

Executive Brief - Zambia

Effects of the Financial Crisis on Vulnerable Households

Background: This brief is part of a series of five presenting the findings of case studies on the effects of the global financial and economic crisis on households' food security, conducted in March and April 2009.¹

Overview

Zambia remains one of the poorest countries in the region despite its vast natural resources and strategic location. Over the last few decades, Zambia has focused on developing its mining sector at the expense of the agricultural sector. The current financial crisis however, has switched this focus back to the agricultural sector in order to provide the beginnings for sustainable economic development.

The global and financial crisis has affected the country through several interlinked factors: 1) sharp contraction in the primary export commodity - copper; 2) devaluation of the local currency (Kwacha); 3) reductions in foreign direct investments; 4) continued high food inflation; and 5) a decline in tourism.

What is the macro-economic impact on Zambia?

- ✓ Zambia's currency lost a third of its value against the US\$ between March 2008 and March 2009 mainly due to the impact of political uncertainty, the global financial crisis and the fall in international copper prices.
- ✓ The projections for economic growth were revised downwards from 6% to 4% for 2009. Zambia needs a sustained economic growth rate of about 7% if it is to meet the Millennium Development Goals by 2015.
- ✓ FDI fell from US\$ 1,323.9 million in 2007 to US\$ 938.6 million in 2008, while the Foreign Portfolio Investment showed outflow of US\$ 6.1 million in 2008 compared to an inflow of US\$ 41.8 million in 2007. These trends are expected to continue in 2009.
- ✓ Copper export prices are under severe pressure. This is important since the mining sector represents about three quarters of the country's total export earnings in normal times.
- ✓ Inflation, particularly food inflation, is on the rise in Zambia. In April 2009, overall inflation was 14.3% compared to 10.1% in April 2008 and 13.1% in March 2009. Food inflation rose sharply to 15.9% in April 2009 from 10.1% in April 2008 and 13.9% in March 2009. The increase in non-food inflation was not as significant but it still rose from 10.5% in April 2008 to 12.7% in April 2009 and 12.3% from March 2009.

What is the impact on household level?

Copperbelt Province: The mining sector

The mining sector in the Copperbelt province directly employed an estimated 30,000 individuals in 2008. Approximately 8,000 have already been retrenched and this figure is likely to reach 10,000 by June 2009. In terms of overall unemployment, this figure is an under-estimate since it does not account for the retrenchment of those providing goods and services to the mining sector.

Until mid-2008, mining sector jobs were considered the most secure and this perceived security (by both banks and mining sector workers) meant that many individuals took out bank loans. However, when global demand for copper went into decline, this forced mining companies to retrench employees, and banks started calling in their loans. Severance pay in many cases went directly to pay the banks and the workers were left with little, if anything.

The loss of jobs and of the health benefits that went with them has sharply impacted many, particularly those on ARV medication for HIV/AIDS. The private clinics and hospitals established by the mining companies were not only providing drugs but also the necessary high protein diets. Now the retrenched workers find themselves depending on public health systems which do not necessarily have the capacity to absorb the additional caseload. This means that the already weak public health facilities are becoming further stretched, resulting in both reduced quality of care and poor coverage for all. This is an extremely critical issue for a country which has one of the highest HIV/AIDS prevalence rates.

Most of the retrenched miners are still residing with the mining communities expecting that the situation will soon improve and they will be re-employed. This is unlikely to happen, however, as the mining companies have used the crisis as an opportunity to minimize production costs by shifting to capital intensive technologies that are necessary to stay competitive.

¹ Analysis has been undertaken in Armenia, Nicaragua, Ghana, Bangladesh, and Zambia.

Some retrenched workers want to practice agriculture but find themselves ill-prepared and ill-equipped as they have neither the skills nor the startup resources for this.

Ironically, as Copperbelt is one of the more prosperous provinces, there are very few international agencies providing humanitarian assistance here, including the United Nations. For example, WFP is not present at the moment but this may have to change given the emerging vulnerabilities.

Southern Province: The tourism sector

The main source of livelihood in the Livingstone district is tourism. The district boasts several major tourist attractions including the Victoria Falls. People either work directly for the tourism services or rely indirectly as suppliers, transporters, and sellers of small handicrafts.

The decline in international tourism due to the financial crisis, coupled with massive flooding which affected tourist lodges along the Zambezi River, has sharply affected the economic well-being of most communities. Many individuals have been pushed out of hospitality and tourism ventures. It is estimated that as much as 75% of individuals working for the tourism sector have either been retrenched or are working fewer hours or shifts. The hotel industry alone has reduced its workforce by up to 50%.

Normally April onwards is the peak tourism season. However, this year residents have not seen any improvement in the business so far. Discussions with the luxury-end hotel management teams highlighted that they do not see a vast improvement in the business environment till mid 2010 and expect the occupancy rates to be around 50% during the current peak season.

The depreciation of the Kwacha has also played a critical role with inflation being well above 15%. The prices of food commodities, including staple foods, are exceptionally high. Current staple food commodity prices are about two-thirds higher than the same time last year. This is in part because the province relies significantly on imports of food commodities.

Remittances from the Copperbelt and Northwestern provinces are an important income source for about 23% of the households in the Livingstone district. However, both the amount and frequency of remittances have declined due to the retrenchments in the Copperbelt. Approximately 44% of the migrant workers have actually returned to their villages/townships in the Southern Province.

The affected households are employing several coping mechanisms to mitigate the current economic slowdown. Some are venturing into farming but poor soils, lack of capital for inputs and the risk from wild animals are hampering their progress. Others are relying on extended family support which is likely to be unsustainable. Many see no option but to reduce expenses by cutting down on the number of meals per day, consuming less nutritious but cheaper food commodities and spending less on healthcare and schooling. Communities pointed out that negative coping strategies, such as theft and prostitution, are also on the rise.

The communities are unsure about when their situation will improve. They worry that it could easily take upwards of two years and wonder how they will survive until then. Their main priorities are: 1) employment, 2) credit; and 3) access to food.

Recommendations

- ❖ There is an urgent need to expand social safety net programmes, including large public works projects, particularly in the Southern Province in order to provide households with some form of basic income.
- ❖ Given the high food price inflation rate, the “food voucher programme”, currently being piloted in Lusaka, should be implemented in Copperbelt and the Southern Province.
- ❖ Health and nutrition related interventions, including supplementary food for HIV/AIDS and TB patients, should be urgently expanded.
- ❖ The coverage of school feeding in the country needs to be enhanced to ensure that children can receive at least one nutritious meal per day.
- ❖ General food distribution is not an appropriate response option for the Copperbelt, as it is a high-production agricultural region.

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How was the assessment done? The macro-economic review is based on secondary data analysis and interviews with key informants from the Government, development partners, NGOs, research institutions and the private sector. To understand the impact of the financial crisis at the household level, focus group interviews were conducted with communities in several districts of the Copperbelt, Southern and Central Provinces. The mission dates were from 24 March to 7 April.