Foreign direct investment and the fulfillment of basic rights

Since the 1990s, Foreign Direct Investment (FDI) has played an increasingly important role in the country's economy, rehabilitating the copper industry and boosting production and exports of non-traditional products and services. However, this investment has not been used effectively to promote development and reduce poverty. Instead, it is contributing to an erosion of people's rights, including development rights, the right to food, education, a clean environment and women's participation in political decision-making.

Women for Change
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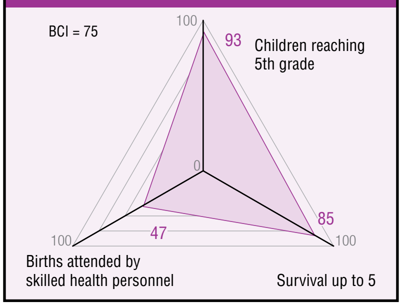
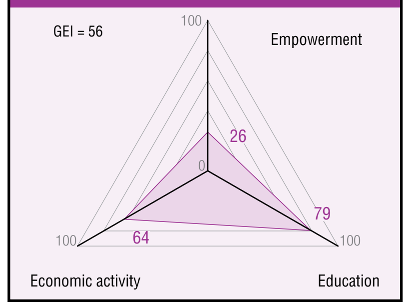
Basic Capabilities Index (BCI) 2010



Gender Equity Index (GEI) 2009



Currently, 63% of the population lives in rural areas; the majority earning its livelihood through agriculture. Poverty is much greater in rural areas; 83% of inhabitants (5.9 million people) are poor, and 71% extremely poor.[1] Many of the poorest people live in households headed by women. In 2000, 19.5% of rural households (1,241,500) were female headed.[2]

Despite the urgent need to address these issues, the agricultural sector has been neglected. In fact, the introduction of liberal economic policies has pushed small-scale farmers back into subsistence farming; many must struggle to meet their food needs. The production and marketing problems they face are immense. In addition, the introduction of market policies in land acquisition threatens their ability to keep their holdings. Large corporations are acquiring vast pieces of land for cultivation of bio-fuels, as well as mining and agriculture. To secure their food supply at a time of volatile global markets, rich countries with poor agriculture resources or a growing need for imports – such as Saudi Arabia and China – are accumulating vast tracts of land in other countries. The UN Special Rapporteur for the Right to Food has identified large-scale transnational land investments as one of the new trends that emerged from the 2008 global food crisis that has not been properly addressed by the international community, and identified Zambia as one of the target countries. As a result, land tenure security for the majority of poor Zambians is in jeopardy.

Food insecurity

Since the 1990s, neglect of agriculture also led to the spread of cattle diseases. Previously, the Government ensured that preventive measures, such as cattle dipping, were taken to protect the country's livestock from disease. When the economy was liberalized in the 1990s, these services were withdrawn and diseases originating in neighboring countries crossed the borders and spread throughout large parts of the country, destroying about half of the country's livestock. This affected small-scale farmers as much as herders, since many farmers depended on draught animals to prepare soil for cultivation, and on their manure to fertilize the land. As a result, they have often become chronically food insecure.

In this environment, the rising cost of maize and other staples in 2007 and 2008 was a heavy blow to already food insecure Zambians, both in urban and remote food deficit rural areas. Zambia's annual food inflation rate in June 2008 rose to 15.6%. This was in stark contrast to the situation one year earlier, when the rate was running at 4.8%. In 2010, the inflation rate for April decelerated to 9.2% from 10.2% in March, according to the Central Statistical Office.[3]

A number of factors contribute to household food insecurity – such as household income levels, age, education, gender, size and structure of household, labour constraints due to poor health and effects of HIV and AIDS, food production levels, food prices and distance to markets.

Food insecurity is a significant precursor to malnutrition. A key indicator of access to inadequate nutrition is the prevalence of underweight children (under five years of age). In 1991, the prevalence rate was 22%; by 2007, it had dropped to 14.6%. However, between 2003 and 2008, 45% of children under five years of age suffered from moderate or severe stunting. The effects of childhood malnutrition are long term, often affecting the child's ability to learn.

Unequal opportunities for girls and women

Good progress is being made in enrolling both girls and boys at primary school level, owing to the introduction of free basic education in 2002. The dropout ratio in primary level has been stable at close to 1.0%. However, the ratio at the secondary level declined between 2003 and 2006.[4] Affirmative action at some universities and teacher training colleges has helped push up the number of girls enrolled at tertiary level. Nevertheless, the dropout rate for females remains higher than for males at all levels of the school system. At grades 1-9, it is 3%, versus 2.1% for males. At grades 10-12, it is 1.98%, and 1.25% for males.[5]

What these figures don't show is the number of children who are out of the system, expected to reach 1.2 million by the end of 2010. Many children who have not been orphaned but are in families struck by HIV and AIDS cannot attend school. Besides, figures do not indicate the quality of the education those who are in school receive. In Zambia, HIV and AIDS have taken a heavy toll on the education. The number of orphans has soared over the last decade. In 1996, the number of school-aged orphans who were not in school was estimated at 400,000 – by 1998 the number had doubled. These children could not afford to attend school due to poverty, or the need to care for sick parents and guardians, engage in income generating activities or early marriage (especially for girls).

The quality of education has been compromised by a dearth of teachers, especially in rural areas, as well as inadequate infrastructure, equipment and learning materials and sexual harassment and violence against girls in schools.

1 IFAD, Rural Poverty in Zambia. Available from: <www.ruralpovertyportal.org/web/guest/country/home/tags/zambia>.

2 Central Statistical Office, *Zambia: 2000 Census of Population and Household*, November 2003.

3 Chiwoyu Sinyangwe, "Zambia's inflation falls by 1%," *The Post Online*, 30 April 2010.

4 UNDP, *Zambia – Millennium Development Goals Progress Report 2008*, Available from: <www.undp.org.zm/joomla/attachments/005_Zambia%20MDGs%20Progress%20Report%20Zambia%202008.pdf>.

5 *Ibid.*

In the political sphere, the patriarchal attitudes that continue to undermine women's rights in all spheres have kept Zambia a long way from the target of 50% women representation in decision-making stipulated by the Southern African Development Council and African Union protocols. The proportion of women holding elected office in national parliament and at local government level has increased, but at an extremely slow pace. In 1991, there were only 6% of parliamentary representatives were women. The proportion climbed to 12% in1996. It remained at that level in 2001, and rose marginally after the last elections in 2006, to 14%. The proportion of women elected as councilors remains a paltry 7%.

Foreign Direct Investment

The Government raises revenues to finance development from three broad sources: domestic revenues, Official Development Assistance (ODA) and domestic and foreign borrowing. Domestic revenues sources include various taxes, such as the company income tax, the mineral royalty tax, custom, and excise and trade taxes derived from Foreign Direct Investment (FDI). Since 2004, with the exception of 2006, over 70% of Government revenue has come from domestic revenues. This coincides with the period when investment flows to Zambia grew significantly.

FDI is seen as an important contributor to development, bringing capital, technology, management expertise, jobs and access to new markets. Many governments, including Zambia's, have developed policies in order to encourage FDI.

In the year 2000, new investment into Zambia totaled USD 121.7 million. After that, the flow increased considerably, reaching USD 334 million in 2004.[6] Most of this money goes into tourism, manufacturing, construction, telecommunications and mining. China is the fastest-growing investor[7] but the influx from Canada and the UK remains greater.

Zambia offers a very liberal investment environment. Currently, FDI is governed by the Zambia Development Agency Act of 2006, which does not stipulate any requirements for local content, technology transfer, equity, employment or use of subcontractors, although foreign investors are encouraged to commit to local participation. The act allows investors to repatriate any capital investments freely, repatriate profit, dividends, interest, fees. It also allows foreign nationals to transfer out wages earned in the country.

Since the 1990s, FDI has played an increasing role in the country's economy, contributing to increased capital inflows and investment, rehabilitating the copper industry and enhancing the production and exports of non-traditional products and services. However, Zambia has not used FDI effectively to promote development and reduce poverty.[8] In promoting FDI, one of the Government's objectives has been diversification to reduce the economy's heavy dependency on copper exports. Despite this goal, copper remains very dominant, in part due to the significant increase in the mineral's global market price since 2004. FDI has not yet made a significant dent in poverty either. The incidence of those living in extreme poverty has inched down from 58% in 1991 to 51% in 2006, with marked fluctuations during these years.

Economic progress has been limited by the Government's failure to pay sufficient attention to the capacity of the domestic private sector and the factors hindering its development. This has led to deindustrialization in some sectors of the economy, reducing the possibility of domestic companies to link up with foreign investors. In addition, the liberal investment policies do not require foreign companies to link up with local producers or suppliers, or even give them incentives to do so.

FDI has not had the desired multiplier effect on domestic players. Further, policies such as the tax incentives given to foreign investors make it difficult for domestic players to compete. A weak domestic private sector significantly reduces potential benefits from FDI through linkages and spillover effects. A strong domestic private sector would attract additional FDI by exhibiting an economic climate receptive to investment.

The Citizens Economic Act

In 2006, the Government passed the Citizens Economic Act and subsequently established a Citizens Economic Empowerment Commission (CEEC) with a mandate to encourage broad based, effective ownership and meaningful participation of citizens in the economy that would contribute to a sustainable economy. The performance and impact of this effort to empower the domestic private sector remains to be seen.

Studies of copper mining (the largest beneficiary of FDI) reveal reasons why the increase in FDI has not been a more significant tool for development and or poverty reduction, including:[9]

- The signing of one-sided deals known as Development Agreements. Largely kept secret, these arrangements exempt investing companies from various obligations, including paying most taxes and many national laws – for example, those related to environmental pollution. They also guarantee protection from future legislation until the end of the 15-20 year "Stability Periods."
- Casualization of the work force. Although new jobs have been created, their quality has drastically declined. An estimated 45% of the work force in the mines has been unable to obtain permanent pensionable jobs. Most workers are on fixed-term contracts with significantly less beneficial terms and conditions than regular employment.
- Environmental pollution. Some investors have not adhered to those national laws that still apply to them. Incidents of environmental mismanagement have damaged the health of the local population. The three most common and serious problems are sulphur dioxide emissions from smelters, heavy metal effluents being discharged into drinking water and silting of local rivers.

Conclusions

One of the major reasons why FDI is not contributing as much as it should to sustainable development is the low revenue the Government derives from taxes. A breakdown of the 2010 budget shows that the largest contributors to revenue are Pay as you Earn (individual employees' tax) at 19% and Value Added Tax at 18%.[10] Company Income Tax contributes 8% and mineral royalty tax contributes 2%. As metal prices soared after 2004 a windfall tax was introduced in 2007; however, after a lot of pressure from the mining companies, this tax – which could have contributed a lot more to the treasury – was repealed in 2009.

The focus on incentives to attract FDI is disproportionately weighted towards economic incentives. The Government does not invest in workforce skills through support for sectors such as education and health, which would reduce poverty much more substantially. Furthermore, under current policies, FDI actually diminishes people's rights, such as the right to food and a clean environment; and, without the concerted efforts of duty bearers, it will actually do little or nothing for women's rights. ■

6 United Nations Conference on Trade and Development (UNCTAD), *Investment Policy Review – Zambia,* New York and Geneva, 2006. Available from: <www.unctad.org/en/docs/iteipc200614_en.pdf>.

7 Peter Kragelund, "Opening the black box of China-Africa relations: the magnitude and composition of Chinese investments in Zambia," Danish Institute of International Studies, 2008.

8 UNCTAD, Investment Policy Review – Zambia, 2006, *op cit.*

9 Alistair Fraser and John Lungu, "For whom the windfalls? Winners and losers in the privatization of Zambia's Copper Mines." Available at: <www.minewatchzambia.com/reports/report.pdf>.

10 Deloitte and Touche, 2009. *Zambia Budget 2010–Keeping the right balance.*