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## SOCIO-ECONOMIC CHALLENGES IN A REBASED ECONOMY: A CASE STUDY OF NCHANGA TOWNSHIP OF CHINGOLA DISTRICT, ZAMBIA

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### ABSTRACT

*Many countries have rebased or redenominated their currencies or legal tender as a monetary policy strategy for addressing costs associated with accumulated loss in the value of the currency, mainly as result of high inflation rates over a lengthy period of time. Zambia has gone through the experience of currency rebasing since 2011. Thus, this study attempted to identify the socio-economic challenges in the rebased economy of Zambia. Based on a descriptive quantitative methodology, the major findings of this study are that inflation, expenditure on food, energy and power, and shelter and housing were identified as the most significant socio-economic challenges in the rebased economy of Zambia. While factor analysis further extracted 9 factors as latent dimensions, with expenditure on basic needs rated as the highest socio-economic challenge in the rebased economy, followed by fuel and education, shelter and housing, income, energy and power, labour market friction and unemployment, expenditure on food, rebasing, and funds. The major conclusion is that, by its nature the results of this study can be generalised to reflect the state of the Zambian economy as a whole. The success of currency rebasing can only be supported by sustainable economic growth.*

### KEYWORDS

socio-economic challenges, rebased economy, inflation, expenditure on food, energy and power, transport and communication, literacy and education, shelter and housing, income erosion.

### INTRODUCTION

Currency rebasing or the redenomination of a country's currency mainly encompasses dropping some zeroes or zero digits. The main reason countries drop zeroes in their currencies is to attain certain monetary economic goals and objectives. Whereas resolutions to be achieved with rebasing of currencies might appear practical than being partisan, a country's checks and balances coupled with its management of its currency as well as transactions contained by limitations remains a unique guarantee of the modern nation and state (Mosley, 2005). Rebasing of a country's legal tender is as the result of the need to address costs associated with accumulated loss in the value of the currency that weakens its basic function as a store of value, medium of exchange and measure of value. This loss of value is inevitable because of high inflation rates over a lengthy period of time. Many countries have rebased or redenominated their currencies. Examples of countries, which have in recent times rebased their currencies due to hyperinflation, include Zimbabwe in 2006, 2008 and 2009 (Robert, 2009); Angola, which rebased its currency in 1995 when inflation rate was 2,672% (Mosley, 2005); Brazil, which rebased its currency in 1994 when its inflation rate was 2076% (Chitala, 2012). The same transformation happened in Ghana, where Ghana replaced the old 10,000 Cedi with a new Ghana Cedi by getting rid of four zeroes from the old currency. For the same reason, Argentina rebased its currency in January 1992 by re-introducing the Peso to replace the Austral at the rate of one Peso: 10,000 Austral, and then pegged its international exchange rate at one Peso: 1US\$. After rebasing, inflation in Ghana dropped from 172% in 1991 to one percentage in 1998. Israel rebased its currency in 1980 and 1987 with inflation at 131% and 307%, respectively. Taking a leaf from the experiences of these countries, the Zambian government decided to rebase its currency in 2011.

### NEED FOR THE STUDY

The purpose of this study was to determine and establish the latent dimensions of the socio-economic challenges in a rebased economy: labour market friction and unemployment; inflation; literacy and education; transport and communication; income erosion; expenditure on food; shelter and housing; and energy and power, in Zambia, with Nchanga South Township of Chingola as a case study area. The benefits of this research are important, since the study provided enlightenment on the socio-economic challenges obtained in a rebased economy. It is hoped that the findings of this study will be useful to policy makers and decision makers in both the public and private sectors in Zambia. Furthermore, it is hoped that the findings of the study will contribute to knowledge and literature regarding socio-economic challenges obtaining in a rebased economy; and by so doing stimulate further future research in this field. Finally, the study will broaden the researchers understanding of economy rebasing and its socio-economic impact on the society or citizens of the economy rebasing country.

### STATEMENT OF THE PROBLEM

The decision to rebase had arisen from the need to address costs associated with an accumulated loss in value of the national currency arising from high inflation that characterized the Zambian economy in the 1990s and the early 2000s. In 2007-2011, the economy relatively stabilized. Consequently, the Government decided that it was the right time to rebase the currency by removing three zeroes. Some economists argued that while currency rebasing may reduce the cost of doing business, in reality it has no tangible benefits directly or indirectly to the Zambian masses. Other scholars further argued that, rebasing, if not handled carefully may worsen the situation and the benefits of currency rebasing may be short term and the country might slide back to the old situation. The big question is has the currency rebasing addressed the intended objective of mitigating socio-economic challenges in Zambia?

### OBJECTIVES OF THE STUDY

1. To determine the socio-economic challenges in the rebased economy of Zambia.
2. To establish the latent dimensions of the socio-economic challenges in a rebased economy as extracted by factor analysis.

### HYPOTHESIS

**H1:** The rebased economy of Zambia has been significantly susceptible to the following socio-economic challenges:

- Inflation
- Labour market friction and unemployment

- Expenditure on food
- Energy and power
- Transport and communication
- Literacy and education
- Shelter and housing
- Income erosion

## METHODOLOGY

Data was collected using an interview schedule and a structured questionnaire that was administered directly to respondents. A Likert scale comprising five responses was used with the matrix questions. Due to time, feasibility and cost of conducting this research, the researchers used convenient sampling and judgmental sampling technique. The sample selected was 290 respondents from a population of 400.

## LITERATURE REVIEW

**Redenomination or rebasing of currency:** Currency rebasing, according to Bank of Zambia article, Technical Guidelines on Rebasing, involves the dividing of a currency unit by a defined denominator and adapting that rebased currency to every amount expressed in both notes and coins (Bank of Zambia, 2012). In addition, Ahmed (2011) defines currency rebasing as a method where a new unit currency replaces the old unit with a certain ratio achieved by taking out zeroes from a currency. Currency rebasing is a government's effort to reaffirm economic power. If people fail to have assurance in the national currency, they may possibly resort to start using other national currencies especially those with better value stability. This can result in being both a mental and fiscal setback to the government as it causes the currency to lose its functions as a legal tender (Cohen, 2004).

**Financial and Accounting Impact of Redenomination:** Rebasing of a Currency has no direct bearing on the economy. As the worthiness of the currency remains the same, so is purchasing power. Its impact on the economy is mainly in micro change. The change is on government expenditures, balance of payments and net exports and net investments. These merely experience minor changes without facing any economic effect. As regards household expenditure, the probable effect on expenditure pattern will be purely psychological as there will be no economic change between the pre and post rebased currency (Mosley, 2002). Therefore, only redenomination of all economic values; prices of goods and services, financial assets and liabilities, salaries and social benefits, to mention but a few, in terms fiscal policies, situations may not be the same. Currency rebasing reduces the physical monetary cash in circulation even though the real value does not change but remains constant (Mosley, 2002).

**Inflation:** In economics, inflation is a sustained increase in the general price level of goods and services in an economy over a period of time (Burda, 2000). When the general price level rises, each unit of currency buys fewer goods and services. Consequently, inflation reflects a reduction in the purchasing power per unit of money, a loss of real value in the medium of exchange and unit of account within the economy (Blanchard, 2000). A chief measure of price inflation is the inflation rate, the annualized percentage change in a general price index (normally the consumer price index) over time (Barro, 2000). Inflation's effects on an economy are various and can be simultaneously positive and negative. Positive effects of inflation include ensuring that central banks can adjust real interest rates (to mitigate recessions), (Mankiw, 2002) and encouraging investment in non-monetary capital projects.

**Labour market friction and unemployment:** The other factor susceptible to the rebased economy is the labour market (Özçay, 2006). The important signs shareholders will pay attention to are the total employment and the unemployment rate. The people who are in work signify the employed, while those who are actively looking for work are the unemployed. The unemployment rate does not take account of citizens without jobs who are not looking for jobs, such as students, retirees, or citizens who are disheartened and have merely given up trying to find a job (Özçay, 2006). As the distribution of assets vary in the economy, established by what citizens are purchasing, some firms go out of business while other companies may be static or expanding. This allows a flow of labour from losing to winning industries but it is not a sudden development. Some workers may leave their jobs by choice. That means there is always some amount of unemployment built into the economic structure, which is often termed the "natural" level of unemployment (Özçay, 2006).

**Expenditure on food:** In recent years, demand studies, mostly in developing countries have focused on analysing consumer demand behavior across differences income groups (Abdulai and Aurbeta, 2003). The findings from these studies have been important for designing development policy options such as poverty reduction programs targeting low-income families (such as food support to the poor and child food programs). Gibson (2001) observed that in Papua New Guinea, structural food demand and income elasticity differed between rural and urban areas. Considering that rural homes consume large parts of their own subsistence production than urban households, different model specifications may be required to account for the effect of subsistence consumption in households. Omitting subsistence consumption in model specification could lead to incorrect inferences. In economics, consumer theory models are used to examine consumer behavior by assuming that a consumer purchases goods and services with limited income, which is allocated among goods to maximize utility (Goldman and Uzawa, 2000).

**Energy and Power:** The Kwacha rebasing has also affected the energy and power industry. Before the Kwacha was rebased, the cost of power was relatively low as compared to after the exercise. For any economy to function at optimum, it needs energy. Zambia is no exception, as Shachinda, (2014) cited that, "the operations of the Nchanga Integrated Business Unit (IBU) have already been grossly affected by the Copper belt Energy Company's (CEC) restricted power supply to the giant mining company. The restriction in power supply will adversely affect Konkola Copper Mines (KCM) operations and compromise safety of the employees and job security." He added that it should be noted that prior to April 2014, CEC had increased power tariffs by over 100% in accordance with the Power Supply Agreement (PSA) and this had resulted in KCM having the highest power tariffs in the mining industry in Zambia. Shachinda further reported that KCM was now paying more than 700 million Kwacha (rebased currency) per year in electricity tariffs. He further reported that KCM regretted that the Copperbelt Energy Company (CEC) had chosen not to pursue this matter in accordance with the PSA provisions on dispute resolution.

**Transport and Communication:** According to Zulu (2013) the Zambian government through the Bank of Zambia used hefty sums of money in printing new notes and sensitizing the public about the rebasing exercise and note changes. As such, many reforms were put in place to assist the government save money and recover the economy among them being the abolishment of the reserve price on fuel. This meant that the consumer had to pay an extra cost on fuel. The other factor that affected fuel prices was the system of rounding off digits. Following the rebasing of the Kwacha in arriving at new fuel prices, Zulu observed that, "some reports had indicated that the price of petrol had increased by 0.06 per cent while diesel was adjusted upwards by 0.05 per cent at Kobil and Mount Meru service stations. The reports also indicated that petrol was selling at KR8.16 (K8, 160) from K8, 155 per litre whereas Diesel was priced at KR7.57 (K7, 570) from K7, 566 per litre. Zulu argued that the perceived increase was necessitated by the rounding off the rebased pump price to two decimal places instead of rebasing it to three decimal places to match the old price" (Zulu, 2013).

**Literacy and Education:** Following the recent economic adjustment policies, the government has reduced funding to schools. Chiwela (2014) argues that "although the Zambian government recognizes the centrality of adult literacy to development and its signing up to the United Nations' Education for All (EFA) goal of 50% reduction in adult literacy by 2015, it is unfortunately investing scandalously little in programme to deliver that goal. The literacy rate for the population aged 15 years and above is only 67.2%. In the age group 15 to 24 years, the literacy rate is only 70.1%. The illiteracy rate among women aged 15 and above is estimated to be at 41% as compared to that of men estimated at 23.9%. While these statistics are sobering, the number of illiterate adults is increasing rather than decreasing." In 2013, the Government made a declaration to standardize the school fees to K 550, and the following year 2014, the fees were increased by K200 to make it K750; thus making it difficult for an average poor family to afford education for their children. Another contributor to the declining literacy levels in Zambia is low attainment levels in primary schools, poor transition rates from primary to secondary levels of education and inadequate capability of government and other service benefactors to provide for a developing uneducated population. This situation brings in uncertainties of Zambia attaining the Millennium Development goal on literacy by 2015. This situation has severe consequences on the accomplishment of other millennium development goals to which literacy is inherent (Chiwela, 2014).

**Shelter and housing:** The right to housing and shelter is an economic, social and cultural right of every human being. It is documented in several national establishments and in the Universal Declaration of Human Rights and International Covenant on Economic, Social and Cultural Rights. (Kapatamoyo, 2014) Article 25 of

the Universal Declaration of Human Rights identifies the right to housing as part of the right to an acceptable standard of living. An average one bedroom apartment in Lusaka city centre used to fetch about USD \$ 658.98 in 2009, and as of 2014 such an apartment is rated at USD \$ 800.00, while a similar apartment used to be USD \$ 329.49 outside the city centre and now it is rated at USD \$ 500.00 (Numbeo, 2014). Much of the hike in house rental rates happened in slightly after the rebasing exercise, with most proprietors justifying the increases with the rising prices of goods and services. Kapatamoyo (2014) observes that a three-bedroom house is regarded to be customarily decent and acceptable for an average family of six. It is also the suitable size to validate a decent standard of living for the girl-children, boy-children and for the parents.

**Income erosion:** In Zambia, income and assets seem a little scarce for an average family, with the annual inflation that stood around 10% in 2012. According to the Jesuit Centre for Theological Reflection (JCTR), the JCTR’s Basic Needs Basket’s (BNB) for June 2012 total amounts to K3, 395,660 for an average family of five living in Lusaka. Yet the minimum monthly wage for an average domestic workers is about K252 000 after being increased from K256 000. The wages of other workers - such as shop assistants, farmworkers, and construction workers, increased from K250, 000 to K1 100, 000. Despite the new increased basic salaries, the JCTR survey still shows that the incomes are still relatively low thus, making it difficult for citizens to save any income. Families all over the nation have reduced the amount of meals they consume, so that they can save the little family income. Almost every average family in Zambia is living on a dollar or less a day, with about 500,000 citizens who were employed by the formal sector, according to the country’s Central Statistical Office (Keith and Idah, 2012).

**ANALYSIS OF THE STUDY**

**TABLE 1: DESCRIPTIVE STATISTICS ON THE CHALLENGES OF ECONOMY REBASING**

Economy Rebasing Challenges	N	Mean	Standard Deviation
Inflation average	200	3.1050	1.1740
Labour Market friction and unemployment average	200	2.2675	1.0203
Expenditure on food Average	200	3.0425	1.2012
Energy and Power Average	200	3.5540	1.1798
Transport and Communication Average	200	2.5010	1.1858
Literacy and Education Average	200	2.7617	1.1782
Shelter and Housing Average	200	3.3060	1.1644
Income erosion Average	200	2.2063	1.0588

Table 1 above presents the data gathered in response to the questions on inflation in Chingola district in Zambia. The overall score of the mean of 3.105 (SD=1.174) implies that inflation is a socio-economic challenge in the rebased economy of Zambia. Table 1 also presents the data gathered with respect to the questions on labour market friction and unemployment in the Chingola district of Zambia. The overall mean score of 2.2675 (SD=1.02025) indicates that labour market friction and unemployment is a socio-economic relative challenge in the rebased economy of Zambia. The overall mean score of 3.0425 (SD=1.20115) indicates a significant impact of expenditure on food as a socio-economic challenge in a rebased economy. The overall variable mean for energy and power registered as 3.554 (SD= 1.1798) implies that energy and power is very significant socio economic challenge in a rebased economy. On average, transport and communication has been a slight challenge as a socio-economic indicator in a rebased economy with an average mean score of 2.501 (SD=1.1857). Literacy and education; shelter and housing; and income erosion had means of 2.7617 (SD=1.1782); 3.3060 (SD=1.1644); and 2.2063 (SD=1.0588) respectively, indicating that the challenges varied in terms of significance.

**TABLE 2: TOTAL VARIANCE EXPLAINED**

Factor	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
Expenditure on basic needs	6.331	20.423	20.423	6.331	20.423	20.423
Fuel and education	3.281	10.583	31.006	3.281	10.583	31.006
Shelter and housing	2.312	7.457	38.464	2.312	7.457	38.464
Income	1.945	6.274	44.737	1.945	6.274	44.737
Energy and power	1.871	6.036	50.773	1.871	6.036	50.773
Labour market	1.560	5.034	55.807	1.560	5.034	55.807
Expenditure on food	1.493	4.815	60.622	1.493	4.815	60.622
Rebasing	1.206	3.891	64.512	1.206	3.891	64.512
Funds	1.116	3.599	68.112	1.116	3.599	68.112
<b>Extraction Method: Principal Component Analysis.</b>						

Factor analysis from Table 2 above extracted nine factors, accounting for 68.112% of the variance as socio-economic challenges in the rebased economy of Zambia. The nine factors are expenditure on basic needs, fuel and education, shelter and housing, income, energy and power, labour market, expenditure on food, rebasing and funds. According to the responses received, expenditure on basic needs was rated as one of the highest socio-economic challenge in a rebased economy with percentage variance of 20.423%. Funds was rated as one of the least socio-economic challenge in a rebased economy and accounted for percentage variance of 3.599%. In the above table, we are most interested in the "Extraction Sums of Squared Loadings" which represents the "work" done by the factor analysis. As can be seen, the first eigenvalue is equal to 6.331, and corresponds to 20.423% of the variance. The second eigenvalue is equal to 3.261, corresponding to the second factor, is associated with 10.583% of the variance. The third eigenvalue is equal to 2.312, corresponding to the third factor, is associated with 7.457% of the variance. The fourth eigenvalue is equal to 1.945, corresponding to the fourth factor, is associated with 6.274% of the variance. The fifth eigenvalue is equal to 1.871, corresponding to the fifth factor, is associated with 6.036% of the variance. The sixth eigenvalue is equal to 1.560, corresponding to the sixth factor with 5.034% of the variance; the seventh eigenvalue is equal to 1.493, corresponding to the seventh factor with 4.815% of the variance. Furthermore, the eighth eigenvalue is equal to 1.206 corresponding to the eighth factor with 3.891% of the variance; the ninth eigenvalue is equal to 1.116, corresponding to the ninth factor 3.599% of the variance.

FIGURE 1: SCREE PLOT FOR THE NINE LATENT DIMENSIONS EXTRACTED BY FACTOR ANALYSIS

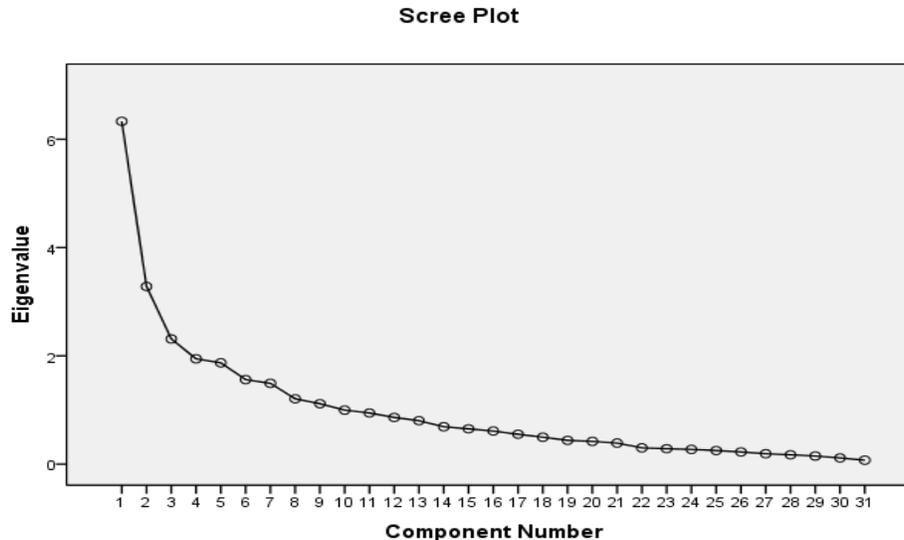


Figure 1 above is the scree plot of the eigenvalues plotted from the largest to the smallest. The factor with the highest eigenvalue is the greatest socio-economic challenge in the rebased economy and in the scree plot it is factor 1 (expenditure on basic needs). The second socio-economic challenge is factor 2 (fuel and education), then factor 3 (shelter and housing), followed by factor 4 (income), then factor 5 (energy and power), factor 6 is (labour market), factor 7 (expenditure on food), factor 8 is (rebasings) and the least socio-economic challenge is factor 9 (funds).

### FINDINGS AND SUGGESTIONS

The above findings suggest that the identified socio-economic challenges obtaining in the rebased economy of Zambia from 2011 vary in their level of significance and impact on the society or citizens of Zambia.

**Suggestion 1:** The socio-economic challenges are inflation, labour market friction and unemployment, expenditure on food, energy and power, transport and communication, literacy and education, shelter and housing, and income erosion.

**Suggestion 2:** Inflation, expenditure on food, energy and power, and shelter and housing were identified as the most significant socio-economic challenges in the rebased economy of Zambia with mean scores or values of 3.1050, 3.0425, 3.5540, and 3.3060 respectively, while the rest of the socio-economic challenges were identified as less significant with mean score or values less than 3.0000.

**Suggestion 3:** Factor analysis, particularly principal component analysis extracted 9 factors from the identified socio-economic challenges as latent dimensions and ranked them according to their statistical significance as depicted in table 2 (total variance) and figure 1 (scree plot). The nine factors are expenditure on basic needs, fuel and education, shelter and housing, income, energy and power, labour market, expenditure on food, rebasing and funds, accounting for 68.112% variance in socio-economic challenges in a rebased economy of Zambia.

**Suggestion 4:** Expenditure on basic needs was rated as the highest socio-economic challenge in the rebased economy with variance of 20.423%, followed by fuel and education, with a variance of 10.583%, shelter and housing, with a variance of 7.457%, income, with a variance of 6.274%, energy and power, with a variance of 6.036%, labour market, with a variance of 5.034%, expenditure on food, with a variance of 4.815%, rebasing, with a variance of 3.891%, and funds, with a variance of 3.599%.

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