

Musonda Kabinga, Aaron Yambani SJ

Zambia IV: Understanding the wealth gap and governmental dependence from external financing

Compiled and ordered notes prepared for future use. With contributions from Marlen Schupp and Jörg Alt SJ

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1. Introduction

The research concept to the Tax Justice & Poverty research project defined its goal in the subtitle, namely “Narrowing the wealth gap and reducing dependence from external financing” (Tax Justice & Poverty, 2013a).

Regarding the discussion surrounding the differences between income and wealth inequality and poverty as well as the scope and content of the expression “dependence on external financing” we want to refer back to the conceptual and contextual discussion in chapter I/II+III of the Introductory part of this research project.

This chapter gives an introduction and illustration of relevant and recent developments within the national context of Zambia.

2. Income inequality and wealth gap

Regarding a history background of the development of income and wealth inequality before and after independence, as well as the share of property and wealth held by the top decile or one percent of the population, the research by Atkinson (2014) and Christian Aid/Tax Justice Network (2014) is recommended, for more recent times publications of the Living Conditions Monitoring Survey.

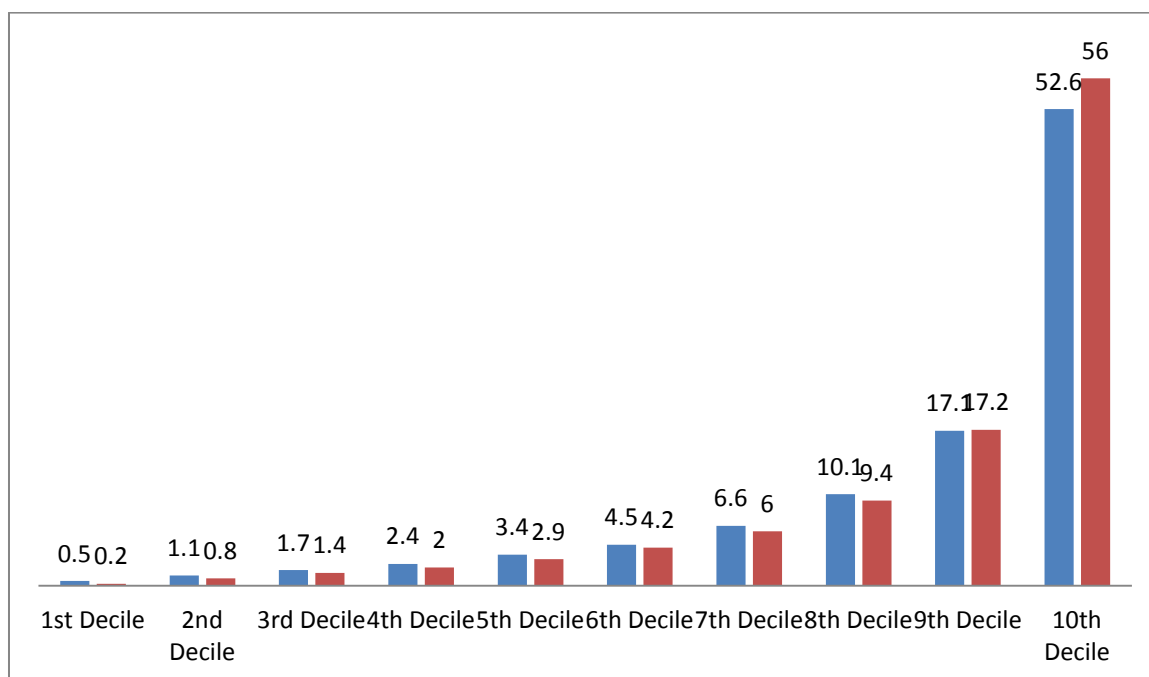
2.1 Income inequality

The amount of the household’s income is considered to represent its ability to access key goods and services that increase a household’s welfare in turn. To measure the extent to which the distribution of income individuals or households within an economy differs from a perfectly equal distribution, this research adopts the Gini coefficient. There is some justified critique leveled against Corrado Gini’s way to calculate income and wealth inequality, e.g. by Thomas Piketty, especially because the Gini coefficient does not adequately take into account large incomes and fortunes and does not reflect the range of different income levels. And: there are alternative coefficients to measure inequality by doing just that, e.g. the Palma coefficient (see I/IV/2.1.1). However, given the widespread use of the Gini coefficient in literature and due to the fact that it does offer some guidance on the development of inequality, its use avoids unnecessary confusion. The coefficient varies between 0, which reflects complete equality and 100 (or 1), which indicates complete inequality (one person has all income or consumption, all others have none).

Looking at Zambia, and measured by the Gini-index, Zambia’s national inequality level was pegged at *57.5 in 2015* (60.5 in 1991 and 42.1 in 2002) according to World Banks’ estimates (The World Bank

Group, 2016). In contrast to the World Bank the Zambian Central Statistical Office identify a Gini-index of 0.69 in 2015 (Central Statistical Office, 2016, p. 81). This increase in inequality occurred simultaneously with increased economic growth. This shows that while national income rose, the gap between the poor and the rich also grew with the poor getting poorer and the rich getting richer. This is visible in the distribution and concentration of household income: While the top ten per cent with the highest household income hold more than the half of total per capita income in their hands, the poorest 50 per cent of households accounted for less than ten per cent.

Graphic 1: Income share by population deciles in percent 2010 (blue) + 2015 (red)



Source 1 (Central Statistical Office, 2010, p. 150 ff); (Central Statistical Office, 2016, p. 81)

In accordance with those spread in income is the spread of monthly expenditure: Almost two thirds are being spent by the top quintile of households.

Table 1: Difference in spending power of households, 2015

Quintile group	Average Monthly expenditure	Average Monthly per capita Expenditure	Percentage shares of households	Percentage share of expenditure	Average household size
Lowest	227	72	20	2.9	4.4
Second	486	133	20	6.1	4.9
Third	842	218	20	10.6	5.2
Fourth	1,525	374	20	19.2	5.3
Highest	4,856	1,144	20	61.2	5.8
Total	1,588	388	100	100	5.1

Source 2 (Central Statistical Office, 2016, p. 91)

As the Living Conditions Monitoring Survey of 2015 illustrates, there is an up and down in income inequality over time, but right now the gap is constantly widening:

Table 2: Development of Income Inequality, 1996-2015

Table 10.7: Percentage Distribution of Household Income, Historical Context, Zambia, 1996-2015

Decile	Cumulative % of Households	1996		1998		2002		2004		2006		2010		2015	
		% Share of per capita income	Cumulative share of per capita income	% Share of per capita income	Cumulative share of per capita income	% Share of per capita income	Cumulative share of per capita income	% Share of per capita income	Cumulative share of per capita income	% Share of per capita income	Cumulative share of per capita income	% Share of per capita income	Cumulative share of per capita income	% Share of per capita income	Cumulative share of per capita income
First decile	10	0.5	0.5	0.2	0.2	1.2	1.2	1.2	1.2	0.2	0.2	0.5	0.5	0.2	0.2
Second decile	20	1.5	2	1	1.2	2.3	3.5	2.7	3.9	0.7	0.9	1.1	1.6	0.8	1
Third decile	30	2.2	4.2	1.8	3	3.1	6.6	4.2	8.1	1.3	2.2	1.7	3.3	1.4	2.3
Fourth decile	40	2.9	7.1	2.6	5.6	3.9	10.5	5.9	14	2.2	4.4	2.4	5.7	2	4.3
Fifth decile	50	3.9	11	3.5	9.1	4.8	15.3	6.9	20.9	3.3	7.8	3.4	9.1	2.9	7.2
Sixth decile	60	5.2	16.2	4.8	13.9	5.8	21.1	9.2	30.1	5.2	12.9	4.5	13.6	4.2	11.4
Seventh decile	70	6.8	23	6.4	20.3	7.4	28.5	10.6	40.7	7.7	20.6	6.6	20.2	6	17.4
Eighth decile	80	9.2	32.2	9	29.3	9.6	38.1	14.4	55.1	10.8	31.3	10.1	30.3	9.4	26.8
Ninth decile	90	14.9	47.1	13.9	43.2	14.3	52.4	17.2	72.3	16.8	48.1	17.1	47.4	17.2	44
Tenth decile	100	52.9	100	56.8	100	47.7	100.1	27.7	100	51.9	100	52.6	100	56	100
Gini Coefficient		0.61		0.66		0.57		0.57		0.6		0.65		0.69	

Source 3 (Central Statistical Office, 2016)

It is important to know that the Central Statistical Office did not merely measure income from labour. Rather, it inquired into all sources of income (Central Statistical Office, 2016, p. 77), such as

- Income from agriculture production
- Income from non-agriculture business
- Income in kind
- Rental income from properties owned
- Income from remittances
- Income from pensions, grants and interests
- Income from interest or dividends on shares, bonds, securities, treasury bills, etc.
- Any other income that accrued to a person

To assess the degree of the wealth gap it would be necessary to get more detailed knowledge about the sources, composition and extent of income, but also about sources, composition and amount of wealth assets as such, since the possession of those assets is not just a matter of income, but, for example in the case of business ownership, of influence and power (see I/IV2.1) There is a difference, for example, whether a

subsistence farmer receives “income from agriculture” or whether this applies to a landlord, employing numerous employees.

2.2 Wealth Inequality

When income inequality is high, wealth inequality is even higher, that much most scholars agree regarding Zambia in principle. The problem is that there is little data and evidence to substantiate this “guesstimate”. Reasons for this ignorance is the lack of transparency regarding the ownership of wealth assets, either, because no data exists or because that data is inaccessible for reasons of banking, tax, privacy, statistical or other secrecy reasons. Insight via representative household surveys are scarce because the top segment of private and corporate wealth holder is comparatively small, thus eluding representative sampling, and even if super-wealthy households are targeted due to statistical oversampling, information provided by interviewees is subject to voluntary disclosure and error.

Regarding wealth in Zambia the astounded reader learns from the 2015 Knight Frank Wealth Report: In Zambia the number of wealthy people is growing second fastest in the world. The growth rate is 7%, only topped by Monacos 10% (Knight Frank, 2015, p. 18). One might argue that this is not surprising since, where there is nothing, a little growth means a lot, while Monacos growth is not surprising at all since probably most billionaires worldwide hold some flat there. On the other hand, it does surprise since Zambia is not known for its billionaires in the first place.

It can be assumed, however, that financial institutions and wealth asset manager know a bit more about the distribution of wealthy people since it can be assumed that private and corporate wealth holder are more open with them than they are with government authorities: Here, the Knight Frank Wealth Report 2017 reveals the following:

Table 3: Country- and City-level Wealth Distribution

	Zambia	Lusaka
Millionaires (\$1m+)	1000	600
Multi-Millionaires (\$ 10m+)	40	30
Ultra High-Net-Worth-Individuals (\$ 30m+)	10	10
Centa-Millionaires (\$ 100m+)	3	(n/a)
Billionaires (\$ 1,000m+)	-	-

Source 4 (Knight Frank, 2016)

As an illustration of the extent of wealth ownership in Zambia serves the distribution of share ownership, shares not only being important for generating recurrent income from dividends, but also giving power over the company in which shares are owned.

According to information obtained from the Lusaka Stock Exchange (LuSe) in 2015, there are several, but comparably few, Zambians owning significant shares in multinational corporations operating locally, for example Airtel, Larfage and Standchar: As one can easily see: Assets and potential income is considerable, even more, when comparing with information about the average income and wealth position of Zambians:

Table 4: Examples for the extent of share ownership in Zambian businesses by Zambian citizens

Individual	Number of Shares as of 5th June, 2015	Company	Cost of 1 share in K and equivalent US\$ as of 5th June, 2015 (Bank of Zambia Exchange rate of K1=US\$ 7.2535)	Total Value of Shares in K and Equivalent US\$ as of 5th June 2015 (Bank of Zambia Exchange rate of K1=US\$ 7.2535)
A	40,510	Airtel	K 33.50 or US\$ 4.61	K1,357,085 Or US\$ 186,751.1
B	935, 184	Investrust Bank	K13.50 or US\$ 1.86	K12,624,984 or US\$ 1,739,442.24
C	100,000	Lafarge Cement	K 24.96 or US\$ 3.44	K2,496,000 OR US\$ 344,000
D	41,784	Natbrew	K13.50 or US\$ 1.86	K564,084 or US\$ 77718.24
E	84,000	Zambrew	K6 or US\$ 0.82	K504,000 or US\$ 68,880
F	4,300,000	Standard Chartered Bank	K1.95 or US\$ 0.27	K8,385,000 or US\$1,161,000

Source 5 Information provided to JCTR by Lusaka Stock Exchange, June (2015)

The information presented in this table just shows ownership of shares in five (5) listed companies, however it is also possible that these individuals who the highest number of shares in the companies presented above may also own other shares in other companies.

2.3 Unemployment, formal and informal employment

First of all, it is important to notice that unemployment is and remains a major worry for African countries, Zambia included. One of the

reasons being the large number of young people seeking employment, the other the lack of jobs matching the qualification of those leaving education. In the 2013 Afrobarometer Survey, "Unemployment" topped the list of the most important problems facing Zambia which the government should address.¹ To further show the importance of employment, the late President of Zambia, Michael Sata, during his speech on the official opening of the third session of the eleventh national assembly stated that "government attaches great importance to employment creation as the top most strategy for ensuring the stability of society and overall growth of the economy in all sectors."²

Another issue linked to unemployment is the absence of a comprehensive system of unemployment insurance and welfare, especially for those who have not yet paid into insurance schemes such as NAPSA (see on that chapters V and VI).

However, despite intense discussions on the subject of employment creation, decent employment eludes the majority of the employable population and is an ongoing matter of concern (see Mutatis 2017 Budget speech).

Zambia's situation with regards to employment is not very different from that of other sub-Saharan African countries. As an impact of the global financial crisis in 2008, many countries experienced massive job losses in different economic segments and Zambia was no exception. For example, plunging metal prices lead to less revenues especially in the mining sector of Zambia: As an effect of the world's financial and commercial crisis Zambia has lost one third of the jobs in mining and related industry. Job losses affected incomes at household level and to a large extent, jobs were not recovered or they became less good in quality, i.e. lower payment level and/or less labour and employment rights.

A major reason for the existence of the informal economy in African states is under-regulation by the state, i.e. that there are segments of the economy which exist outside state control. But this has not happened out of the blue, but is a consequent of neoliberalism and "structural adjustment programs" by institutions of the Washington Consensus: "The highest levels of informality coincide with the era of liberalization, which

¹ Rural Net Associates Limited, (2013). *The Performance of the PF Government in the Past One Year Results from the Afrobarometer Round 5 Survey in Zambia*. Retrieved June 11, 2016 from http://afrobarometer.org/sites/default/files/media-briefing/zambia/zam_r5_presentation1.pdf

² His Excellency Mr. Michael Chilufya Sata (2013), *Speech for the official opening of the third session of the eleventh National Assembly*. Friday, 20th September 2013.

was characterized by significant job cuts.” (Phiri & Nakamba-Kabaso, 2012, p. 15).

The Shadow/informal economy in general provides employer with a mobile and flexible work force, the opportunity to pay very cheap wages. Those working here are underpaid and uninsured and it is the only survival option for those living illegally on the territory of those states. The informal economic sector exists in Zambia because a majority has an existential need to work in this economic segment. Some of them, especially migrant workers, are exploited to a considerable extent by their employers. However, not everybody working in this segment is poor. Informal sectors in Zambia do not only contain subsistence workers and low pay persons. It is common knowledge that even in the worst of urban slums some own houses which they let to others, that way earning far more than a worker in the formal economy who is taxed through PAYE. Talking about tax justice also needs to take into account those complexities.

The following table illustrates yet another problem which needs to be borne in mind: The gap between employment in the formal and informal economy:

Table 5: Number and percentage of those employed in the formal and informal sector (2015)

RESIDENCE, STRATUM AND PROVINCE, ZAMBIA, 2015.

Residence, Stratum, Province and Industry	Formal Sector		Informal Sector		Number Of Employed Persons, 12 Or Older
	Number	Percent	Number	Percent	
Total Zambia	983,162	19.7	4,018,939	80.3	5,002,101
Male	712,498	25.8	2,048,361	74.2	2,760,859
Female	270,664	12.1	1,970,577	87.9	2,241,242
Residence					
Rural	249,708	7.9	2,891,363	92.1	3,141,070
Urban	733,454	39.4	1,127,576	60.6	1,861,030

Source 6 (Central Statistical Office, 2016, p. 61)

This represents 19.5% share of employment in the formal sector (as opposed to 15.4% in 2010) and 80.3% and 84.6% in the informal sector (as opposed to 84.6% in 2010), indicating that a transformation from informal to formal employment is taking place. Still, of course, the share of those informally employed is far too high.

While it is statistically easy to compute the income distribution of a formal economy, there are obvious problems when it comes to the informal economy, where perhaps no salaries are paid (e.g. in subsistence farming) or no paid salaries are recorded. Still, the Labour Force Survey of 2012 comes up with the following insights:

Table 6: Employment of Zambian population in informal sector 2012

INFORMAL SECTOR		
Occupation	Non Agriculture	Agriculture
Managers	13,247	1,724
Professionals	20,465	205
Technicians and Associate Professionals	16,166	745
Clerical Support Workers	4,440	1,228
Service and Sales Workers	565,171	8,948
Skilled Agriculture, Forestry & Fisheries Workers	45,144	2,586,964
Craft and Related Trades Workers	293,815	11,586
Plant and Machine Operators & Assemblers	61,190	1,358
Elementary Occupations	847,523	169,713
Other	69	2001
Not Stated	114	438
Total	1,867,342	2,784,911

Source 7 (Central Statistical Office , 2013, p. 64)

As is interesting: This table illustrate that there are not merely precariously employed, low paid people working in the informal economy, but also those where one can assume high payment and decent payment, e.g. professionals or even managers!

And yet: The majority of jobs in the informal sector may not be classified as decent. The Central Statistical Office argues that “informal sector enterprises are usually characterized by inexistence of registration with national authority, lack of contributions to social security scheme and lack of entitlement to annual paid and sick leave by workers.” (Central Statistical Office , 2013, p. 57)

2.4 Rural-urban and regional divide

As has already been illustrated by Table 6, there is first of all a divide between the rural and urban areas regarding formal or informal employment.

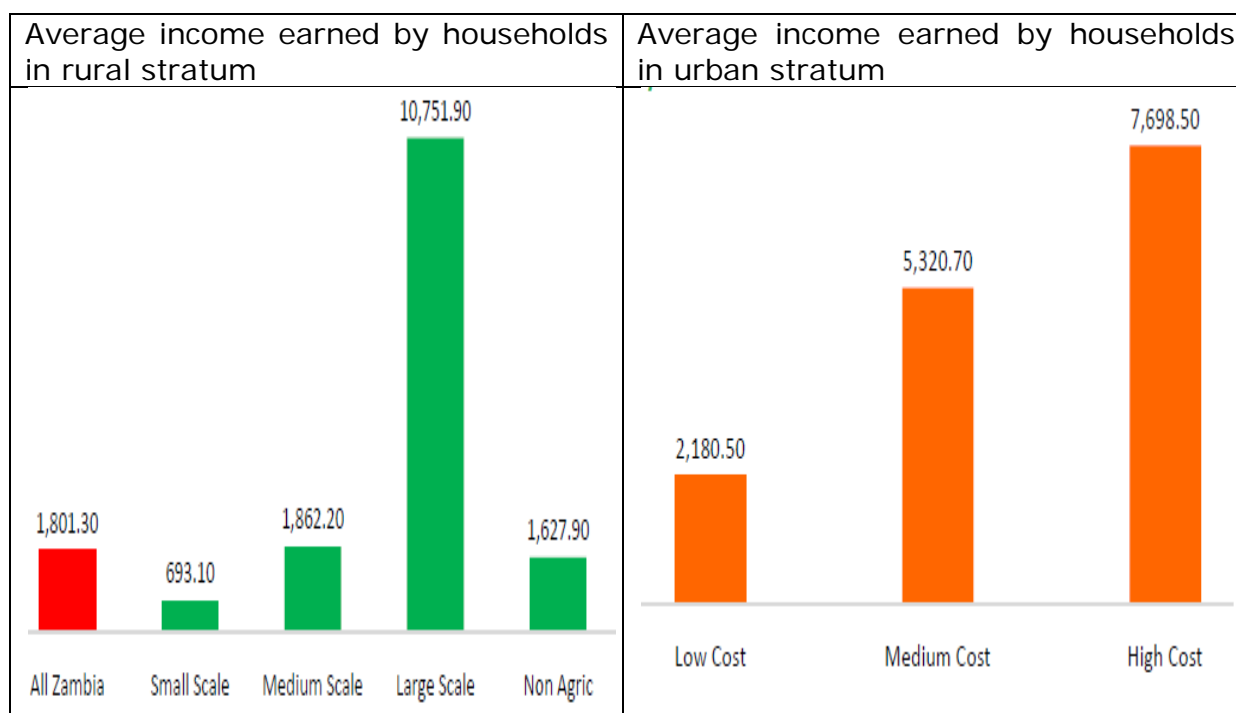
In 2015, “rural areas had a higher proportion of persons employed in the informal sector at 92.1 percent compared to 60.6 percent of employed persons in urban areas” (Central Statistical Office, 2016, p. 61) which is, of course, also due to the large influence of agriculture.

Zambia’s agriculture sector remains undeveloped beyond the line of rail where commercial agriculture is done. In areas outside the line of rail, agriculture is mainly subsistence farming with low income/wage earnings. The World Bank asserts that the “Working poor are concentrated in

farming, which accounts for about 81% of the working poor.”³ With few employment opportunities in the formal sector, many economically active individuals end up in the lowly paying informal agriculture sector. Table 3 below shows education qualification and average monthly earnings for employed persons in the formal and informal sectors.

Next: the fact, whether one lives in the rural or urban environment, also impacts on the potential monthly earning opportunities:

Graphic 2: Average monthly income earned, depending on residence in rural or urban setting, 2015



Source 8 (Central Statistical Office, 2016, p. 78f.)

On the whole, however, it is interesting to notice that the gap between income and wealth is not as drastic in the rural environment as it is in urban areas:

Table 7: Different income inequality in rural and urban areas, 2015

Decile	Share of income rural	Share of income urban
First Decile	0.6	0.1
Second Decile	2.7	0.1
Third Decile	4.7	0.3

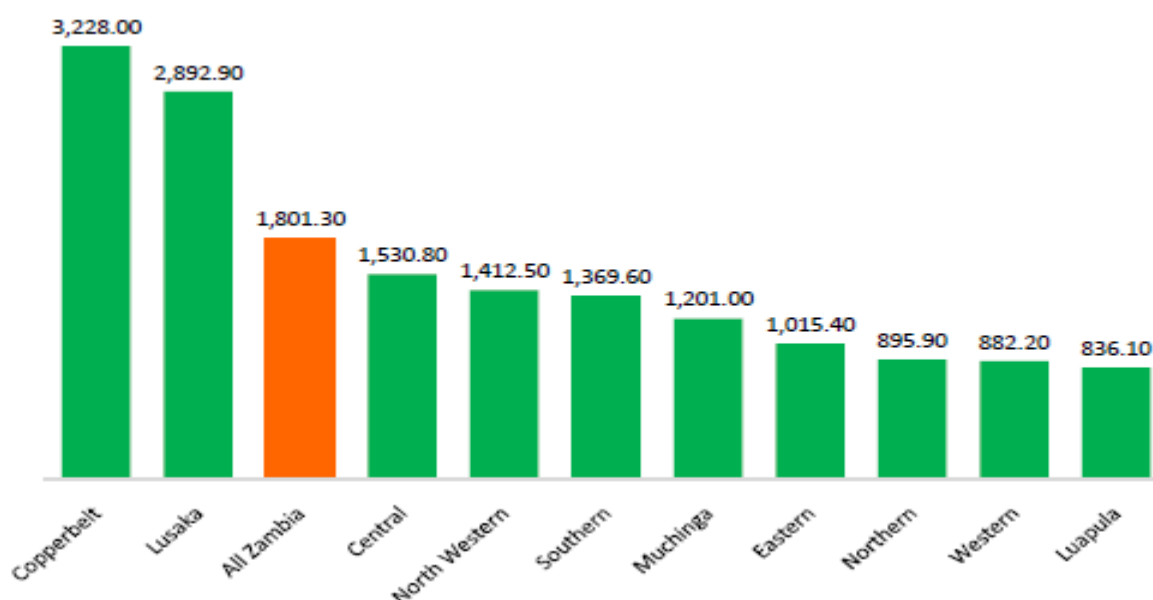
³ World Bank, (2013). *Zambia Economic Brief, Zambia's Jobs Challenge Realities on the Ground*. p.19

Fourth Decile	6.7	0.5
Fifth Decile	9	1
Sixth Decile	11	2
Seventh Decile	12.9	3.8
Eighth Decile	13.7	8.1
Ninth Decile	14.1	18.1
Tenth Decile	24.7	66

Source 9 (Central Statistical Office, 2016, p. 81)

Yet another divide is important: That between different geographical areas of Zambia: While Lusaka, both town and province, is comparatively affluent, there are large differences between the provinces and municipalities elsewhere. The following graphic illustrates this difference:

Graphic 3: Average monthly earning depending on geographical residence, 2015



Source 10 (Central Statistical Office, 2016, p. 78)

2.5 Influence of education

It is a known fact that education status plays a big role in terms of wage earnings. Despite Zambia's free education policy targets increased education enrolment, the outcomes have been poor. Only very few students enroll to enter colleges and universities due to financial constraints, failure to enroll into learning institutions and a poor education-infrastructure, especially for tertiary education (World Bank, 2013, p. 19). This is illustrated by the following table of the 2015 Living Conditions Monitoring Survey:

Table 8: Income distribution by level of education obtained by household head, 2015

Education Level of Head	Household Income									Total	Average Income	Number of Households
	Less than 50	50 - 150	>150 - 300	>300 - 450	>450 - 600	>600 - 800	>800 - 1,000	>1000 - 1200	>1200			
All Zambia	3.8	8.8	13.1	10.4	8.9	8.9	7.0	4.9	34.4	100	1,801.3	2,944,477
Not stated	.8	2.9	2.7	4.3	6.2	4.4	2.0	3.7	73.1	100	5,089.8	47,971
Grades 1-7	4.3	12.1	17.7	14.1	11.4	10.5	7.7	4.9	17.2	100	798.5	1,165,925
Grades 8-9	3.9	6.5	11.4	10.6	10.4	11.0	8.6	7.3	30.3	100	1,239.8	582,017
Grades 10-12	2.9	4.7	7.9	5.8	7.0	8.8	6.8	5.2	50.8	100	2,173.0	563,116
A-Level	7.9	9.6	0.0	6.6	1.8	1.6	12.0	1.8	58.7	100	2,716.9	8,420
Certificate/ diploma	1.0	1.2	2.0	2.0	1.7	1.7	4.6	1.3	84.6	100	5,589.5	228,846
Degree or higher	.5	1.2	1.5	0.7	.2	.5	.6	.9	93.8	100	8,353.9	86,628

Source 11 (Central Statistical Office, 2016, p. 80)

Here, too, it should be noticed that education not automatically equals with formal employment: As the following table illustrates, well-educated persons, even those with university degrees, are working in the informal sector.

Table 9: Educational Level in the Formal and Informal Sector in Total Numbers, 2012

Educational Level	Formal Sector	Informal Sector
Total	847,420	4,652,253
Nursery	716	12,262
Grades 1-7	126,295	2,275,662
Grades 8-12	497,590	1,527,170
A Levels	23,149	11,299
Certificate	156,601	44,837
Degree	24,846	5,543
None	18,223	775,480

Source 12 (Central Statistical Office, 2013, p. 64)

2.6 Conclusion

As a matter of fact, there is little knowledge about that due to the lack of transparency and accessibility, both at the top end (private and corporate wealth holder) and at the bottom due to the informal nature of large sectors of the economy.

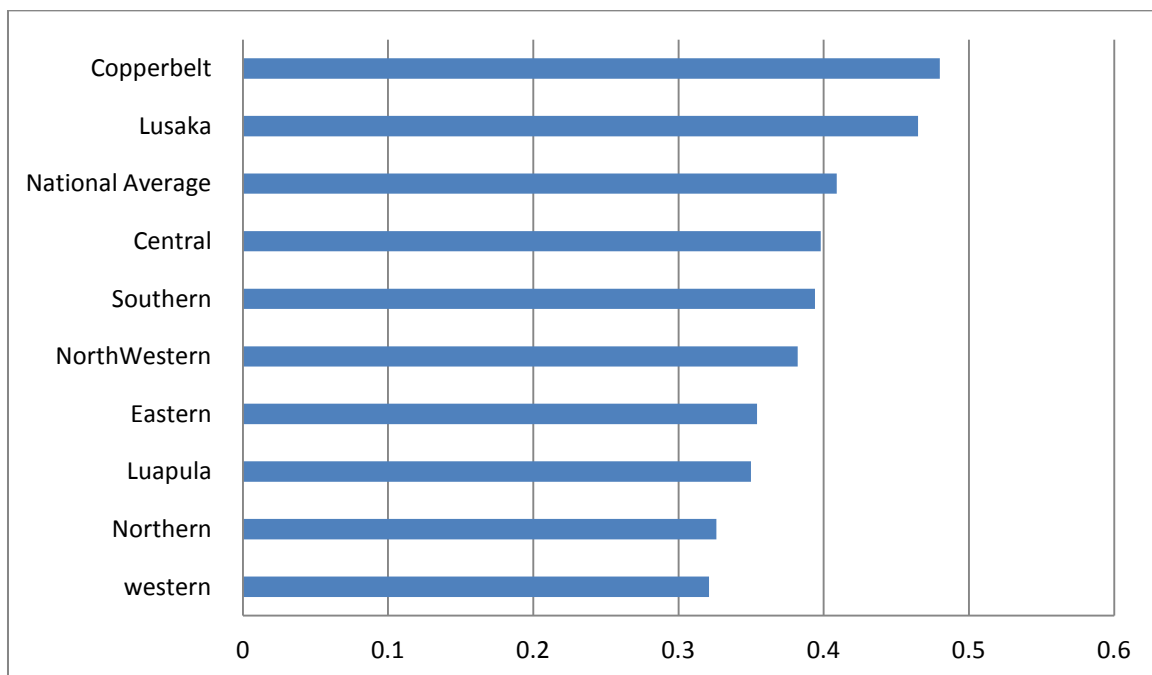
Considering also non-financial aspects of a country's development, the Human Development Index (HDI) reflects three dimensions, namely gross national income per capita, life expectancy and education attainment in one figure. In 2015, Zambia's Human Development Index (HDI) was 0.579 ranking it 139 out of 188 countries and territories (United Nations Development Programme, 2016, p. 200). However, the HDI is criticized for not including other dimensions like ecological

sustainability or perceptions of well-being. It masks inequality in development across the population at country level.

To make up for this, the UNDP introduced Inequality Adjusted HDI (IHDI) which incorporates inequalities of each of the three factors of the HDI by discounting each dimensions' average value according to its level of inequality. The loss in development due to inequality (given as a percentage) is the difference between HDI and the IHDI. Inequality levels of a country and the loss in development are directly proportional. When Zambia's HDI of 0.579 is discounted for inequality, the IHDI value falls to 0.373, indicating a loss of 35.6% due to inequalities in the dimension indices. It should be noted that this figure is not only above the medium income countries' average of 25.7% but also above the average for sub-Saharan Africa which is 32.2% (ibid. p. 209).

The rural urban divide also manifests in variations of Human Development Indices (HDI) across provinces. Despite the fact that Zambia's overall HDI has improved since 2007, there are huge variations within the country. In 2008, the Copperbelt province had the highest HDI score of 0.480 in the whole country. In contrast, the HDI score of .0382 for the North-Western Province (where massive investment in mining has recently taken place) was below the national average of 0.409.

Graphic 4: Zambia 2008 HDI score by province



Source 13 (United Nations Development Program, 2011, p. 32)

As will be shown in more detail in the research parts on the informal economy and the Shadow Economy, a number of jobs exist which are needed for some employment sectors to be competitive and profitable.

This results in arrangements to the disadvantage of those working there and given the profit margins there for employer is little perceptible will to improve the situation. On part of those employed there exists the risk of not being able to lead a decent living and to belong to the large class of working poor.

The extent of this large informal sector is of importance for justice reasons since wages and salaries diverge widely in the formal and informal sector: Even with comparable qualifications, people in the informal sector earn much less. Additionally, labour laws and rights do not apply in the informal sector and dependence from the employer is total.

Employment in the Shadow/informal economy is disadvantageous for state and community because those working there only contribute VAT to the common good. They do not pay direct taxes and mandatory social security contributions, increasing the burden for those being formally employed. From an economic perspective, furthermore, the lack of social protection coverage leads to inefficient use of resources, forcing poor rural households to opt for low-risk, low return crops, to hold liquid but less productive assets, and/or to withdraw children from school in response to crises (International Labour Organization, 2014, p. 146).

3 Poverty

3.1 Introduction

Even though poverty is comparatively well researched in Zambia and there is plenty of literature, there are, as has been indicated already in 1.2, problems of measurement. For example, in view of employment forms: While formal employment and income can statistically be captured, problems exist in the field of the informal and/or Shadow Economy since it is in the very nature of that employment that it is out of view from authorities and, accordingly, statistical offices.

Another problem regards measurement of the earnings of invisible undocumented rural households in African countries living from subsistence farming: They “earn” what they consume immediately. And: In African countries exists a problem of quantification regarding those labourers who are paid in kind and not with money.

Another deficit, from the point of this research, is, that almost all analyses and reports are focusing on quantitative-financial criteria only, while for this research also qualitative indicators would be of importance, e.g. what one can buy from the money earned, how the access to institutions of health care or education is, what the quality of those institutions is and how they contribute to the ability to lead a self-determined life.

On that background it shall be assumed that a number of insights into the life of poor people cannot be adequately measured nor captured, resulting in the fact that insights into the extent and gravity of poverty are deficient and wanting.

3.2 Quantitative measurement

The Living Conditions Monitoring Survey of Zambia does not simply look into the distribution of income, but starts with establishing the essential costs of living, i.e. what is needed in terms of food and non-food items to achieve a minimal material well-being. On that background, “absolute poverty lines typically specify the amount of money that is required to meet a minimum standard of living, such as basic nutritional requirements and essential non-food necessities (basic clothing, housing, etc.)” (Central Statistical Office, 2016, p. 100ff.) The measurement is taken by compiling Basic Needs Baskets of those food and non-food items and establishing the adjusted costs which households would have in various settings.⁴

A line of extreme poverty exists where not even the costs of food items can be met, a line of moderate poverty exists where non-food items cannot be afforded. Different from developed countries, the Zambian Living Conditions Monitoring Survey does not apply the concept of relative poverty.

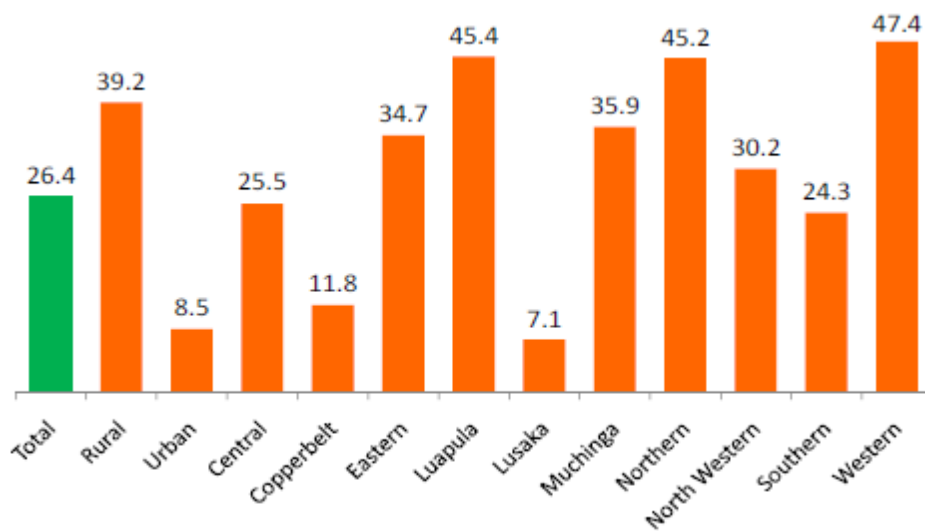
That being measured, Zambia’s national poverty level stood at 54.4% in 2015, which is a reduction of 6.1% from 60.5 % in 2010 and 62.8% in 2006.

Another important quantitative figure is the Poverty Gap Ratio, i.e. the illustration of how far below the poverty line poor people are located. “It also gives an indication of the resources that would be required if all the poor were to be brought onto the poverty line. The wider the poverty gap, the wider the financing gap and consequently, the more the resources that would be required to finance poverty reduction.” (Central Statistical Office, 2016, p. 109).

This graphic illustrates a strong connection between urban and rural residence:

⁴ For the composition of the Basket and the development of costs from 2004 onwards see *ibid.*, p. 103

Graphic 5: Poverty Gap Ratio by province and residence

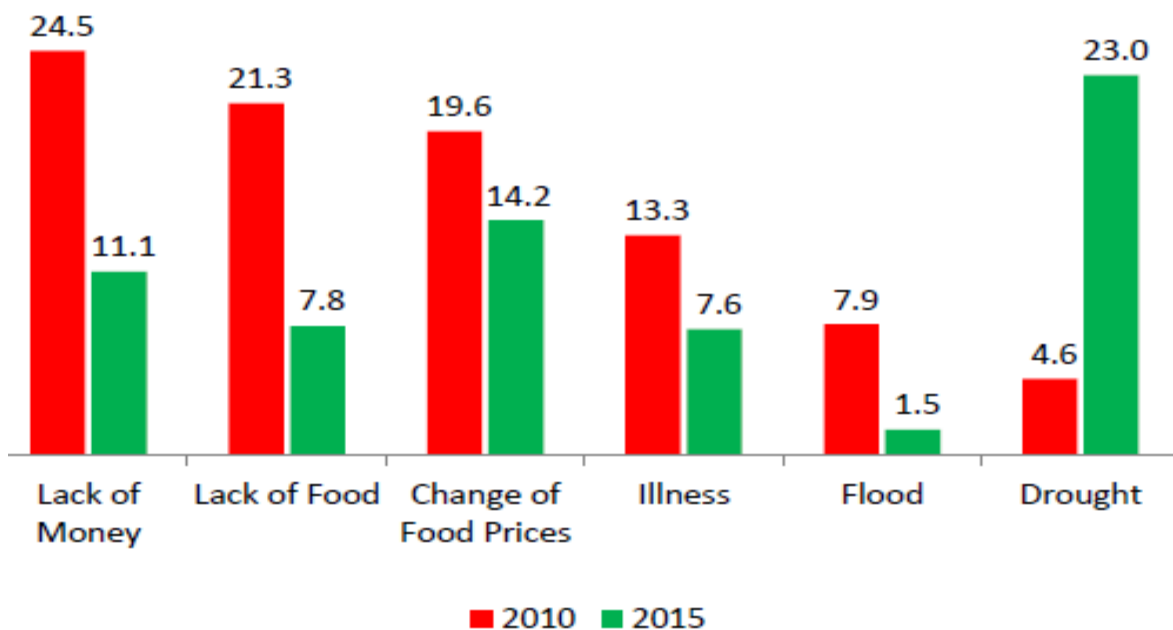


Source 14 (Central Statistical Office, 2016, p. 110)

3.3 Causes

When looking, what causes lie behind poverty, some of those given are to be expected, one is rather alarming:

Graphic 6: Common shocks, trend analysis, 2010-2015



Source 15 (Central Statistical Office, 2016, p. 120)

Alarming is the listing of drought. "Drought" as a cause behind poverty in 2015 is an isolated incidence, when compared with other years. Given the fact that rain pattern seen to be changing in deed due to climate change it can be assumed that those incidences will increase in future. If a drought happens, then, of course a number of poverty incidences will re-enforce each other. In the graphic above, for example,

“Lack of food”, “change of food prices” or even flood due to irregular rain patter might all go back to the same phenomenon which backs up calls for tackling climate change more vigorously.

3.4 Rural-urban and regional differences

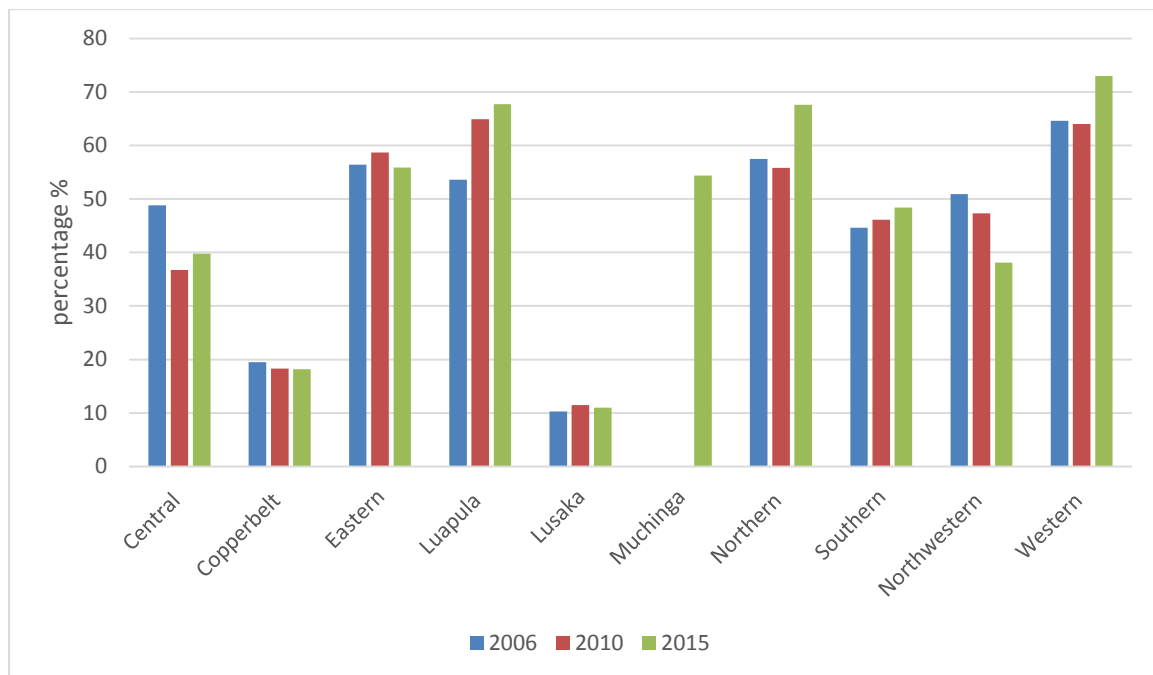
A closer look at the poverty picture reveals regional differences within the country. While the national poverty figure was 54.4 % (2010: 60.5%) of which 40.8% qualify as being “extremely poor”, there is a striking difference between the urban situation, on the one hand, and the rural situation on the other. The incidence of poverty stood a staggering 76.6% (2010:77.9 %) in rural areas compared to urban areas where the figure was 23.4% (2010: 27.5%). This indicates a slight improvement,

The poverty differences between rural and urban areas is confirmed by the other social indicators. The JCTR’s 2013 rural basic needs basket survey⁵ also corroborate national poverty statistics for rural areas. According to the survey, one school in Shang’ombo district of western Zambia has a teacher-pupil ratio of 1 to 74 coupled with inadequate and undeveloped school infrastructure. This poverty picture, explains why, for instance, school attendance was consistently lower in rural than urban areas as observed by the Living Conditions Monitoring Survey for the period 2006 to 2010.

In Zambia, levels of extreme poverty have continued to remain high in the predominantly rural provinces which include Luapula, Western, and Northern. Unlike fairly urbanized regions such as Lusaka and Copperbelt province, extreme poverty is increasing in Luapula, Northern and Western provinces. Clearly, this poverty picture shows the high extent of inequality between rural and urban areas.

⁵ <http://www.jctr.org.zm/rural-basic-needs-basket> and <http://www.jctr.org.zm/basic-needs-basket>

Graphic 7: Changes in extreme poverty by province 2006-2015⁶



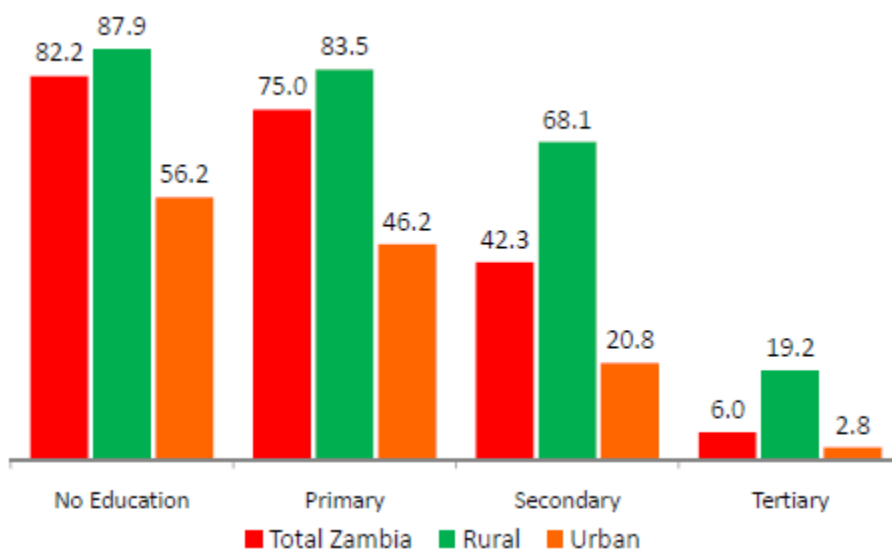
Source 16 (Central Statistical Office, 2011, p. 186); (Central Statistical Office, 2016, p. 106)

This graphic also illustrates that there are differences in progress in the fight against poverty: While the (comparatively) largest declines are in Eastern and Northwestern Provinces, the most noticeable increases in extreme poverty occurred in the Northern and Western provinces while the situation in the more urban areas of Copperbelt and Lusaka remained stable.

Last not least one should notice that there is a clear link also between absolute poverty (extreme plus moderate), residence and education:

⁶ Adapted from Living Conditions Monitoring Survey 2006 & 2010, CSO, Lusaka. (Central Statistical Office, 2016, p. 106)

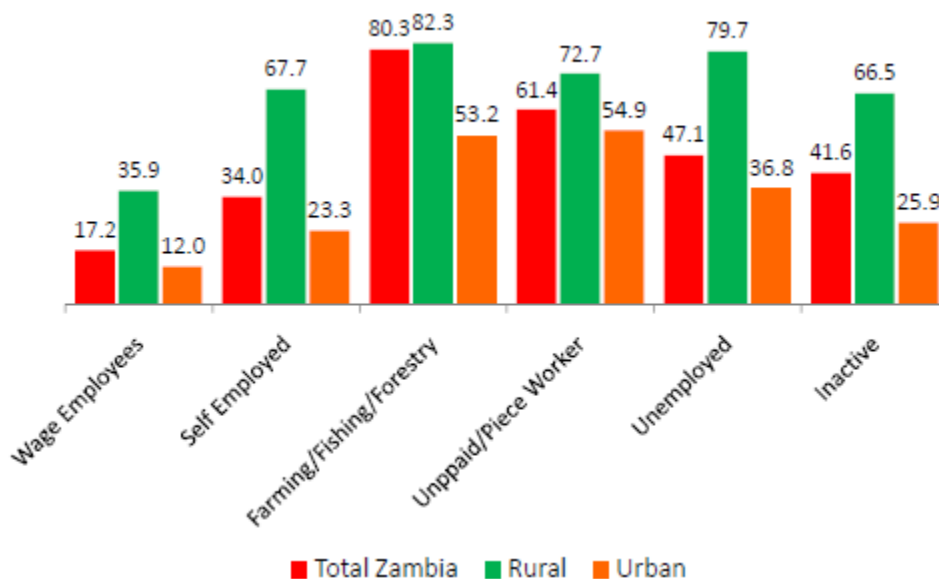
Graphic 8: Poverty by education level and residence of household head, 2015



Source 17 (Central Statistical Office, 2016, p. 108)

Building upon education, the following figures regarding employment should not be surprising:

Graphic 9: Poverty by employment status and residence of household head, 2015



Source 18 (Central Statistical Office, 2016, p. 109)

3.5 Subjective-qualitative measurement

The Living Conditions Monitoring Survey 2015 also inquired into the subjective-self-assessed dimension of poverty (Central Statistical Office, 2016, p. 113ff.). This is relevant because in the living conditions and self-perception of poor people factors may be of importance which cannot be measured in metric data. Information arising from this qualitative survey

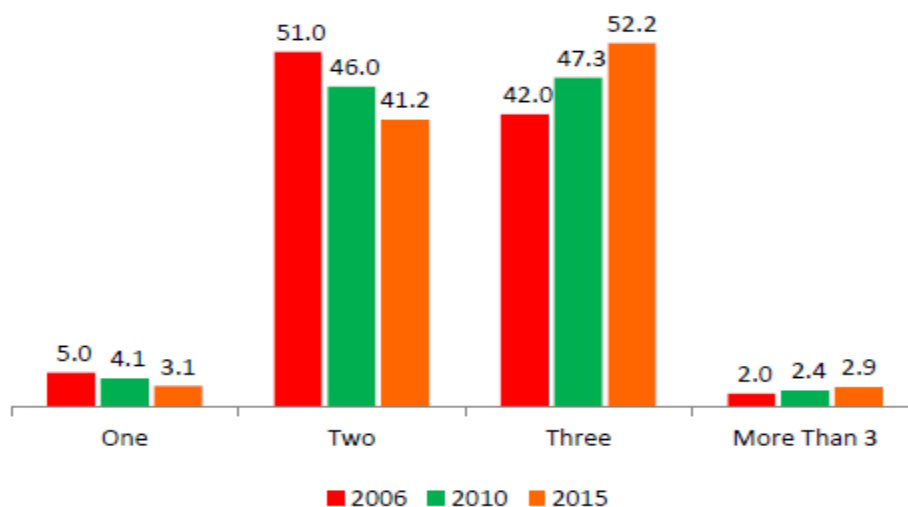
can complement other, more macro- and micro-economic policy measures undertaken to improve the life and empower poor people to escape their situation. This approach is very much in line with the poverty approach of this research, namely the capability approach of Amartya Sen (see I/IV/4).

To start with it is interesting to see that the self-perception diverges with the outcome of quantitative measurement: 40.7% reported to be “very poor” (vs. 40.8% to be determined as “extreme poor”), 43.8% reported to be “moderately poor” (while only 13.6 % qualify to be “moderately poor” in the quantitative survey) and 15.5% reported to be non-poor (vs. 45.6% in the quantitative survey) (ibid., p. 113). The rural-urban divide is also reflected in the self-assessment, as are differences regarding provinces. While there is improvement seen in the situation of the non-poor (the number is rising) and moderately poor (the number is decreasing), people perceive an increase in the number of “very poor”: Up to 40.8% from 38% (ibid., p. 114). By far the largest reason for poverty is seen in (ibid., p.115)

- Cannot afford/lack of agricultural inputs: 18.4% (2006: 21%)
- Salary/wage too low: (9.3%) (2006: 11%)
- Lack of capital to start/expand own business: 8.8% (2006: 7.7%)
- Lack of employment/no job: 7.8% (2006: 8%)
- Lack of capital to start/expand agricultural output: 4.7% (2006: 5%)

A very illustrative indicator of poverty is the reply to the question of how many meals a household can afford. Here a clear improvement is visible:

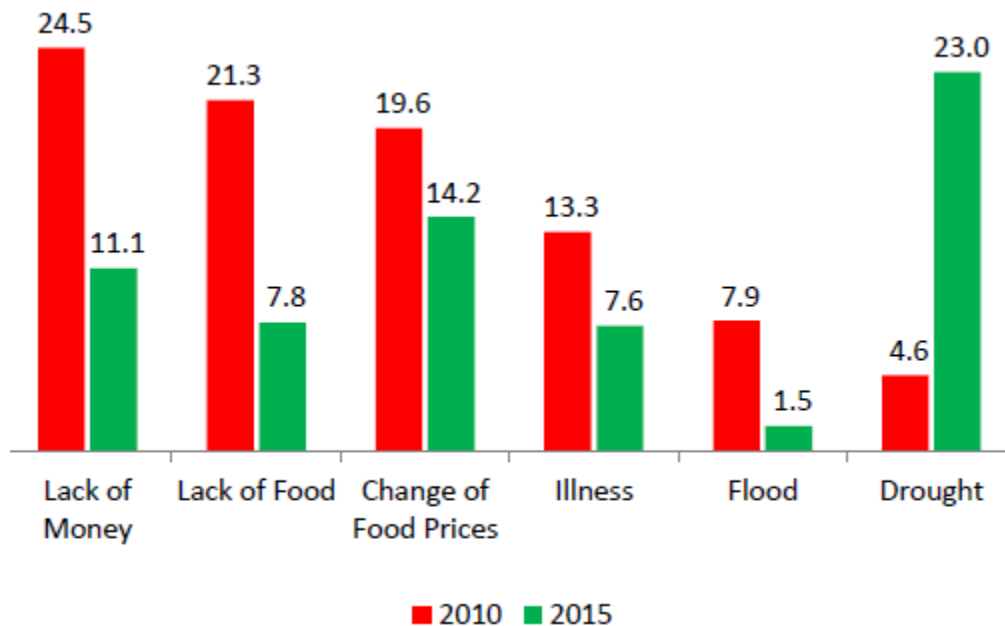
Graphic 10: Average number of meals in a day, trends 2006, 2010, 2015



Source 19 (Central Statistical Office, 2016, p. 118)

Next the question: Why do households think that they are poor, i.e. what are the major causes for their poverty?

Graphic 11: Common shocks underlying household poverty, 2010 and 2015



Source 20 (Central Statistical Office, 2016, p. 120)

Zambia does not have a developed system of insurance, social welfare and assistance. When asked, how people cope with hardship, the following was revealed:

- Used insurances: 0.1%
- Government cash transfer: 0.1%
- Help from NGOs/international organizations: 0.3%
- Help from religious organizations: 1.8%

Rather, the premium coping strategies are:

- Spending savings, sold animals: 21.2%
- Borrowing from family, friends and relatives: 8.2%
- Buy cheaper food: 7.8%
- Receive, ask for gifts and assistance from family friends and relatives: 6.3%
- Work more hours: 5.4%
- Migrated to work: 3.2%

Of interest for this project are also the following:

- Migrated to work: 3.2%
- Remittances from other persons: 2.5%
- Sent children to vend/sell: 0.7%
- Begging: 0.0%

The entire list is in Annex 1 to this chapter.

3.6 Conclusion

The Fifth National Development Plan (2006-2010) had as prime objective to reduce poverty through the provision of gainful employment – an objective which did not materialize in spite of good economic growth figures. The question is, therefore, why “the type of economic growth ... has very little impact on poverty reduction”. Possibly, so the scholars in charge of the Living Conditions Monitoring Survey, it is because the economic growth is not “pro poor”, which is understood “to refer to the type of inclusive growth which is characterised by progressive redistribution to the poor” (Central Statistical Office, 2016, p. 99).

The Sixth Development Plan (2010-2015) illustrates some slight improvements regarding poverty levels and Poverty Gap Ratio, but the situation is not unequivocal (i.e. poverty, like inequality, is decreasing in some areas and rising in others) and is overall still far too serious to relax over that issue. Development in Zambia clearly missed the first Millennium Development Goal, namely halving 1990 poverty by 2015.

4 The importance of land for the poor and wealthy

4.1 The context

A common feature in countries all over the world, including the participating countries in this study, namely Germany, Kenya and Zambia, is the importance of real estate and real property both for the subsistence of ordinary people, and for the portfolio of private and corporate wealth holders at the same time.

In Africa, nobility had the opportunity to hand out land to small tenants who were doing work for their masters, who were preoccupied with more noble tasks such as going to war for their respective kings etc. After the World Financial and Economic Crisis in 2008 and given the global fluctuations of the value of shares, stocks and currencies, desires of private and corporate wealth holders and their advisors for “crisis proof” investments have enormously strengthened (Turner, 2014): Shares and Derivatives can plummet – but people always need something to eat and somewhere to live.

Today in Zambia, land ownership is complex: Land is mostly customary-held under traditional leadership. This means most records of land ownership in rural Zambia are not formally registered with the state. Rather, registration is with respective traditional authorities and its owner do not pay taxes. All land not held under customary tenure is deemed to be state land. Most urban areas, mining areas, protected areas and land

along rail lines tends to be state land. The majority of land in Zambia is held under customary tenure. 94 per cent is estimated to be customary land, 6 per cent state land (Ministry of Finance, 2015, p. 19).

Regarding a proof of ownership of customary land, the problem starts with the fact that there is traditionally no Title Certificate or legal documentation to show the ownership of land. Though in the village registers, records are there to show who owns land in that community, however the challenge is that village registers are not legal documentations. Such a lack of ownership proof makes it once more difficult for people to access loans from banks since they cannot offer their land as collateral for the loan. Without the loan, no registration with authorities is possible. Women find it particularly difficult to access land under customary tenure system because of culture barriers. Men are given preference in land allocation under customary land.

The conversion of customary land to state requires approval of the chief and any individual whose interests will be affected by the conversion. State land is governed by institutions and state laws. Ownership of state land is secured by a title deed under what is known as leasehold tenure.

The procedure of acquisition of state land is equally complex and overtasks people with low education. Also the pre-requisites are hard to meet: For example, a local council, putting land for sale, wants to have proof provided by those interested that they are able to develop the land. This requires the possession of a bank account and financial resources; a demand which poor people can hardly meet. Even if people are small business people, their business model normally is conducted without involving bank accounts and other proof of business activity, satisfying the required quality of documentation. In rural areas only few banking facilities exist, which makes access difficult.

Even though land in urban areas is formally registered with the state, there is still a challenge of comprehensive and systematic registration of state land in urban areas.

All of the previous has immediate importance for taxation issues.

4.2 Importance of land for average and poor people

Land ownership is important for average and poor people: In all countries, for example, a privately owned, self-used house is among the most widespread and most important wealth assets and insurances against sickness and old age. Given the poverty level and the extent to which subsistence farming in Zambia is still important (see, e.g., 2.3), the importance of land use for many poor Zambians is obvious. But land ownership is also of importance for a decent accommodation: Both in the

rural and urban setting it is important where to settle and what kind of house is possible to build, e.g. is it makeshift or is it solid and decent. Regarding accommodation, in 2010, 53.9% of all households lived in an own house (Central Statistical Office, 2011, p. 155). In comparison to the house ownership distribution of 70.3% in 2006, this is a remarkable reduction.

It is to be noted that more and more, explicit proof of ownership gets necessary before one may safely build a house or ahead of sowing seeds in the certainty that one is able to bring in the harvest.

4.3 Growing importance for wealth holder

The possession and control of real estate and real property has at all times been an appreciated and highly welcomed possession for securing regular income even without working for it. This has not only international aspects, but also domestic aspects for Zambia:

Domestically: Whatever a financial crisis destroys, there is always land to develop houses for lease or rent, generating reliable income: Even the Zambian NAPSA has made use of the market value of real estate: The National Pension Scheme Authority (NAPSA) financial position is sound because the authority has invested in real estate business thus guaranteeing members/contributors of their pension payment upon qualifying.

Internationally: Given the increase in world population and the beginnings of climate change there were more incentives for private and corporate wealth holder from developed countries to invest in real estate also abroad for reasons of “diversification” – which lead to the phenomenon of land grabbing, involving in certain cases the displacement of local populations sometimes with the excuse that this traditionally held land needs to be “developed” or jobs need to be created.

As indicated already: the chances to obtain land in Zambia are unfairly distributed among the population: The wealthy benefit from the complexity of the process which is compulsory to obtain land titles and ownership certificates. This is why it is easy for large private and corporate wealth owner to secure the use of land and displace populations traditionally living there, even though they do not do anything useful with the land, as the case of Ferrostaal indicates for Zambia (see GER/IX).

4.4 Conclusion

Given the high threshold of documentation required for registration of land ownership it is more than obvious, that educated/wealthy people and corporations are privileged in accessing land and land ownership. This in turn enables them to sell or let their property out to poorer people and cash in rent and lease which needs to be paid from small, even minimal

income. On that, they do not even pay adequate tax on that income in their Income Tax, let alone the value of the asset owned in for of a Wealth Tax (see in parts V and VI of the Country Report).

5 Governmental dependence on external financing

Before starting into this chapter a reference is in order to remind the reader that this research is not in principle against governmental borrowing and public debt: It may be a necessary option for investment into infrastructure (see I/IV/3.1). For instance, Zambia in September 2012 issued a debut 10 year US\$ 750 million Eurobond on the international capital market, where 91.3% of this Eurobond proceeds were earmarked for infrastructure development i.e. road, rail and energy generation and transmission.⁷ The question is rather, whether debt is sustainable or not.

5.1 The development of governmental debt

The accumulation of debt started quite some time ago in Zambia. It is widely known that policies imposed by the IMF or World Bank brought most African states in a situation of growing dependence from outside donors. A major driver for the increase in external debt accumulation in the Southern African region in general are persistent budget deficits.

Zambia has a particular history of public debt: Prior to the debt cancellation in 2005, Zambia's external debt stood at approximately US\$ 7.1 billion. The government was committing huge sums of money for debt servicing at the expense of allocating sufficient resources to social sectors whose direct beneficiaries were the majority poor Zambians. According to the JCTR study on Responsible Borrowing/Lending - Post Debt Cancellation (2011), Zambia was paying an average US\$ 290 million per year in form of debt servicing between 2003 and 2005. Classified as one country under the Highly Indebted Country Initiatives (HIPC) Zambia was therefore one of the main beneficiaries of the Multilateral Debt Relief Initiative in 2005, when IMF and other donors and creditors cancelled standing debt in order to enable Zambia a fresh start.⁸

But even ahead of the momentous debt relief in 2005, the HIPC-initiative of the World Bank and IMF has been criticized for its ineffectiveness.

⁷ Ministry of Finance, (2013). 2013 Citizens Budget. Lusaka: Ministry of Finance page xxx.

⁸ <http://www.imf.org/external/np/sec/pr/2005/pr05306.htm>

Firstly, there are little objective criteria to measure adequately which country is eligible for the debt relief program. In some extent it was an incentive for some countries to balloon their debt artificially to become a beneficiary of the program. To find adequate criteria, it is more crucial to pay attention to the issues credits are utilized – if they are used consumptively or productively – instead of regarding the level of export earnings.

Secondly, the cash value of debt relief has been smaller than the nominal value of it. Some experts claim that the debt relief program was only about the clearing up of accounts. (Nunnenkamp, Wahl, & Wollenzien, 2001).

Thirdly, although Zambia had been one of the beneficiaries of the initiative, this was no incentive for the county to overcome the structural reasons for debt accumulation, especially its one-sided, not diversified economic structure and its highly reliance on copper exports. In other words, the problem had been at that time already, that the framework conditions forcing countries into debt, e.g. unfavorable conditions for trade and export and conditionalities for fresh money, would result foreseeably in the acquisition and accumulation of new debt.⁹ So the debt relief program has delivered less positive effects and relief for Zambia than expected.

For all those reasons, public, publicly guaranteed, and private nonguaranteed long-term debt, short-term debt, and use of IMF credit, increased the Zambian total external debt once more after the cut in 2005:

Regarding the course of national debt, the sum has doubled from US\$ 4,237.4 million in 2008 to US\$ 8,831.1 million in 2013. In the table below, the composition of Zambia's total debt is itemized:

Table 10: Composition of Zambia's Total Debt (in million USD) 2008-2013

	Composition of Zambia's Total Debt (in million USD) 2008 -2013				
Year	Public Domestic	Public External	Public & Publicly Guaranteed Debt	Private External	Total Debt
2008	2,139.15	1,188.57	3,327.72	909.65	4,237.36
2009	1,876.12	1,557.38	3,433.50	2,250.41	5,683.91

⁹ Bloemen, Shanta: Debt Relief and HIPC: Zambia. Retrieved from http://policydialogue.org/publications/backgrounders/casestudies/debt_relief_and_hipc_zambia/en

2010	2,071.04	1,675.10	3,746.14	1,721.00	5,467.14
2011	2,700.08	1,980.04	4,680.12	1,676.12	6,356.24
2012	2,793.33	3,473.21	6,266.54	921.20	7,187.74
2013	3,594.06	3,556.44	7,150.50	1,680.63	8,831.13

Source 21 (Ministry of Finance, 2015)

Hence: Zambia's public debt has increased by over 200% since the debt cancellation from US\$1.2 billion to around US\$ 4.7 billion. This increase is on account of borrowing by the government to finance infrastructure development. Domestic debt has increased over time on account of financing budget deficits, covering maturity securities and for monetary policy purposes: by 138.4% from K8,494.64 in 2008 to K20, 248.98 in 2013 (Ministry of Finance, 2015, p. 9).

With regards to external debt, Zambia's debt was US\$ 4.7 billion in 2014 and as a percentage of Gross Domestic Product (GDP), external debt is 17.6%. Domestic debt stood at ZMW 21.9 billion. Regarding the development from 2007 up to 2015 external debt even has even tripled to an amount of almost US\$ 8.8 billion (World Bank Group, 2017, p. 155).

To sum it up: Although Zambia has benefited from the Heavily Indebted Poor Country (HIPC) initiative, Zambia has again a high risk of debt distress due to its dependence on mineral exports and, consequentially, its vulnerability to exogenous shocks, such as the 2007/2008 World Financial and Economic Crisis.

5.2 Losses and costs of the World Financial and Economic Crisis

Zambia was severely hit by the 2007/2008 World Financial and Economic Crisis. It is important that one distinguishes losses as well as direct and indirect costs of the crisis – all of which have an impact on the potential to raise taxes and public spending. Regarding the larger context, a number of issues have been addressed in I/IV/3.2 for Sub-Sahara Africa.

Since post-crisis stabilization efforts in most African countries were partly national and partly multilateral involving the African Development bank, comparable statistics are hard to come by and may not separately exist for different countries. But obviously, there were direct costs for Zambia, e.g. due to subsidies on maize (corn) grain that had to be provided in Zambia so that the poor, in spite of ups and downs on the world markets and the effect the depreciation on the Zambian Kwacha in relationship to the US Dollar, could still obtain basic items at an affordable price. Depreciation of both currencies had yet another effect on the payment of interest on debt or even the repayment of debt which are paid in US Dollar.

For Zambia, the mining sector was the most hit by the impact of the global financial crisis. The mining sector is of particular importance to Zambia's economy as such since it is the most globally integrated sector given the high level of FDI inflows. It is also a major foreign exchange earner.

During the global financial crisis mining companies responded in different ways to the effects of the global economic crisis. Some mining companies closed their operations completely while others were placed under care and maintenance. Yet still, other companies continued with their operations but down-sized the workforce. There were some mining companies that never closed nor effected any job cuts. According to the International Labour Organisation (ILO), Luanshya Copper Mines, Chambeshi Metals, Albidon Munali Nickel Mine, and Bwana Mkubwa Mine had to shut down operations. Furthermore, Konkola Copper Mine (KCM), Mopani Copper Mine (MCM) and Kansanshi Mine continued with their operations but down-sized the workforce (Matenga, 2010). The only large-scale copper mining company that did not effect any labour downsizing is the Chinese-owned NFCA Chambishi Mine.

Job losses in the sector started to be felt in November, 2008 and only eased sometime in May 2009, as is illustrated in the following table. The table distinguishes between workers directly employed with mine companies and those employed indirectly via subcontracting companies:

Table 11: Job losses and Recovery in the Zambian Mining Industry, 2008/2009

Type of Mine Employer	Total number of Employees as at June 2008	Total number of Job Losses	Total number of Jobs recovered
Directly employed by the mine Companies	32,636	7,324	1,383
Employed by the Contractor Companies	30,515	11,915	3,105
Total	63,151	19,239	4,488

Source 22 (Matenga, 2010)

Those employed directly by mining companies accounting for 11.6% lost their jobs. Of those employed indirectly via mine contractor companies, 18.8% lost their jobs. Added together, therefore, a total of 19,239 workers, accounting for 30.4% of the total labour force in the mining industry lost their jobs between June 2008 and June 2009. This sounds not much, but given the fact that those employed in the formal sector contribute the lion's share of PAYE tax revenue (see chapter VII/2.1), this means a huge loss in terms of public income.

In addition, and due to the absence of a developed unemployment insurance and/or social security transfer and benefit system and the fact that one worker cares for 5-20 persons (depending on the size of the family) one can imagine what hardship the loss of a well-paid quality job means for dependents. Although the impact of the global financial crisis was more pronounced in the mining sector, other sectors were equally affected.

On the other hand, a total of only 1,383 jobs have since been recovered of those directly employed and only 3,105 for those employed by contracting firms. There is little information on of the quality of jobs lost and recovered. However, it can be assumed that the direct jobs were more of quality than the indirect jobs in terms of payment, social security and/or benefits and labour conditions.

Other costs and losses for Zambia were, for example, a slowdown in Foreign Direct Investments (FDI), a drop in the sale of exported goods or the inflow of remittances from legal and illegal migrants of their countries, living in the crisis stricken developed countries.

5.3 Coping with debt, interest and repayment

With regards to the problems of interest payment and debt repayment and the dependence on income from natural resources whose profit is dependent on highly volatile global markets, there is always the danger that Zambia risks defaulting. According to the Secretary to the Treasury, the Zambian government in the 2012 budget, allocated US\$ 243 million for external debt servicing, while in 2013 the government spent US\$151.5 million towards the servicing of external debt¹⁰. In 2014 government planned to spend US\$ 325 million towards servicing external debt¹¹.

Zambia's Debt Sustainability Analysis Report produced by the Ministry of Finance, puts total public debt as a percentage of GDP at 32%, a level that is below the internationally accepted threshold of 40%. There are, however, two caveats:

Although Zambia's debt is currently sustainable, the escalating rate of loan contraction suggests that the limit may be reached sooner than later. In a space of just two years (2012 – 2014), the government has borrowed from the international bond market US\$1.750 billion. In 2012

¹⁰Yamba, F. (2013). *Govt pays US\$151.5 million towards servicing external debt, national debts stands at US\$3.136 billion*. Retrieved May 11, 2014 from <http://www.lusakatimes.com/2013/12/15/govt-pays-151-5-million-towards-servicing-external-debt-national-debts-stands-3-136-billion/>

¹¹ 2014 Budget Address by the Minister of Finance Hon. Alexander B. Chikwanka, MP

government borrowed US\$750million and in 2014 government borrowed another US\$ 1 billion¹².

And: Although Zambia's debt is perceived to be sustainable at the moment, the escalating rate of loan contraction is a source of worry (see in 4.3).

It seems further, that Zambia's real debt level is highly non-transparent. If media reports are to go by, it is alleged that government recently borrowed US\$ 192 million from China for improving the country's security.¹³ However, this amount was hidden from the public and was only recently leaked. Further, recently, during the presentation on the 2014-mid-year economic and budget review, the Minister of Finance proposed to Parliament to increase the ceiling on external borrowing from the current K35 billion to K60 billion in order to address raise sufficient revenues to complete various developmental projects.¹⁴ This clearly points out that Zambia dependence on external financing is high.

In Zambia, payment of interest and repayment of debt eats up money needed elsewhere for supporting the poor and maintaining the common good for all, not only the few. The need of organizing money for debt service and repayment leads to spending cuts, often on the disadvantage of the poor either directly (e.g. cutting food subsidies) or indirectly (e.g. affecting the quality of public institutions on health care or education) – or to new debt.

5.4 The problem of ODA for Zambia

But what about Official Development Aid, i.e. (unconditional) grants from developed countries to developing countries like Zambia? Since the 1950s aid has attracted critics who claim that it is largely wasted and/or that it makes recipients more dependent by reducing growth and tax collection, and promotes corruption, a position also strongly advocated by the Zambian Economist Dambisa Moyo in her books, e. g. "Dead Aid" (2009).

Three main arguments have been advanced to explain the disappointing results of most aid given to Zambia; (1.) aid is misallocated (donors give aid for strategic reasons to the wrong recipients), (2.) aid is

¹² Chikwanda, (2014). *Oversubscribed bond is proof international investors have confidence in the Zambian Economy*. Lusaka Times. Retrieved May 22nd, 2014, from: <http://www.lusakatimes.com/2014/04/12/oversubscribed-bond-proof-international-investors-confidence-zambian-economy-chikwanda/>

¹³ The Post (2015, May 9). Government Hides US\$ 192 Million Loan. Retrieved 14 May, 2015 from <http://www.postzambia.com/news.php?id=7902>

¹⁴ Hon. Alexander Chikwanda MP (2015). *2015 Mid-Year Economic and Budget Review Statement*. Lusaka: Ministry of Finance p. 4

misused (the government pursues non-developmental agendas) and (3.) GDP growth is not the right measure of aid effectiveness (International Monetary Fund, 2005, p. 4). The exposition of the anomalies implied in these three arguments is apt.

First, while all aid effectiveness papers implicitly define the donors' objective as solely the promotion of economic growth or the reduction of poverty in the recipient countries, a parallel strand of literature on aid allocation has shown that most donors often pursue a different underlying agenda and allocate aid also according to their own strategic interest. If a significant part of aid is allocated for strategic purposes, no positive impact in terms of growth or poverty alleviation should be expected. Second, analyzing aid effectiveness it gets obvious that the government shares the donor's officially altruistic objective. Many times the government and a perfectly altruistic donor do have conflicting objectives, as the former represents a variety of stakeholders, including wealthy individuals who might influence the aid distribution. If foreign aid is misallocated and misused, then it cannot be expected to have a significant impact on growth. Third, aid effectiveness should not be measured by its impact on GDP growth. Aid could be increasing consumption rather than investment, which would explain the disappointing results of studies on growth, but still reduce poverty through either higher consumption of the poor, or greater provision of services to the poor.

Taxation therefore is, combined with democratic institution, popular participation and empowerment is, in the view of this research, also an adequate answer to the phenomenon of dependency, created and sustained by inadequate ODA policies.

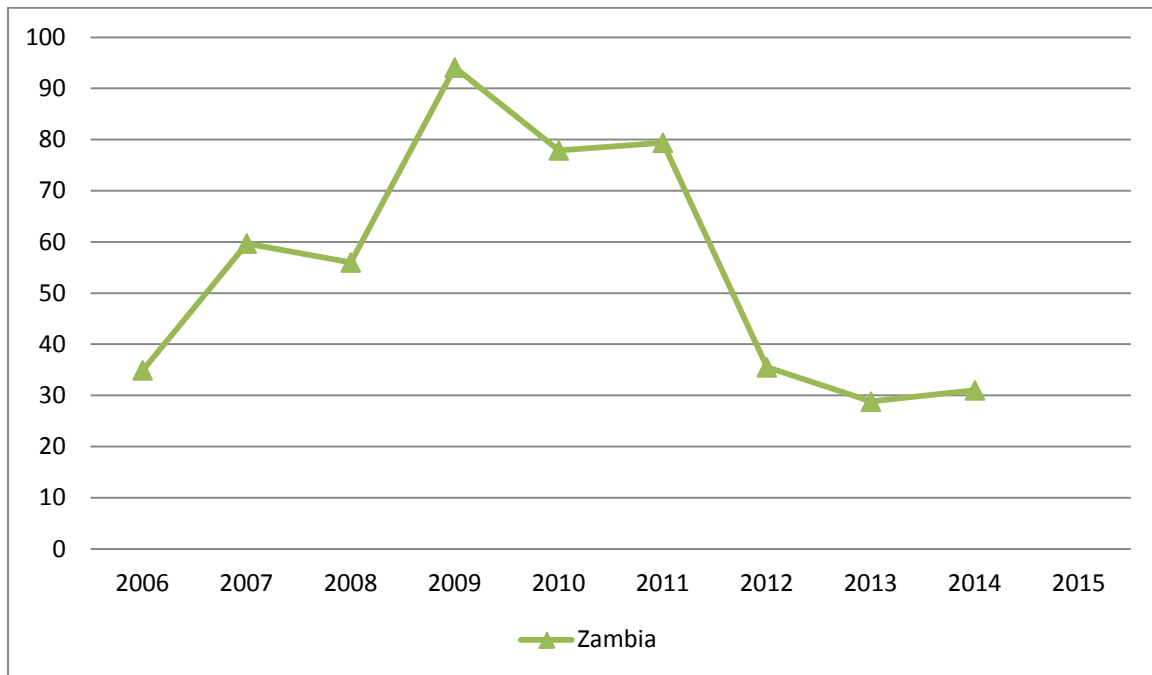
5.5 Conclusion

The question is, whether the Zambia's debt level is sustainable or not. If public debt is left unchecked in relation to the country's income government would have to constantly increase taxes and reduce spending on goods and services, which will adversely affect the ordinary people.

The debt-to-GDP ratio is here the internationally accepted indicator to assess debt sustainability: The World Bank and the IMF jointly developed a debt sustainability framework to enable countries and donors in mobilizing finances for low income countries' development needs, while reducing the chances of an excessive build-up of debt in the future. The framework guides borrowing countries to match their financing needs with their current and future repayment ability. It also guides creditors to lend money to countries on terms that ensure development and debt sustainability for the recipient country. Debt sustainability framework therefore suggests that indicators of debt sustainability (Debt to GDP ratio) should be kept below minimum thresholds for the country's debt to remain sustainable.

Right now, the Debt to GDP ratio is with 32% beneath the internationally accepted threshold of 40%. The development of the debt-to-GDP ratio of Zambia just within 10 years illustrated in the table below indicates, however, that this was not always the case and may change quickly again, especially since the chance of exogenous shocks, given the persistent instability of global economy and unplanned for hardships due to climate change, continues to be high:

Graphic 12: Debt-to-GDP ratio Zambia, 2006-2014¹⁵



For that reason, and because ODA is also no lasting alternative, spending more thoughts on improving Domestic Revenue Mobilization is key for Zambia to obtain also financial independence in addition to its political independence gained some 50 years ago.

The considerable lack of transparency regarding the real extent of domestic and external debt finally points to the need that more data must be made available which illustrates (a.) the true extent of debt, (b.) to whom debt is owed and (c.) who profits; all that taking into account the old and universally valid saying is "Somebody's wealth is somebody else's debt" – and vice versa.

¹⁵ See (Ministry of Finance, 2015) and <http://www.tradingeconomics.com/zambia/government-debt-to-gdp>

6 Illicit Financial Flows (IFFs)

6.1 The phenomenon of IFFs

Because of structural causes, some private, corporate and criminal wealth holder shift around assets and ownership titles in the attempt to hide all that from the own government in general and the tax man in particular. The term “Illicit Financial Flows” covers this range of individual phenomena as different as proceeds from corruption, bribery and other proceeds from crime, money laundering, aggressive tax avoidance, tax evasion and tax fraud, monetary flows within the shadow/informal economy, trade mispricing and misinvoicing, capital flight and terrorism financing. IFFs profit few, particularly elite members of countries, and damage the large majority of people who suffers damage, bears the burden and pays the bill.

The discussion about IFFs is relatively new but attention towards it grows in importance (High Level Panel, 2015a) (African Development Bank; Global Financial Integrity, 2013).

It is not without (justifiable) criticism. For example, because this terminology throws into one pot highly different phenomena, partly legal (to the letter of the law), partly illicit (offending against the spirit of the law and the intention of the legislator) and outright illegal and criminal acts, which have diverging origins and merit diverging instruments to tackle. This research nevertheless uses this concept in spite of its opaqueness because it synthesizes into one all sorts of damaging outflows affecting developing countries. For a more both general and detailed view on IFFs, their causes and effects in general take a look at I/IV/6 and SR/III/3.

6.2 Probable dimension and importance for Zambia

Since IFFs occur in hiding and secrecy, it is difficult to estimate its size and the specific impact for one country.

Regarding developing countries as whole, the sum combined for ODA and FDI is only insignificant higher than the estimated illicit financial outflows (Kar & Spanjers, 2015). Indeed, the region Sub-Saharan Africa has the second smallest volume of total nominal illicit outflows in developing countries, with an average share of 8.6 percent (ibid. p. 7); and even the smallest growth rate of illicit flows with 3 percent (ibid. p. 6). But this figures do not take into account that larger countries can be expected to have a high scale of overall economic activity and, thereby, to have large outflows as well. To provide a different perspective one has to look not only on the volume of IFFs but also pose the question, what potential impacts IFFs have on individual economies. Considering that, the IFFs of Sub-Saharan Africa are the largest in relation to its GDP when compared with other regions' ratios. While the region has an average IFF

to GDP of 6.1 percent (ibid. p. 12), the Zambian ratio is even higher amounting more than 10 per cent (ibid. p. 14).

To illustrate the width and breadth of various approaches, some examples follow:

Global Financial Integrity reports 2012 that Zambia lost about K40 trillion (unrebased) over 10 years due to crime, corruption and tax evasion.¹⁶

Kar/Spanjers forward the more recent “guesstimate”, according to which Zambia is losing an annual average of USD 2.9 billion, more than Zambia had 2014 in the governmental budget which amounted to USD 2.7 billion. With that, Zambia is placed on rank 125 of 149 states under examination (Kar & Spanjers, 2015). In the following table, the second last figure on the right gives the cumulative amount, the last figure gives the annual average:

Table 12: IFF outflow from Zambia, 2004-2013

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Cumulative	Average
1,824	1,996	2,430	3,290	2,590	1,974	2,656	3,681	4,203	3,680	28,324	2,832

Source 23 (Kar & Spanjers, 2015, p. 37)

Illicit Financial Flows in Zambia are largely associated with the operations of Multinational Corporations and Zambia is said to have lost between 2001 – 2010 USD 8.8 billion¹⁷ - significantly, the same sum Zambia owed external creditors in 2015 (see 4.1).

On that background, an even more current study is of interest. Following the innovative study of IMF researchers into profit shifting activities of MNEs,¹⁸ Cobham/Jansky published a study on profit shifting, based on data from the ICTRs (International Centre on Tax Data) Government Data Base, which was created due to the absence of a “consistent, high quality public data source for revenues” (Cobham & Jansky, 2017, p. 6). Given the not-so surprising fact, that Sub-Sahara

¹⁶ Zambia Daily Mail (2012, December 19). *Zambia Loses K40 Trillion*. Retrieved from: Zambia Daily Mail.

¹⁷ What Billions Illicit and Licit Capital Flight Means For The People of Zambia. (2016, December 16) Transparency International. Retrieved 16 June 2016 from <http://blog.transparency.org/2012/12/16/what-billions-in-illicit-and-licit-capital-flight-means-for-the-people-of-zambia/>

¹⁸ Crivelli, E., De Mooij, R, Keen, M. (2016). Base Erosion, Profit Shifting and Developing Countries. *FinanzArchiv: Public Finance Analysis*, 72(3).

states are on average hardest hit by profit shifting activities of all global regions under examination, the data for Zambia is as follows:

Table 13: Losses because of profit shifting based on IMF and GRD studies

	IMF USD	billion	GRD USD	billion	IMF % GDP	GRD % GDP
Zambia	1.13		0.98		5.10	4.42

Source 24 (Cobham & Jansky, 2017, p. 26)

When looking at the global ranking, Zambia is among those states hardest hit by this profit shifting activity both by IMF and GRD data (Cobham & Jansky, 2017, p. 20).

These illicit outflows come on top of tremendous outflows from legal corporate tax avoidance scheme. According to experts, those practices are aided by the complexity of the Zambian tax regime for mining companies, enabling those to manipulate transactions through inflating costs and underestimating revenue. All this will be examined in further detail in chapter V, VI and VII.

7 Conclusion

To conclude the observations: Under the conditions of globalization and the growing competition of states for residences of private resp. headquarters of corporate wealth holders, a number of concessions were made towards those two groups. To be mentioned are the lowering of top tax rates for personal and corporate income tax as well as the “letting go” of legal practices withdrawing assets from taxation, e.g. via Offshore Constructions and transfer pricing.

Regarding the poor, on the other hand, their situation remained at best stagnant and has in some places worsened, especially because their (nominal) wage might have increased, but their purchasing power has been declined. It can be assumed that poverty, in Zambia will continue to increase in the foreseeable future. This can be traced back to degenerating traditional solidarity networks. They are crumbling because of rural-urban or even international migration while, at the same time, no modern and alternative social security provisions are in place.

Regarding debt, the level attained and persisting in Zambia is worrying and even though there are some advantages in governmental debt this research joins those, e.g. the IMF, who put forward the opinion that the current levels of governmental debt is not sustainable and are

posing risks and burden not only for currently living, but also future generations.¹⁹

The largest source of outflows are IFFs, which would include money from tax evasion and aggressive tax planning. Needless to say that it is the poorest countries, as well as Zambia, which are hardest hit, especially when looked at it not in absolute numbers but in percentage relating outflows to the national GDP (Griffiths, 2014, p. 15ff). Not surprising is further the outflow due to the payment of interest for loans and debt, surprising seems to be the remaining two: Lending to rich countries refers to the need of poor countries to look for secure investment of their reserves which they might need in times of need, for example buying bonds from the US or Germany which is de facto lending money to them. Repatriation of profits means the withdrawal from assets from poor countries back to wealthy countries in times when they are needed there, for example in the aftermath of the World Financial and Economic Crisis. Ever since 2008, repatriated profits exceed Foreign Direct Investments inflows when it comes to developing countries in general (ibid. p. 20).

Obviously, if Zambia was better adapted to today's globalizing world, the collection of much more revenue would be possible to improve both the common good of all and especially the poor as well as the preservation of natural goods (water, climate) and the maintenance of public goods such as infrastructure, health care and education. But: while private and corporate wealth holder are very adapted and therefore privileged states have not yet adequately adjusted to present trends and challenges. Reducing poverty and inequalities will remain a fallacy as long as the country does not generate sufficient domestic revenues through taxation. How exactly deficits in tax law and tax administration are, how they need to be assessed and what should be done will be dealt with in the following parts of this research report.

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¹⁹ See I/IV/3, e.g. (International Monetary Fund, 2013a)

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Annex 1 Coping strategies of poor households

Table 14: Households coping strategies against poverty

Table 13.9: Proportion of Households by Type of Coping Strategies Employed by Residence and Sex of Household Head, Zambia, 2015.

Coping Strategy	Total		Rural		Urban		Male		Female	
	Number	percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Total Zambia	1,509,236	100.0	922,352	100.0	586,884	100.0	1,138,133	100.0	371,104	100.0
Spent savings	244,312	16.2	139,800	15.2	104,512	17.8	192,621	16.9	51,691	13.9
Used insurance	1,192	0.1	232	0.0	960	0.2	952	0.1	240	0.1
Sold animals	76,011	5.0	73,525	8.0	2,486	0.4	58,670	5.2	17,341	4.7
Grew / sold additional / other crops	50,500	3.3	46,245	5.0	4,255	0.7	39,490	3.5	11,009	3.0
Sold assets (tools)	28,574	1.9	10,976	1.2	17,598	3.0	20,814	1.8	7,760	2.1
Sold farm land	6,112	0.4	3,195	0.3	2,918	0.5	3,302	0.3	2,810	0.8
Worked more hours	80,998	5.4	49,411	5.4	31,587	5.4	67,166	5.9	13,832	3.7
Started business	44,307	2.9	20,403	2.2	23,904	4.1	32,904	2.9	11,403	3.1
Sent children to relatives or friends	25,066	1.7	13,693	1.5	11,373	1.9	15,899	1.4	9,167	2.5
Went elsewhere /migrated to work	48,584	3.2	32,555	3.5	16,029	2.7	38,217	3.4	10,366	2.8
Travelled/ migrated to seek health care	17,258	1.1	14,318	1.6	2,940	0.5	13,159	1.2	4,100	1.1
Sent children to work/sell	10,401	0.7	6,434	0.7	3,967	0.7	6,987	0.6	3,415	0.9
Received/ asked for gifts/ assistance from relatives/ friends/ other persons	94,822	6.3	62,266	6.8	32,556	5.5	57,951	5.1	36,871	9.9
Borrowed money from relatives/ friends/other persons	124,415	8.2	62,323	6.8	62,092	10.6	87,956	7.7	36,459	9.8
Borrowed from money lender	32,499	2.2	9,281	1.0	23,218	4.0	27,754	2.4	4,745	1.3
Borrowed from bank/ other financial institution/ employer	7,950	0.5	2,148	0.2	5,802	1.0	6,954	0.6	996	0.3
Got help from religious organization	27,550	1.8	14,723	1.6	12,827	2.2	22,355	2.0	5,195	1.4
Sought spiritual help	25,006	1.7	10,598	1.1	14,408	2.5	22,417	2.0	2,588	0.7
Sought/got help from government	36,291	2.4	27,050	2.9	9,241	1.6	27,331	2.4	8,959	2.4
Sought/obtained help from ngo/ international organization	4,609	0.3	2,929	0.3	1,680	0.3	2,150	0.2	2,460	0.7
Govt cash transfer	1,234	0.1	1,234	0.1	0	0.0	1,234	0.1	0	0.0
Remittances from other households/ persons	38,292	2.5	28,353	3.1	9,939	1.7	21,428	1.9	16,864	4.5
Bought cheaper food	117,961	7.8	50,833	5.5	67,128	11.4	95,433	8.4	22,529	6.1
Bought less food	68,022	4.5	26,641	2.9	41,381	7.1	52,938	4.7	15,084	4.1
Reduced non-food expenses	31,050	2.1	15,898	1.7	15,152	2.6	23,487	2.1	7,563	2.0
Piece work on farms belonging to other households	59,011	3.9	53,708	5.8	5,303	0.9	41,137	3.6	17,874	4.8
Other piece work	46,975	3.1	32,566	3.5	14,409	2.5	37,421	3.3	9,554	2.6
Working on food-for-work or work-for-assets program	5,395	0.4	4,490	0.5	905	0.2	3,780	0.3	1,615	0.4
Eating wild foods only	1,456	0.1	1,342	0.1	114	0.0	205	0.0	1,251	0.3
Substituting ordinary meals with mangoes	2,690	0.2	2,690	0.3	0	0.0	1,678	0.1	1,012	0.3
Reducing number of meals or food-in-take	48,086	3.2	33,222	3.6	14,864	2.5	36,319	3.2	11,767	3.2
Pulling children out of school	2,215	0.1	1,775	0.2	440	0.1	1,632	0.1	583	0.2
Petty vending	3,235	0.2	621	0.1	2,615	0.4	2,014	0.2	1,221	0.3
Begging from the streets	208	0.0	24	0.0	184	0.0	24	0.0	184	0.0
Sought refuge with neighbours	16,199	1.1	10,306	1.1	5,893	1.0	11,826	1.0	4,373	1.2
Other	37,778	2.5	28,062	3.0	9,716	1.7	29,481	2.6	8,296	2.2
No response	41,253	2.7	27,124	2.9	14,128	2.4	31,328	2.8	9,924	2.7
Not stated	1,717	0.1	1,358	0.1	360	0.1	1,717	0.2	0	0.0

Source 25 (Central Statistical Office, 2016, p. 122)