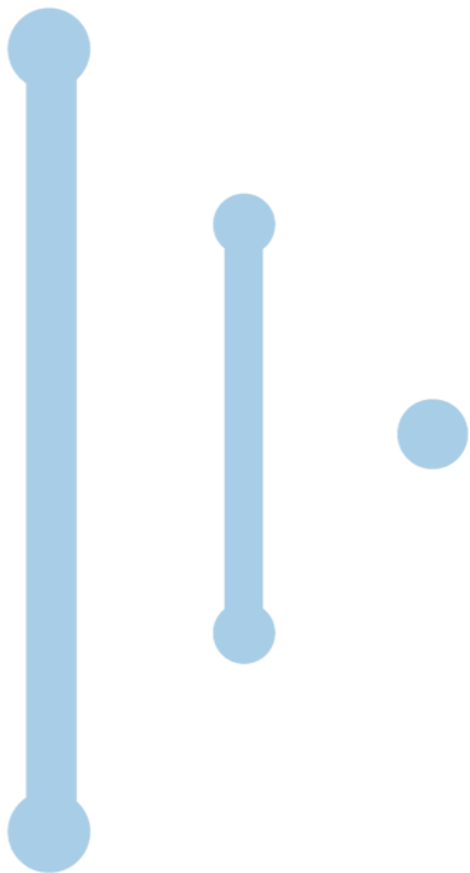
# Growth and Inequality

# Growth and inequality

- Rapid sustainable economic growth that will create jobs, raise incomes and reduce poverty a key policy objective
- Jobs imperative is critical in Sub-Saharan Africa: over the next 40 years, the region will need to create 1.25 million net new jobs per month to cater for growing working-age population (assuming constant LFPR)
- Different patterns of economic growth will have different labour market outcomes in terms of employment and wages, and therefore also in terms of poverty and inequality

# Growth and inequality

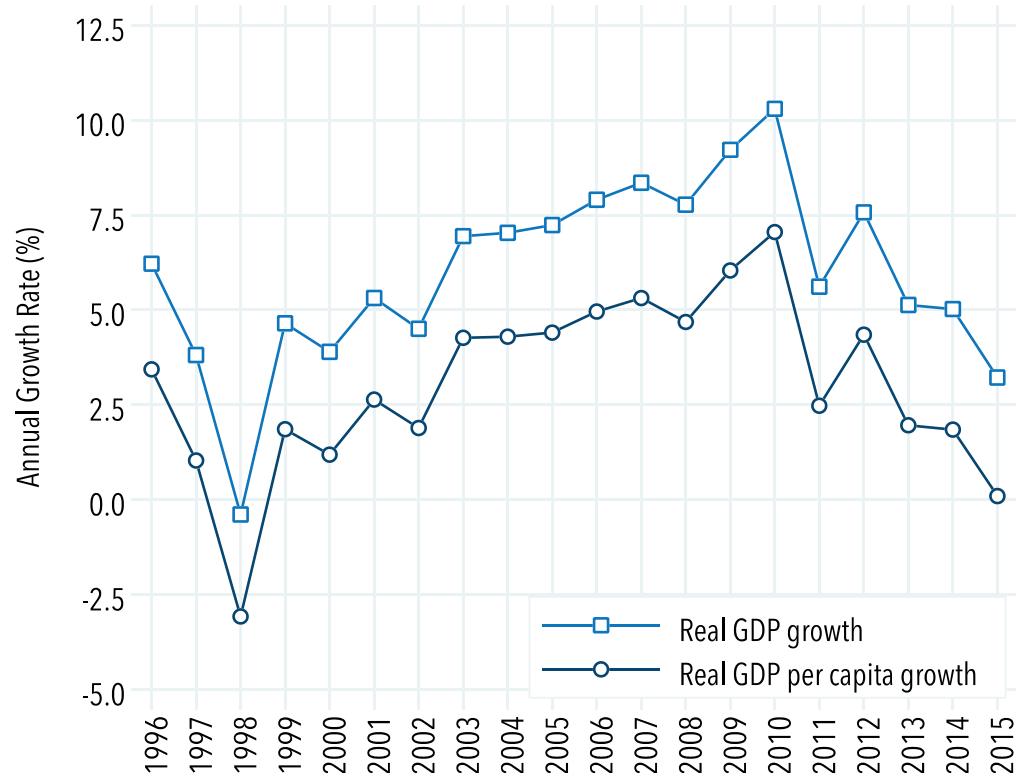
- Growth affects inequality
  - As countries develop, inequality first rises, then falls (Kuznets)
  - Country-specific factors underlie differences in inequality
  - Pattern of growth influences inequality, not growth per se
  - Little or no impact
- Inequality affects growth
  - Inequality provides incentives to work hard and take risks
  - Inequality limits ability of poor to invest in human capital, income-generating opportunities
  - Inequality may limit rate and duration of economic growth
- Growth and inequality are related also to poverty



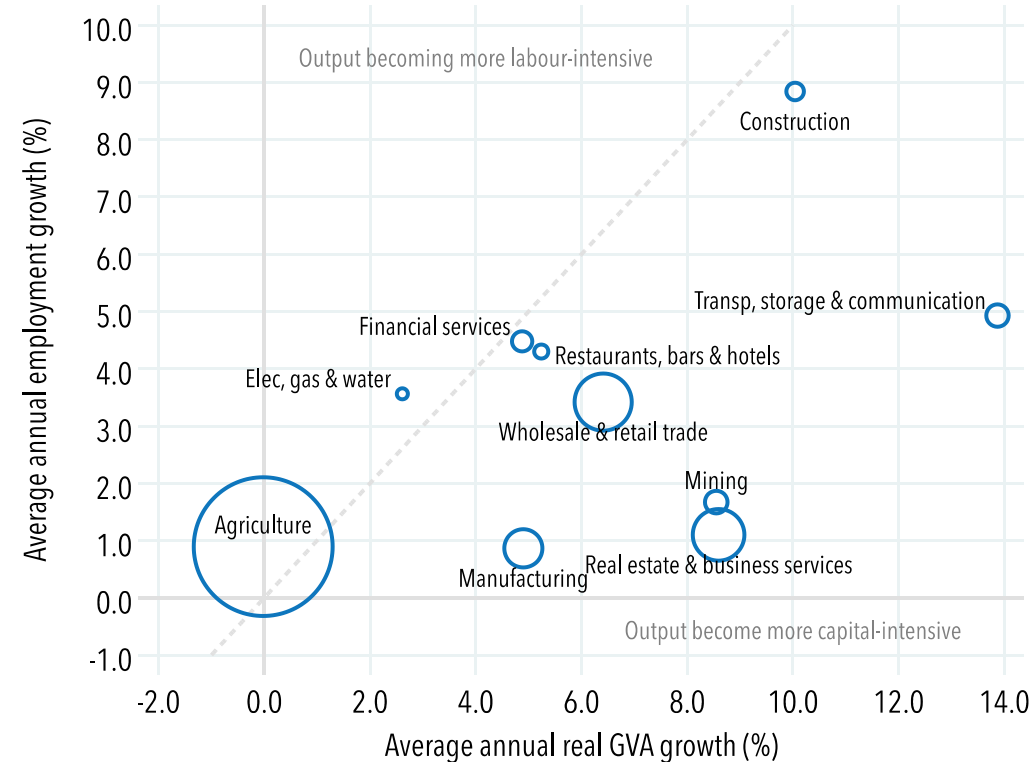
Some context

# Economy

## Growth since 1996

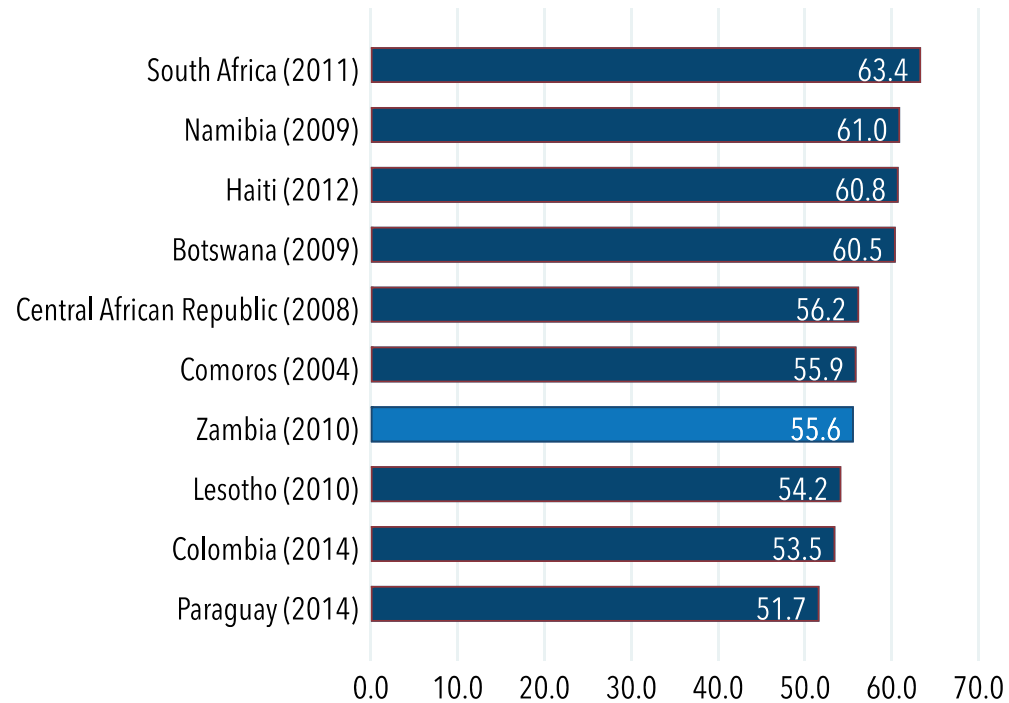


## Output and Employment Growth (1996-2014/15)



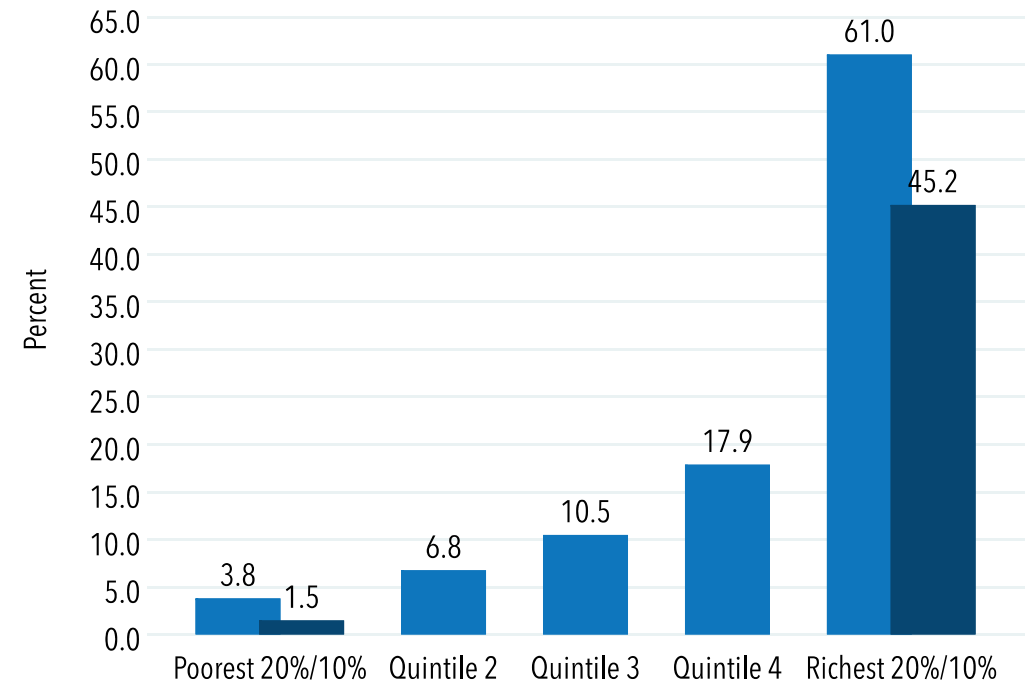
# Inequality

## Highest Gini Coefficients Globally



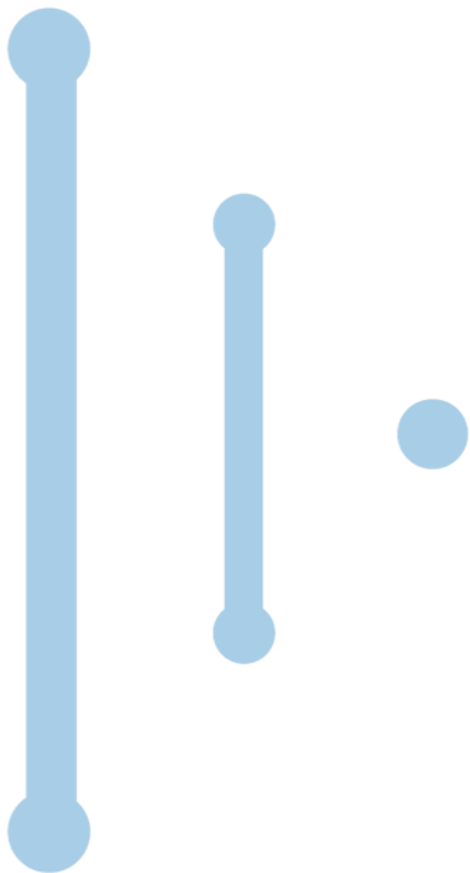
Note: Most recent country estimate since 2000, from World Bank Development Indicators (2017).

## Quintile income shares, 2010



Source: World Bank Development Indicators (2017).





Data

# Data

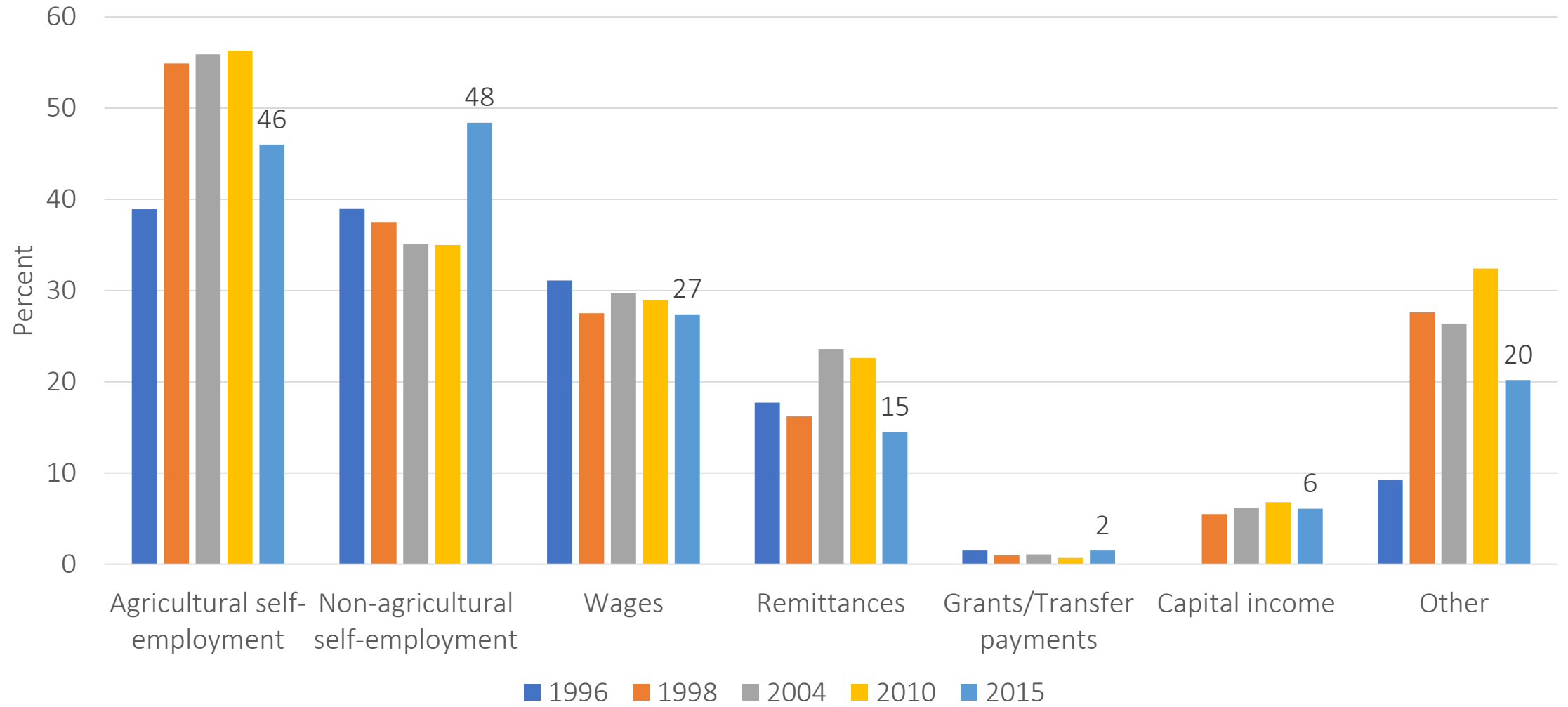
- Data
  - LCMS 1996, 1998, 2004, 2010, 2015
- Choose to **focus on income** instead of expenditure/consumption
  - Not the conventional approach
  - Allows us to look at different income *sources* within context of inequality
- Need to take care of outliers, particularly because our focus is on inequality



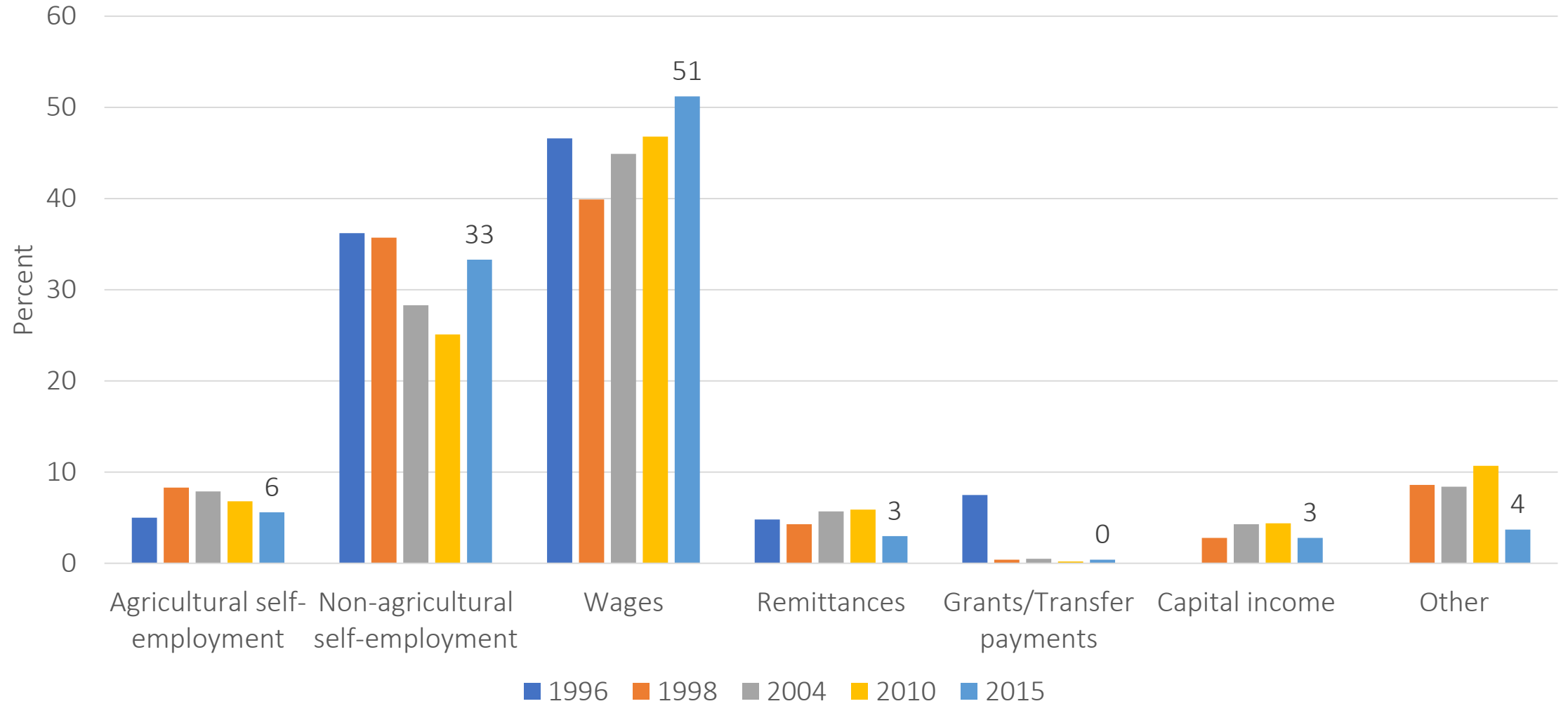
# Findings

(I) Income Sources

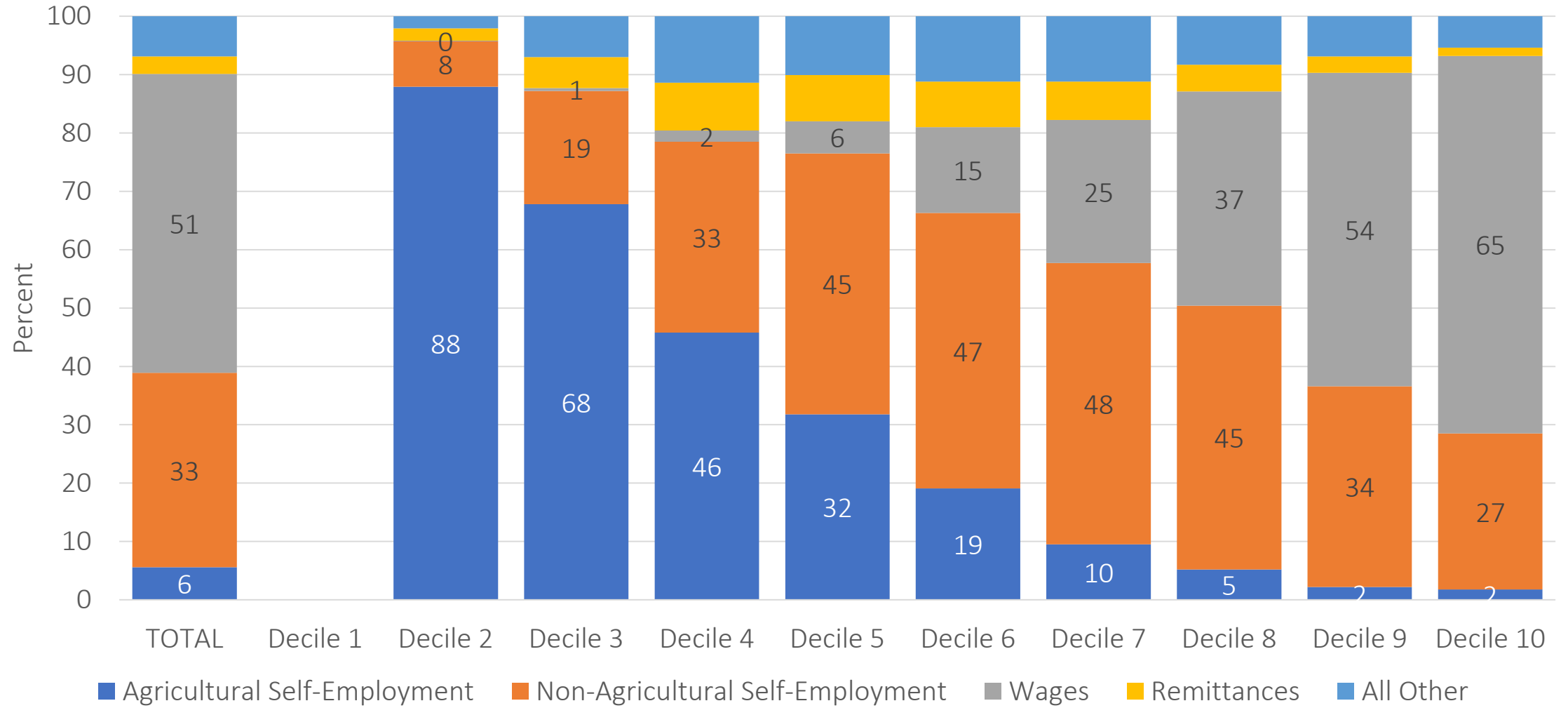
Share of households reporting non-zero income by income source



Share of aggregate household income by income source



Income share of each income source across household deciles, 2015



# Income sources

- Largest proportions of households report access to self-employment income (agricultural 46%, and non-agricultural 48%), followed by wages (27%)
- But, the majority of household income (in total) is from wages (51%), followed by non-agricultural self-employment (33%)
- Importance of income sources correlated with position in distribution
  - Poorest households earn majority of their incomes from agricultural self-employment
  - Middle earn more from non-agricultural self-employment
  - Richest earn majority from wages

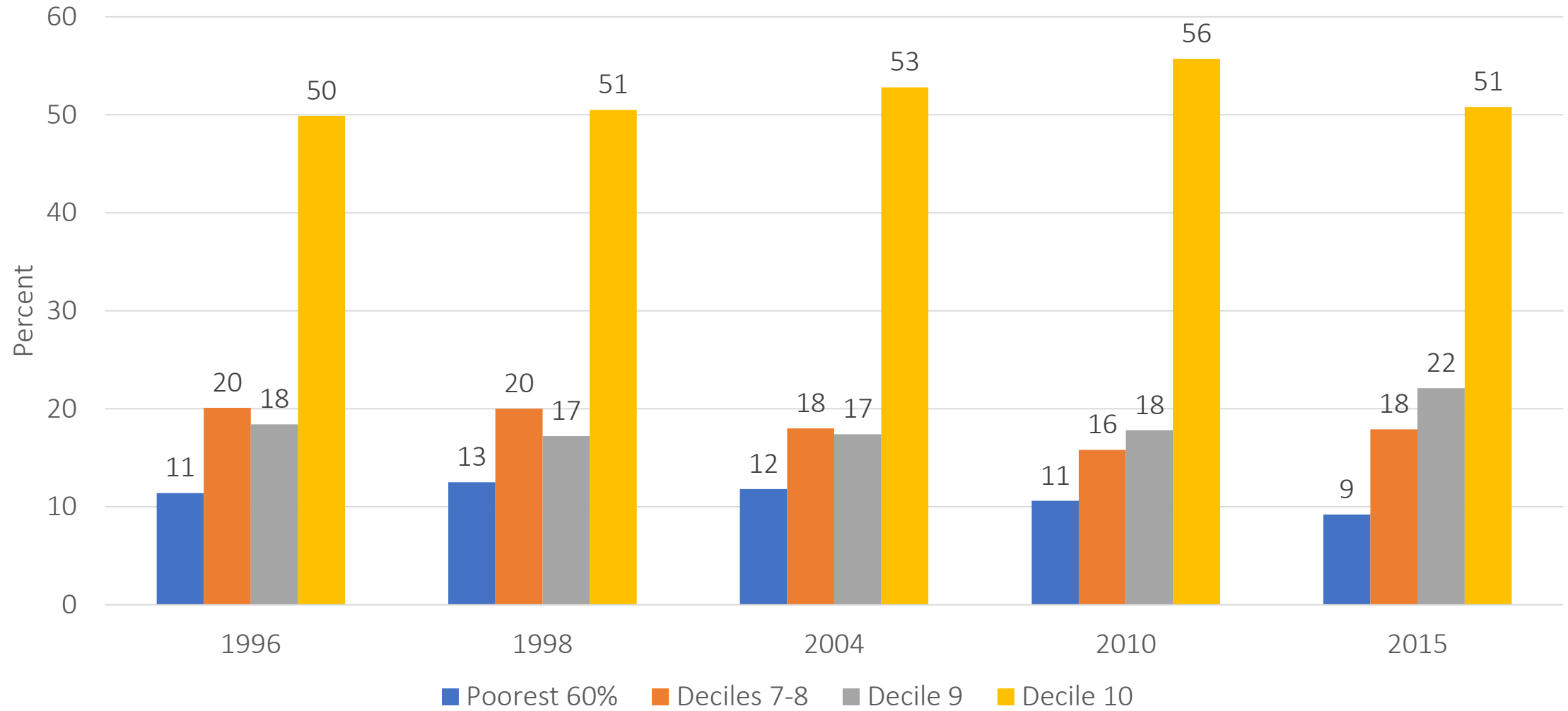


# Findings (II)

(II) Inequality

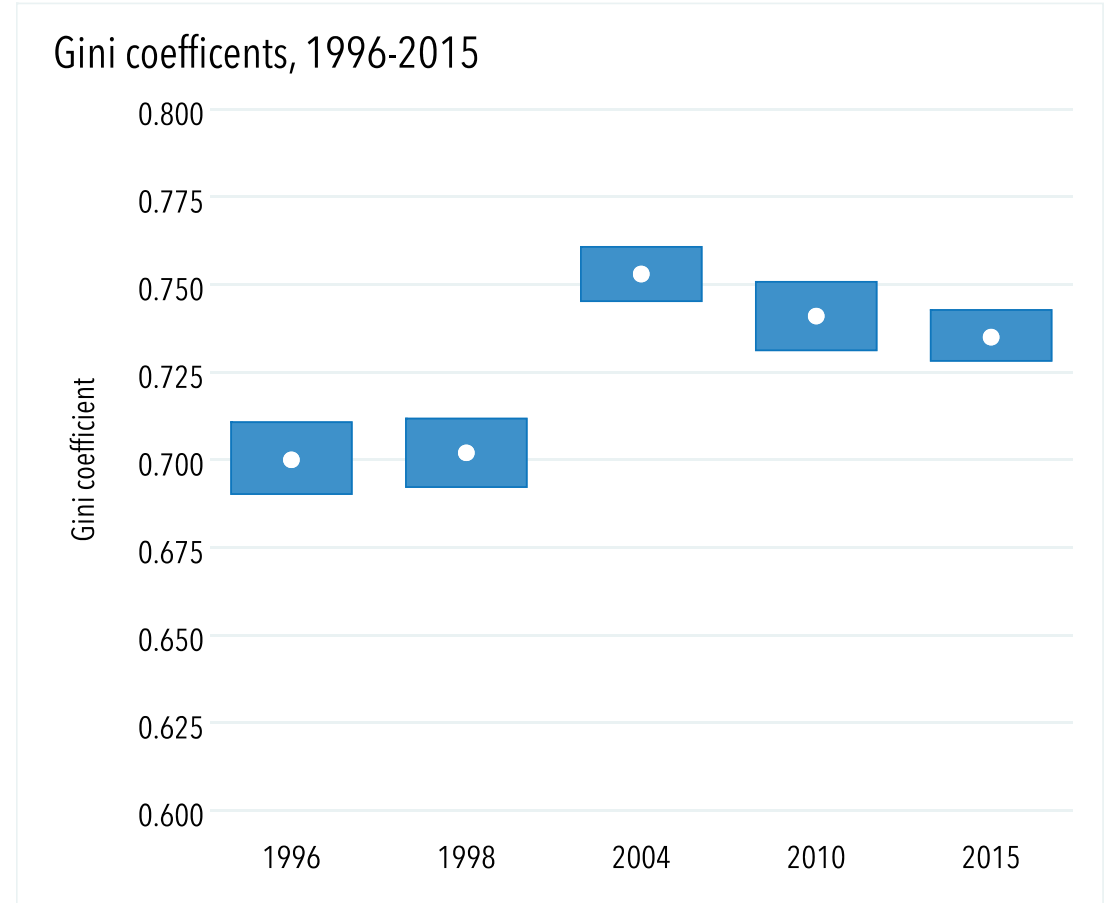


Share of total income by household decile, 1996-2015



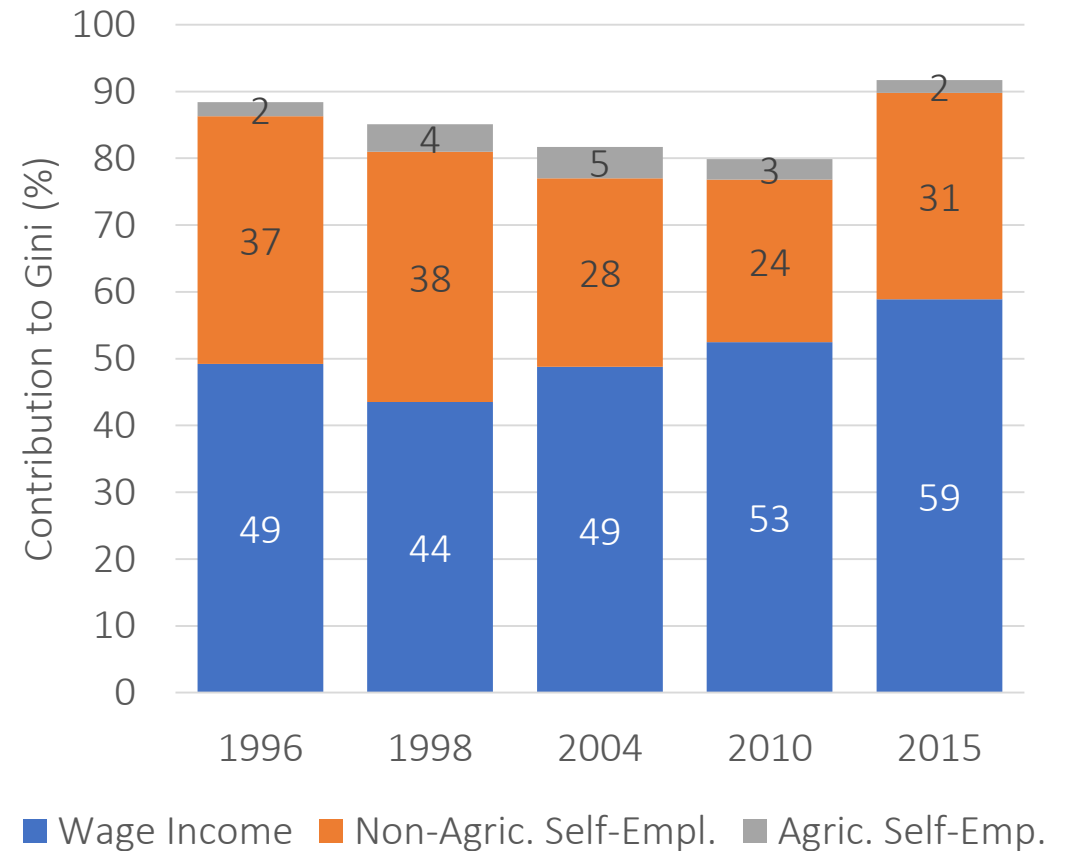
# Inequality over time

- Persistently high Gini coefficients
- Why are these coefficients higher than the ones above and in the previous presentation?
  - Consumption/expenditure vs. income



# Which income sources contribute most to inequality?

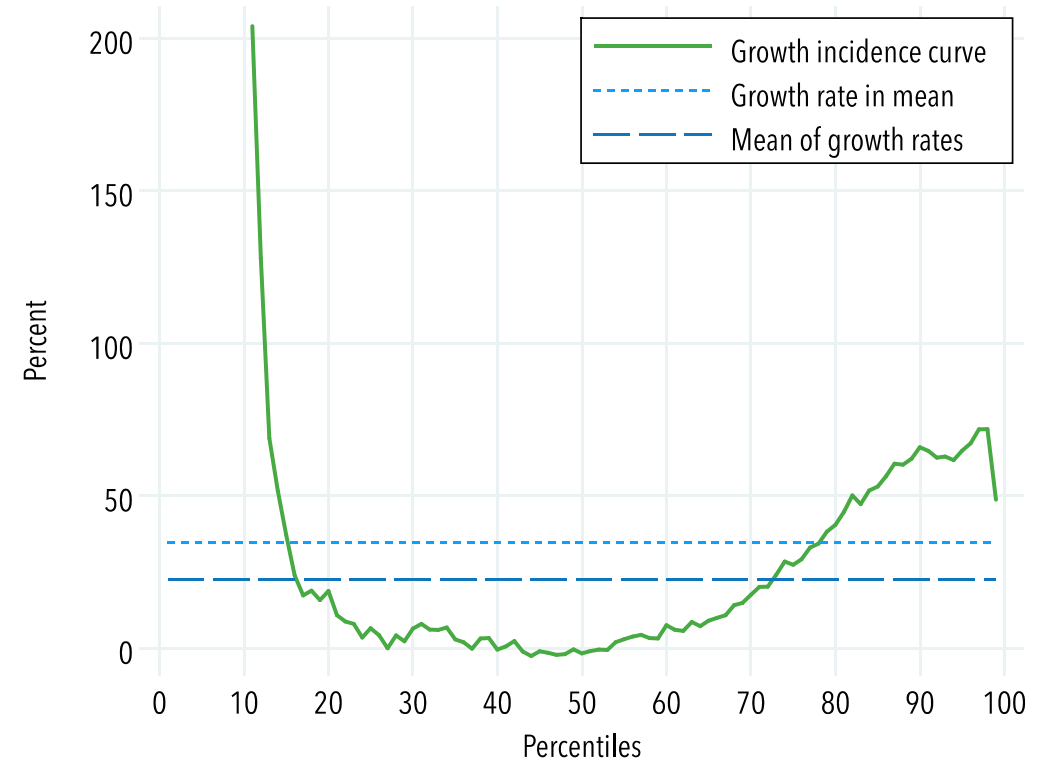
- Can decompose the Gini coefficient by income source
  - Wage income contributes largest share to inequality (40%-60%)
  - Within wages, a shift from agriculture (12%) in 1996 to financial services (26%) in 2015
  - Non-agricultural self-employment income next largest (24%-38%)



# How have incomes changed across the distribution?

- GIC shows change in incomes at various points across distribution
- Between 1996 and 2015
  - Most rapid growth amongst poorest and wealthiest
  - Middle see little to no growth in incomes
- Growth has not been pro-poor in the sense that highest growth rates tend to be for richest

Growth incidence curve, 1996-2015



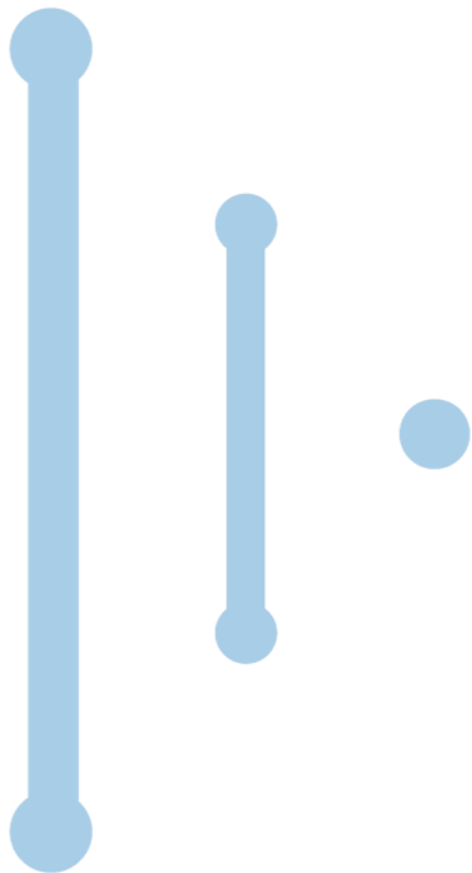
# Growth, inequality and poverty

- Decomposing shifts in poverty into a growth component and a redistribution component
- Remember, we are using income here
- Overall, for the 1996-2015 period, growth served to reduce poverty while the changing distribution served to raise poverty

Period	Impact of Growth on Poverty	Impact of Changing Distribution on Poverty
<b>1996-2015</b>	<b>Lowers</b>	<b>Raises</b>
<i>1996-1998</i>	<i>Generally lowers</i>	<i>Lowers</i>
<i>1998-2004</i>	<i>Lowers</i>	<i>Raises</i>
<i>2004-2010</i>	<i>Lowers</i>	<i>Raises</i>
<i>2010-2015</i>	<i>Generally raises</i>	<i>Generally raises</i>

# Inequality

- Income inequality has remained high
- Wage income contributes most to income inequality, more than its share of income, followed by non-agricultural self-employment
  - Shift in sectoral contributions from primary/secondary to secondary/tertiary
- Growth has not been pro-poor and this is true for the period as a whole and all but one sub-periods
- On average, growth has served to reduce poverty, but the changing income distribution has served to raise poverty (i.e. growth and inequality are working in opposite directions)



Conclusion

# Conclusion

1. Evidence suggests that poverty reduction is being slowed by the changing income distribution
  - Policies targeting poverty and inequality should be integrated to make sure that they reinforce each other
2. Creating a policy environment favourable to the creation of wage employment should be a key priority
  - Careful consideration of the growth path



# Conclusion (II)

3. Raising incomes in agriculture, particularly for the self-employed, has potential to impact on both inequality and poverty
4. To address inequality, attention should be paid to inequality amongst wage earners
  - e.g. Issues around skills shortages at the upper end, access to formal jobs at the lower end