



**Submission on**

**Budget Implementation Vis-à-vis Decent Employment Creation in Zambia**

**Submitted by**

**The Zambia Institute for Policy Analysis and Research**

**To**

**The Budget Committee**

**On**

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## Introduction

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This memorandum has been prepared in response to the request by the Budget Committee to the Zambia Institute for Policy Analysis and Research (ZIPAR). The Committee has requested ZIPAR to comment on the following;

- i. The policy and legal framework for addressing unemployment
- ii. The factors leading to high unemployment levels in Zambia
- iii. The extent to which creation of decent employment has taken centre stage in the budget process in Zambia
- iv. The strategies for employment creation in the consecutive national budget plan period (7NDP - 2017 to 2021)
- v. The resource allocation through the national budgets that relates to employment creation during the Plan period (7NDP – 2017 to 2021)
- vi. The challenges faced in the creation of employment in Zambia
- vii. Recommendations on way forward on the creation of decent employment by the budget

The memorandum is prepared as follows; Section 1 sets the tone by discussing the various components needed for the creation of decent employment, section 2 will give an overview of employment policies and regulation in Zambia, section 3 will discuss the strategies for employment creation in the national budgets while checking for consistencies and the extent to which decent employment has taken centre stage in the budget process in Zambia, section 4 will discuss the constraints to employment creation in Zambia and finally section 5 will provide recommendations and conclusion.

### **1.0 What is a conducive environment for decent employment creation?**

Decent employment has taken prominence in development discussions world over. It is desirable for the working age population to have decent employment as it assures workers of dignity, decent pay and social protection among other things (ILO, 2019). The country has come under immense pressure to grow jobs for the bulging labour force to address high unemployment in urban areas and poor quality of jobs in the rural areas. Growing jobs will require a combination of policies such as promoting of local firms to participate in the global value chains, investments in labour intensive industries such as agriculture and tourism through mechanised agriculture, irrigation systems to improve productivity and opening up of tourist destinations especially in the northern circuit of Zambia.

A number of challenges however exist in creation of decent employment. There are critical areas that the country will need to invest in to actualise the decent employment agenda, key among them include ensuring a stable macro environment that can support private sector development, investments in human capital development through the

provision of quality education and health and finally protecting the most vulnerable in society through social protection. Government has a key role to play in providing a conducive environment through the legal framework and provision of public services such as health and education. In the section below, we highlight the role of the aforementioned factors in the creation of decent employment and the current provisions that we have as a country.

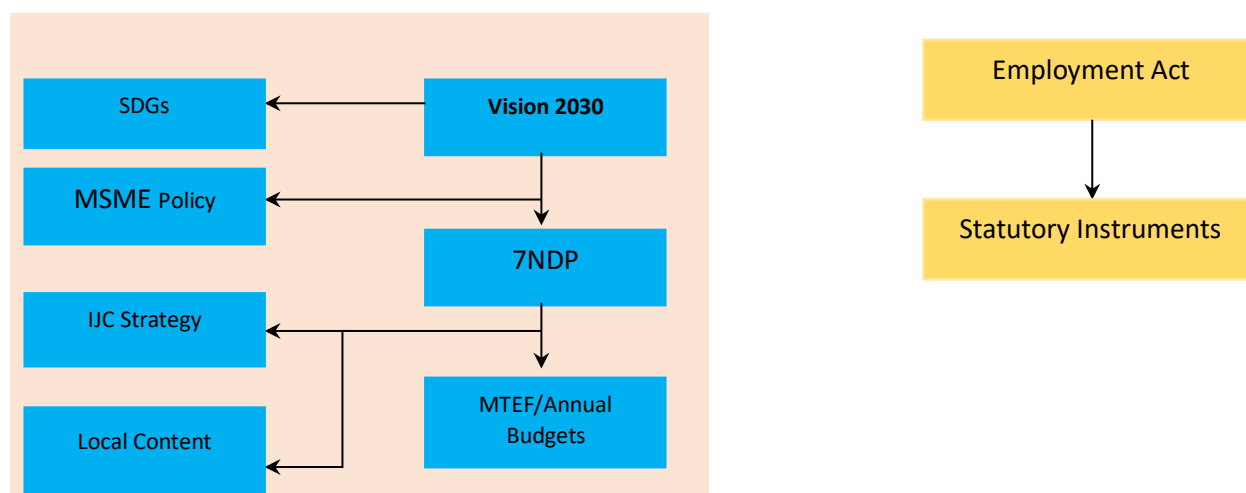
- ***The basics; a conducive macro, investment and labour market environment:*** From a very basic perspective, the creation of employment opportunities is dependent on the ease of starting new businesses and growing the existing ones. Fundamentally, this then implies that decent employment creation is a function of all the macroeconomic, investment and labour market policies that affect business growth.
- ***A stable macroeconomic environment is key in decent employment creation:*** Zambia currently finds itself in a severely constrained macroeconomic environment. The challenges include depressed economic growth, a huge debt burden, a volatile exchange rate and electricity shortages. A stable macroeconomic environment is key to providing an enabling environment for job creation, however in a constrained environment this task will be more daunting.
- ***Vibrant private sector can spur economic growth and create decent employment:*** The private sector plays a key role in employment creation. While the Government is the single largest employer in Zambia, the private sector collectively provides most of the jobs in the economy. However cheap and affordable finance which is an indispensable catalyst for growth and job creation remains a huge challenge. A conducive business environment is one that encompasses well-functioning capital markets that facilitate businesses' access to affordable finance. And where the markets fall short, Government intervenes with the provision of development finance
- ***Education and skills are needed for decent employment:*** Decent employment which often is formal requires a highly educated and skilled labour force. Therefore, a country that is stern about creating decent employment will ensure that a number of people attain higher education with specific focus on secondary education completion, tertiary education and skills development.
- ***Health stock of the labour force has an impact on productivity:*** Health stock of a person is a key asset in their participation in the labour market. Health has a direct impact on productivity and therefore the earnings of an individual. Health problems such as malnutrition in children under the age of five have long term effects that have adverse effects on cognitive development of a child and affects future earnings as an adult.
- ***Social protection to safeguard workers' rights:*** Social protection entails putting in place programmes that reduce exposure to risks such as unemployment, disability and sickness with the aim of reducing poverty and vulnerability. Social protection is a key component of ensuring that jobs are decent and meaningful.
- ***Efficient and transparent regulatory policies to support employment creation:*** Labour regulations influence labour market interactions of demand and supply. Implementing regulations should be done thoughtfully as over

regulation often makes labour expensive discouraging employers from employing. On the other hand, under regulation leaves workers often unprotected with poor working conditions inhibiting the decent work agenda. Creating a balanced regulatory framework that favour both workers and employers is not an easy task, however it is critical in creating an enabling environment for decent employment creation.

## 2.0 Overview of Employment Policies and Regulation in Zambia

Zambia’s strategy for employment creation seems to suggest it is private-sector driven and this is echoed in all the development policies starting with the overarching development plan the country aspires to – the Vision 2030. Other policies include the Industrialisation and Job Creation Strategy; the 7<sup>th</sup> National Development Plan, the MSME Policy, Local Content Strategy and many other policies.

**Figure 1: Policies and Laws governing employment creation in Zambia**



*Source: Author’s own construction*

The Government has developed a number of policies and laws to enhance employment creation including the National Employment Labour Market Policy (NELMP) that was launched this month, November 2019. The Government has also embarked on reforming labour regulations with the aim of providing more protection for workers and enhance decent work opportunities. The section below gives an overview of the key employment creation policies.

**Vision 2030:** The Vision 2030 launched in 2006 aims at achieving the status of a prosperous middle-income country by 2030. The Vision 2030 sets a target of maintaining the unemployment rate below 10% of the total labour force and ensuring that 90% of the labour force operate in an environment where labour laws are respected. The Vision 2030, also recognises the importance of creating a conducive investment

climate by: improving access to affordable credit; streamlining work permit and licence requirements and procedures; and improving tax and customs administration

**Seventh National Development Plan (7NDP):** the 7NDP ties *industrialisation with job creation* as one of the strategies for enhancing decent job opportunities in the economy. Among its strategies for this pillar includes improving production and productivity, enhancing agriculture value chains, diversification and investment. The 7NDP targets to increase the share of formal sector from the current 16% to 39.4% by 2021. The plan also commits to operationalizing a labour policy and legal framework. The plan further commits to enhancing social dialogue and creating a comprehensive social security system. The 7NDP also promotes industrialisation and job creation through the implementation of key reforms that will alleviate the constraints to industrialisation. These include: streamlining business licensing and regulation, improving trade logistics, supporting MSME development, efficient public service delivery and easing doing business in Zambia.

**Industrialisation and Job Creation Strategy (IJCS):** The Industrialisation and Job Creation Strategy (IJCS) was launched in 2013 to address the challenge of lack of job creation in the formal sector despite of the country's record economic growth at the time. The strategy attributed the lack of formal sector jobs to Zambia's growth which has mainly been in capital intensive sectors such as mining. The aim was to create 1,000,000 new formal sector jobs in Zambia over the period 2013 to 2018. Four growth sectors were identified as having the greatest potential to achieve the multi-objectives of promoting growth, employment, value addition and expansion of Zambia's economic base. These include the agriculture, tourism, construction and manufacturing sectors. To foster these sectors' growth and employment creation, the sectors were to be supported by significant investments in "infrastructure, education and skills development, improved availability of long term finance, transportation logistics and ICT as well as enhancing reforms in the business environment".<sup>1</sup> To promote decent work, the IJCS committed to undertaking labour reforms that would reduce the cost of retirement and redundancy, and implement a sector based minimum wage premised on the ability to pay among other strategies aimed at improving labour productivity.

**MSME Policy:** Amongst other goals, the MSME policy aimed to address unemployment levels and increase participation of citizens in economic development. The policy identified MSMEs as having great potential for economic development, equitable wealth redistribution and poverty alleviation. However, various business constraints that limit the sectors' ability to contribute to national economic development were identified. Key challenges identified include; limited access to financing solutions, inadequate business infrastructure such as roads and telecommunication facilities and constraining business and regulatory systems. Arising from a need for a focussed and strategic development of the MSME sector in Zambia, the MSME policy aims to provide much needed guidance on all activities and development efforts related to MSMEs.

**Local Content Strategy:** The Local Strategy aims to foster business linkages in growth sectors as well as promote linkages between MSMEs and large enterprises by ensuring that a minimum of 35% of inputs - both goods and services - are locally sourced. In addition to enhancing the competitiveness of local firms, the local content requirement

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<sup>1</sup> Industrialisation and Job Creation Strategy, 2013

has the potential to create strong domestic linkages within the economy thereby driving growth and boosting employment opportunities

**2015 Revision of the Labour Regulations:** In 2015 the Zambian Government made several amendments to the Employment Act (CAP 268) No. 13 of 1997. These changes were necessitated by the need to provide further job protection to workers. The aim of these revisions was to encourage employers to opt for permanent employment as there was a seeming preference by employers to offer short term contracts. The regulations included: The ban of casualization of labour and criminalized its practice; and the tightening of Separation clauses, requiring every employer to give a “valid” reason for terminating employment;

**Minimum Wage:** Minimum wage legislation in Zambia was first enacted in 1982, overtime it has been revised to reflect key economic changes and trends. In 2011, revisions were made and coverage was extended for the first time to domestic workers. More recent adjustments in 2018 awarded domestic workers and other workers a 100% and 50% increment respectively.

**2019 Employment Code:** The 2019 Employment Code Act was enacted to replace the Employment Act, the Employment (Special Provisions) Act, the Employment of Young Persons and Children Act and the Minimum Wages and Conditions of Employment Act. This was done to refine Zambia’s labour laws; the employment code contains several clauses that provide extended benefits to workers. These extended employment benefits include; extended maternity leave and annual leave pay among others. Furthermore, the Employment Code includes a clause that enhances severance pay benefits by introducing mandatory gratuity at a rate of 25%. The revisions are aimed at providing further protection for workers and extending employment benefits to make employment more meaningful thus enhancing the decent work agenda.

**National Employment Labour Market Policy (NELMP):** The 2018 NELMP was formulated to facilitate the creation of more and better jobs that offer adequate income and promote the respect of rights at work. The policy was also developed to align job creation strategies with the 7NDP. Among other objectives of the strategy is to increase the number of formal jobs in rural areas and transition informal jobs into formal ones. The policy also aims to increase work opportunities through the promotion of internships and apprenticeships, and the institutionalization of pro-employment budgets and sector programming.

### 3.0 Key Decent Employment Creation Strategies in the Budgets 2017-2021 and the 7NDP

Zambia is very good at developing policies and laws in almost all areas including employment creation. As seen above, the country has espoused its employment creation strategies by identifying the key challenges and strategies to address them. However, what Zambia fails to do in most cases is policy implementation. Some of the policies outlined above have expired with very little achieved in their stated time frames. Implementation of policies by Government is best reflected through the national budgets. In line with the Parliamentary request, we analyse the budgets between 2017 to the current one of 2020 in relation to decent employment creation strategies. We begin by highlighting the key employment strategies in the 7NDP on which the national budgets 2017-2020 are based on.

#### **7<sup>th</sup> National Development Plan (2017-2021)**

The key employment creation strategies in the 7NDP to promote industrialisation and job creation include:

- *Private sector development and competitiveness reform implementation;*
- *Value-addition and value-chain diversification development;*
- *Access to finance promotion;*
- *Policy and regulatory framework review and enhancement.*
- *Business development service provision;*
- *Credit guarantee schemes support;*
- *Industrial yards and cluster development;*
- *Informal sector social security, occupational safety and health protection promotion;*
- *Formal sector vulnerable groups empowerment support;*
- *Skills development fund establishment;*
- *Vocational and entrepreneurship development promotion;*

#### **2017 budget: Restoring Fiscal Fitness for Sustained Inclusive Growth and Development.**

The 2017 Budget made notable pronouncements regarding job creation. Pronouncements in the budget regarding creating an enabling environment for job creation included;

- *The Government committed to creating 100,000 jobs.*
- *Establishment of Agricultural and Industrial Credit Guarantee Fund for SMEs*
- *Implementation of the Tourism Development Fund as provided in the Tourism and Hospitality Act*
- *Enhance initiatives with private sector in tourism such as transforming Livingstone into a premier conferencing centre*
- *Increase electricity generation by scaling up solar project and the development of Kafue gorge, Batoka gorge and Kalungwishi*



- Continuation of road infrastructure projects such as Link Zambia 8000, Lusaka 400 and Copperbelt 400
- Promotion of international trade through operationalising bilateral trade agreements with the Democratic Republic of Congo and Angola
- Provide youths with affordable start-up capital and establish Youth Resettlement Schemes in line with the National Youth Policy and the Action Plan for Youth Empowerment and Employment.
- Introduce bankruptcy related protection to give struggling businesses greater chance of survival.
- Expand the use of Cooperatives as a business model for peri-urban and rural entrepreneurs
- Recapitalise State Owned Enterprises (SOEs) and hive off non-viable SOEs

**Resource allocated: How much money was allocated to the above**

- K20 million was allocated to Agricultural and Industrial Credit Guarantee Fund for SMEs
- K219 million was allocated for Empowerment Fund
- K8.6 billion was allocated for Road Infrastructure
- K233 million was allocated to the Skills Development Fund
- K1.7 billion was allocated to the Public Service Pension Fund
- K114 million was allocated to the Rural Electrification Fund

**Progress made:** The Government reported setting up the Agriculture and Industrial Credit Guarantee Scheme in 2018. It is not very clear how the scheme is working and how many people have accessed finance. By 2019, the focus for international conferencing tourism had shifted from Livingstone to Mulungushi International Conference Centre in Lusaka. The African Continental Free Trade Agreement has been reported as progress into promoting international trade which will create a market for growth and job creation. On the commitment to create 100,000 jobs, it was unclear on how this target would be met or the sectors that would provide these jobs. It is important to note that the average growth for formal sector jobs is 50,000 per year against 300,000 entrants, this trend did not change after 2017 implying that this target was not met. As for the other strategies, with the exception of the infrastructure projects, our guess is that very little has been achieved. We need budget performance evaluations to guide future budgets.

**2018 budget: Accelerating fiscal fitness for sustained inclusive growth, without leaving anyone behind**

The 2018 Budget Speech made reference to “Government’s commitment to create jobs for our people”, However, there was no quantitative mention of how many jobs that budget was aiming to create. The 2018 Budget was also silent on the 2017 pronouncement to create 100,000 jobs. Furthermore, the 2018 Budget committed to the enactment of the Social Protection Bill, a Bill critical in extension of social protection coverage which currently only covers 16% of the employed population. As of October 2019, the Social Protection Bill was not enacted. The other key employment creation strategies included;

- Strengthen local manufacturing of medical drugs

- *Put in place a robust asset management system for all SOEs to assess their viability and sustainability*
- *Continuation of road infrastructure projects*
- *Rural electrification to make rural areas attractive for investment and promote rural industrialisation*
- *Introduction and development of farm block model in Copperbelt, Muchinga and Northern Provinces anchored on core venture, agro-processing facilities and smallholder farmers*
- *Facilitate a US\$100 million public private sector investment into a tractor and agricultural equipment assembly plant in the Lusaka South Multi-Facility Economic Zone.*
- *Government obtained financing of US\$40 million from EXIM Bank of India for agriculture mechanisation*
- *Facilitate access to both local and foreign markets for livestock products through the exportation of one million goats per annum to the Middle East.*
- *Continuation of the implementation of US\$50 million Zambia Aquaculture Enterprise Development Project to support aquaculture value chain.*
- *Continue the development of MFEZ's and Industrial parks. Government to set up Kafue Iron and Steel, Kalumbila and Chembe MFEZ in 2018.*

**Resource allocated: How much money was allocated to the above**

- *K8.6 billion allocated was allocated for Road Infrastructure*
- *K176 million was allocated for Skills Development Fund*
- *K1 Billion was allocated to the Public Service Pensions Fund*
- *K940 million was allocated to construction of International Airports*
- *K251 million was allocated to the Rural Electrification Fund*

**Progress made:** Government in 2019 announced that it has revised guidelines for land acquisition in farm blocks to foster PPPs in the development of infrastructure. By 2019, Government reported acquiring 170 fish cages, 280 fish pens, procured vehicles and in collaboration with private sector established two fish feed plants in Siavonga.

**2019 budget: Delivering Fiscal Consolidation for Sustainable and Inclusive Growth”.**

The 2019 Budget announced that 15,000 jobs were created due to the completion of the MFEZ. The Budget also committed to implement the Decent Work Country Program (DWCP) with the view of improving compliance and application of the labour laws. However, we have not come across any comprehensive studies to ascertain the coverage of the labour law enforcement in Zambia. Furthermore, the 2019 Budget committed to the enactment of the Employment Code as part of labour reforms, this is also in line with commitments made in the 7NDP. The Employment Code was enacted in April 2019. However, concerns have been raised on the new cost that the act introduces. The other key employment creation strategies included;

- *Pursue the diversification agenda more aggressively by creating employment opportunities in agriculture, tourism and manufacturing*
- *Develop irrigation infrastructure and finalise irrigation infrastructure in Mwomboshi in Chisamba, Musakashi in Mufulira and Lusitu in Chirundu*
- *Continuation of the US\$100 million tractor assembly plant in the Lusaka MFEZ*
- *Promotion of fisheries through the continuation of the Zambia Aquaculture Enterprise Development project*

- *Implementation of the Local Content Strategy by promoting the use of at least 35% locally available inputs in industrial processes*
- *Through the Zambia Development Agency, implement business linkage programme to link industry and MSMEs*
- *IDC to invest in pineapple processing in North Western Province, fruit processing in Eastern Province, cashew nut processing in Western Province and an out-grower scheme for palm oil trees in Muchinga province*
- *Reduce income tax rate to 15% from 35% for companies that add value to copper cathodes*

**Resource allocated: How much money was allocated to the above**

- *K6.5 billion was allocated towards Road Infrastructure*
- *K415 million was allocated towards the development of Energy Power Infrastructure*
- *K164 Million was allocated to the Skill Development Fund*
- *K1 Billion was allocated to the Public Service Pensions Fund -*
- *K585 million was allocated to the Zambia Small Ruminants Value Chain Support*
- *K169 million was allocated to the Aquaculture Entrepreneurship Development*
- *K182 million was allocated towards the Rural Electrification Programme*

**Progress made:** By 2019, Government had undertaken labour law reforms specifically by consolidating the Employment Act, the Employment of Young Persons and Children’s Act, Minimum Wages and Conditions of Service Act into a single Labour Code. Government in 2019 also announced that it had trained 270 farmers under the Zambia Aquaculture Development project.

**2020 budget: Focusing national priorities towards stimulating the domestic economy**

The most recent 2020 Budget Speech then explicitly mentions the creation of more than 4,000 direct jobs upon completion of the establishment of industrial yards. However, the construction of the industrial yards has not been completed and this cannot be assessed. The other key employment creation strategies include;

- *Continue with the Irrigation development projects*
- *Promote export-oriented industrialisation with progress reported in the export of cement, honey and detergents*
- *Develop the Northern Circuit to diversify the tourism sector and contribute to job creation*

**Resource allocated: How much money was allocated to the above**

- *K11 Billion was allocated towards Energy Power Infrastructure*
- *K10 Billion was allocated towards Roads Infrastructure*
- *K166 million was allocated to the Rural Electrification Fund*
- *K179 million was allocated to the Skills Development Fund*
- *K1 billion was allocated to the Public Service Pensions Fund*
- *K5.9 million was allocated to Labour and Employment Inspections, this allocation is meant to cater for industrial relations management, the setting of Sector Based Minimum Wage, and the Social Dialogue Tripartite Consultative Labour Council.*
- *K7.1 million was allocated for Youth Skills Development*
- *K7.7 million was allocated for Youth Empowerment*

- K8.8 million was allocated for the operationalisation of the Skills Advisory Committee and the management of productivity improvements.
- K4.7 million was allocated to the Science and Technology Youth Innovation Fund (STIYF) to encourage youth inventiveness for wealth and job creation.

**Progress made:** Tracking allocations towards employment creation programmes is much easier using the 2020 Budget as the Government has since migrated 22 more ministries to the Output Based Budgeting (OBB) system. However, as the year 2020 has not started, the actualisation of these interventions cannot yet be assessed.

**TABLE 1: SUMMARY OF THE EMPLOYMENT CREATION STRATEGIES IN NATIONAL BUDGETS (2017-2020)**

<b>Year</b>	<b>Macro target/Regulatory Reforms</b>	<b>Skills Development</b>	<b>Infrastructure Development</b>	<b>Social Protection</b>	<b>Private Sector Development</b>
<b>2017</b>	➤ 100, 000 jobs	➤ Skills Development Fund	➤ Roads Infrastructure ➤ Rural electrification	➤ Public Service pensions Fund	➤ Agricultural and Industrial Credit Guarantee Fund for SMEs ➤ Recapitalization of SOEs
<b>2018</b>	➤ No Job Creation Target	➤ Skills Development Fund	➤ Roads Infrastructure ➤ Construction of Airports ➤ Rural electrification	➤ Public Service pensions Fund	➤ PPP investment in Tractor and Agriculture equipment in MFEZ ➤ Obtain \$40 million for agricultural mechanisation. ➤ Aquaculture Enterprise Development Project ➤ Continued development of MFEZ and Industrial parks
<b>2019</b>	➤ 15,000 Jobs reported as created from the MFEZ ➤ No Job creation Targets ➤ Enactment of the Employment Code	➤ Skills Development Fund	➤ Roads Infrastructure ➤ Energy Power Infrastructure ➤ Rural electrification	➤ Public Service pensions Fund	➤ Zambia Small Ruminants Value Chain Support ➤ Aquaculture Entrepreneurship Development ➤ Continued PPP investment in Tractor and Agriculture ➤ Local Content Strategy

<b>2020</b>	<ul style="list-style-type: none"> <li>➤ 4000 jobs from the completion of the industrial yards</li> <li>➤ <i>Labour and Employment Inspections is meant</i></li> <li>➤ <i>Setting of Sector Based Minimum Wage</i></li> <li>➤ <i>Operationalisation of the Skills Advisory Committee</i></li> </ul>	<ul style="list-style-type: none"> <li>➤ Skills Development Fund</li> <li>➤ Youth Skills Development</li> <li>➤ Science and Technology Youth Innovation Fund (STIYF)</li> </ul>	<ul style="list-style-type: none"> <li>➤ Roads Infrastructure</li> <li>➤ Rural electrification</li> <li>➤ Energy Power Infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>➤ Public Service pensions Fund</li> </ul>	<ul style="list-style-type: none"> <li>➤ Development of the Northern Tourism Circuit</li> <li>➤ Irrigation Development Projects</li> </ul>
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### 2.1 Do the budgetary allocations and strategies align to the 7NDP?

Budgetary pronouncements during the period under review focussed on employment creation were not specifically tied to resource allocation making it very difficult to track financial commitments towards the pronouncements. There is some consistency in the strategies in the budget and those in the 7NDP however the format of reporting on financials in the 7NDP and the budgets is different which makes it difficult to make a comparison. We may need a bit more time to evaluate whether the budgetary allocations align to the 7NDP.

## 4.0 Constraints to Employment Creation

Zambia’s efforts towards industrialisation and job creation are constrained by a number of factors such as inadequate infrastructure, absence of cheap and affordable long-term finance as well as a burdensome regulatory environment. The key constraints to employment creation and therefore constraints in addressing unemployment are as follows.

**Constrained private sector growth:** the private sector is facing a myriad of challenges of its own, including limited access to finance, constrained revenue streams as the Government accumulates arrears owing to the private sector, and the low levels of electricity generation that have resulted in unprecedented levels of load shedding. All these conditions result in limited scope for private sector expansion, thereby inhibiting the ability to create additional employment, and in some cases leading to job losses. Indeed, a business survey conducted by ZIPAR in 2016<sup>2</sup> reported that 22.7% of the sample firms instituted a recruitment freeze and 19.2% declared worker redundancies in the wake of the 2015 downturn. And with the parallels that can be drawn, similar trends can be expected in the current period. Additionally, Zambia ranks poorly on indicators such as starting a business, getting electricity, registering property, trading across borders and enforcing contracts. This poor ranking is indicative of inefficiencies and cumbersome procedures which increase the cost of doing business and constrains business activity thereby reducing job creation prospects by the private sector.

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<sup>2</sup> (ZIPAR, 2016)

**Absence of cheap and affordable long-term finance:** particularly for MSMEs, the limited availability and high cost of long-term finance remains a major constraint to growth and employment creation in Zambia. The major form of finance in Zambia is commercial bank loans that are mainly designed to support cash flow solutions and not long-term capital. According to the Bank of Zambia, average commercial banks' lending rates stood at 25.4% in June 2019. Alternative sources of finance such as rural finance, venture capital and leasing finance that offer targeted finance products to particular business segments remain underdeveloped.

**Burdensome labour regulatory framework:** The minimum wage has had mixed impact on the labour market. Larger firms have adjusted to increments with relative ease compared to smaller one because the smaller firms have more employees covered by the minimum wage. This has constrained their ability to employ more workers. Furthermore, while the 2019 Employment Code introduces important clauses that improve conditions and provide protection for workers, these conditions come at a cost to the employer. The Employment Code introduces a mandatory gratuity at a rate of 25% which is an added separation cost for firms besides in the form of severance Pay. These new separation costs are expected to be met by largely small firms which are also expected by the Government to drive the job creation agenda. We estimate that the cost of newly introduced gratuity and annual leave pay at any rate of basic pay increases the annual labour cost of each employee by 32%.

**Fast growing youthful population:** The challenge of job creation in Zambia is compounded by Zambia's fast-growing youthful population. Today, Zambian youths aged 15-35 account for 37% of the total population and account for 55% of the country's labour force (CSO, 2018). The youth also have a higher unemployment rate compared to the national average.

**Non-existent Macro-level targeting for job creation:** Zambia's traditional macroeconomic framework focuses conventional targets such as inflation, GDP and so on. However, this framework completely misses a perspective on jobs. As a result, subsequent national budgets have missing or inconsistent job targets. Preceding budgets do not report on previous pronouncements in the same way as on other macroeconomic target such as inflation or GDP growth. This makes it difficult to monitor progress on job creation both in quantitative terms and financial terms. As a result, very little attention is given to job creation statistics at policy level.

**Slow uptake of Multi-Facility Economic Zones and industrial yards.** MFEZs and Industrial yards are one way through which Zambia can industrialise and create jobs vis-à-vis foreign and local investments. While progress has been made with the development of Multi-Facility Economic Zones, the pace at which companies are setting up in these zones is slow and linkages with the domestic economy are weak. MFEZs should also be accompanied by adequate skills and capacity programmes jointly designed by the Government, private sector, academia and civil society groups. The establishment of industrial yards and clusters is also moving at a slow pace thereby hindering SMEs in particular from leveraging on the benefits of industrial yards and clusters for growth and job creation.

**Skills Gap and Mismatch:** There is an evident gap between the required skill set that industry demands and skills level of learners being churned out of learning institutions. This gap has contributed to the high rate of unemployment. In 2012, we assessed the



youth labour demand constraints across, the mining, construction and manufacturing industry and found that across all the three sectors, a university degree and a college level diploma or certificate were major prerequisites for employment in skilled work categories. Our study further found that the lack of a post-secondary school qualification constrained youths from entering these industries. In 2017, 86% of total employed persons were without post-secondary school qualifications emphasising the need for focus on skills development (Central Statistical Office, 2017).

**Depressed Growth hampering employment creation:** One of the challenges Zambia faces is that despite recording high economic growth in the recent past, it has not resulted in significant employment growth. This been attributed to the fact that large capital-intensive industries such as the manufacturing industry have not absorbed as many workers because of the capital intensity and the stagnation in the growth of the sector. As a result, the manufacturing industry contributed a paltry 6.7% to employment in 2017 (Central Statistical Office, 2017), despite being the top four highest contributors to GDP in 2017 (MOF, 2018).

However, currently growth is depressed implying that it will be more difficult to create jobs. Today, the country finds itself in a severely constrained macroeconomic environment. Growth for 2019, initially protected at 4%, is now anticipated to be at 2%, mainly on account of adverse climatic conditions which negatively affected electricity generation and agricultural production. The debt burden has also reduced government fiscal space, this situation has led to crowding out of Government spending to other areas, particularly in the Economic Affairs function which plays an important role in diversifying and growing the economy to deliver job creation.

## 5.0 Recommendations and Conclusion

While we have an adequate policy and legal framework to address unemployment or create jobs, implementation has often been too slow and in most cases, there has not been any implementation. There are a number of things that can be done better for employment creation including enhanced targeting, planning and coordination of employment creation strategies. Specifically, Government should do the following:

1. The authorities should **undertake a high-level policy decision**, at the level of the Cabinet, to incorporate quantitative jobs targeting as a permanent feature on Zambia's short-term, medium-term and long-term macroeconomic frameworks". Subject to high-level approval of employment targeting, the technical functions of apex institutions (MNDP, MOF and Cabinet Office) ... should ensure the inclusion of specific indicators and quantitative targets on employment creation ... in the Annual Budget, MTEF and ESGP, in order to measure the aggregate progress and achievements of Government programmes cumulatively ..."
2. The authorities should **legally establish the Labour Force Survey as the primary exercise for informing jobs targets** and for tracking job performance in the macroeconomic frameworks, establishing it with a stable and time-consistent or comparable methodology. Within this, annual reporting on job creation for measuring short-term progress and achievement of programmes."

3. Agriculture, tourism, mining, ICT, manufacturing, electricity, financial and insurance, construction and manufacturing created jobs between 2017 and 2018: An empirical question that requires answering is which industries hold the most potential for employment creation? We analyse the change in employment by industrial sector, and obtain some insights on the industries that create employment, at least over the period 2017 to 2018. Based on the Labour Force Survey data, the ICT, mining, construction, financial and insurance and tourism sectors absorbed more employees between 2017 and 2018. The number of employees in these sectors increased significantly by 44%, 47%, 20%, 11% and 19% respectively. Other sectors namely agriculture, manufacturing and electricity also absorbed more labour but to a lesser extent at 8%, 4% and 2% respectively. **The ideal situation for sustaining employment creation is to support sectors that record positive growth rates in both value-added output and employment.** These include tourism, ICT, mining, manufacturing, electricity, and financial and insurance services. Notwithstanding the contraction in agricultural output, this sector currently employs a large segment of Zambia's Labour Force and can be turned around with more concerted efforts to increase and modernise agricultural output.
4. **Leveraging on the number of small businesses:** by improving access to finance through strengthening of micro-finance institutions and encouraging financial cooperatives as well as providing business development services support, small businesses can realise their potential and contribute to job creation.
5. **Establishing a comprehensive labour market information system:** a comprehensive, reliable and up to date labour market information system will be critical for tracking the creation and distribution of jobs in Zambia. It will be critical for informing the formulation of appropriate macroeconomic, industrial and employment policies as well as in supporting the discovery and establishment of appropriate industrial and labour re-organization strategies. A labour market information system will ultimately be a key cornerstone in the creation of more and better jobs.
6. **Managing and utilizing the labour market information system to monitor and track jobs:** Conducting regular skills surveys and other periodic undertakings to not only monitor but also comprehensively assess and evaluate the skills matches, skills gap and skills mismatch with industry and sector needs at given point in time will be crucial for informing policy formulation and implementation. The labour market information system should be robust enough to link employees with would-be employers, especially youths, who have the relevant vocational skills.
7. **Striking balances between labour market regulations and labour market incentives:** by ensuring that labour reform processes are wide, inclusive, consultative and evidence-based (or informed by a labour market information system), and by increasing sensitization about the reform, businesses can become more compliant to new regulations. This can lessen labour market disruptions and promote productivity. Similarly, introduction of new laws such as the minimum wage needs to be balanced with measures to make it easier for employers to take on new employees. Perhaps more importantly, inclusive, evidence-based consultations can help with the discovery on less economic incentives for the private sector, which tend to be less onerous on employees and employers than blanket regulations.



8. Going forward, the **Government needs to address the binding constraints to job creation by allocating sufficient resources through the budget.** Government. The Government also needs to actualise the strategies outlines in the 7NDP related to skills development, innovation and productivity. Government must accelerate the development of Multi-Facility Economic Zones and industrial yards as these are essential in industrialisation and job creation

### **In Conclusion....**

Governments ambition to create decent employment is a timely call supported by national development plans and the Sustainable Development Goal 8 on decent work and economic growth. ILO observes that on the global scale, there has been slower growth, widening inequalities and employment has not been expanding fast enough to keep up with the growing labour force. This is very true for Zambia as previously the high growth rate between 2003 and 2013 has not translated into the quantity and quality of jobs required in the country. The situation now is even worse with subdued economic growth that the country has experienced since 2015. This means the decent job creation agenda will increasingly be harder to achieve, Furthermore, with the economic challenges the country is facing, if the country does not strategically act to ensure the factors for job creation are protected and promoted, we may experience higher unemployment rates and poverty in the near future.

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