



FLAGSHIP PROJECT:
More and Better Jobs

Executive Summary

The employment crisis: unemployment and low quality jobs

Despite high levels of economic growth Zambia is at risk of a jobs crisis. Economic growth averaged 7.9% between 2007 and 2013, but formal sector jobs have only increased by 3.4%. Responding to this challenge is perhaps the country's biggest priority. The implications of not responding could be dramatic, with continued and rising poverty and lower economic growth.

Much debate centred on *unemployment* focusing on those without jobs, whether in the formal or informal sector. This is undoubtedly a major problem:

- Over 470,000 people in Zambia are without any form of employment.
- Amongst young people in Lusaka and on the Copperbelt, 30.8% are unemployed.

However, often overlooked and just as important are those Zambians who hold low quality jobs. Too many of the jobs that do exist are insufficiently productive, unrewarding and unstable; many do not even allow families to escape severe poverty. These poor quality jobs are often in the large informal sector, where workers regularly have to contend with risks like unfair summary dismissal, pay being delayed or receiving no pay at all. Life for them can be incredibly precarious and difficult.

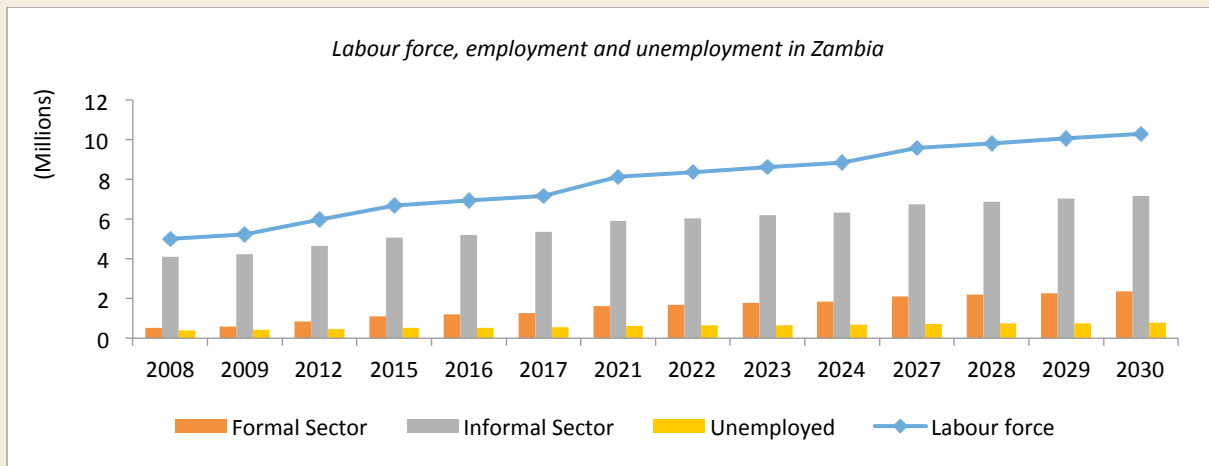
- In urban areas, about 7 out of 10 people in the labour force hold informal sector jobs.
- In rural areas it is worse; out of every 50 people, on average 47 are in the informal sector.
- Over 40% of people employed in rural areas, a total of nearly 1.4 million, are unpaid workers.

Because both unemployment *and* poor quality jobs matter, ZIPAR's Flagship Project will focus its energies not just on promoting policies that create more jobs, but also better jobs.

Left unchecked, the problems are bound to get worse

Population growth will put more pressure on unemployment

The Zambian population, which is around 15.5 million now, is projected to be 24 million by the time we are supposed to be realizing the Vision 2030. The estimated labour force will expand from 7 million in 2015 to 10 million in 2025. Assuming a constant rate of unemployment of 8%, the number of those unemployed will increase from just over 560,000 this year to 770,000 over the next 15 years. Should the informal sector maintain the same percentage of the workforce over time the number employed in the sector will increase from 5 million in 2015 to 7 million in 2030. In contrast, the formal sector will have only increase by 1.3 million over 15 years unless a fundamental structural transformation of the economy takes place.



Source: authors' estimation based on the 2008 and 2012 CSO LFS reports.

Urbanisation means that the challenge of unemployment will become more concentrated

In addition to overall population change, Zambia will continue to urbanise: according to the Central Statistics Office 42% of Zambians already live in towns or cities, a proportion expected to reach 45% by 2025. Because *unemployment* is almost entirely an issue in urban areas, the urbanization trend is likely to impose additional challenges for tackling unemployment in the future as more and more people cluster around the urban centres where they perceive economic opportunities to be.

While the State will continue to be important, what will its role be in creating jobs?

Zambian governments have since independence adopted strikingly different stances on employment policy, to a large extent underpinned by the different political tides and episodes of the country. The extent to which Zambia has looked East or West in determining the role of the State in creating more and better jobs has not always been clear. Recently, a debate has emerged on the appropriate role of the state on employment policy. Few, if any, suggest a return to some of the failed approaches of the post-independence era. But the question of exactly how the State can most effectively intervene in the market, to help maximize job creation, is being raised again. Zambia is now asking itself how far West it should look in pursuit of a 'Minimalist State' approach to State intervention or how far East, drawing inspiration from the 'Developmental States' of East Asian countries like South Korea, Singapore and Taiwan.

A stable macroeconomic environment will remain essential to job creation

As the country contends with the employment issues at home and simultaneously looks West or East for international inspiration, we will have to keep a third eye on the macroeconomic situation. While growth has been strong in Zambia, in the recent past the country has experienced some negative trends in some of the key economic fundamentals. For example, the Government fiscal deficit, which had peaked at 6.7% of GDP in 2013, was still high at 5.2 % of GDP by the end of 2014. Indeed, in June 2015, the Minister of Finance announced ballooning of the deficit above year's target, with possible adverse consequences for the economy's growth prospects. Further, without any marked structural changes and export expansion from the real sectors of the economy, the local currency, the Kwacha, depreciated by 60% between March 2011 and March 2015. In addition, the external debt portfolio has also increased significantly, with concerns that, unchecked, it will soon reach Highly Indebted

Poor Country (HIPC) levels. While ZIPAR's Flagship Project will not look in detail at all matters of macroeconomic policy, it recognises the critical interrelationship between macroeconomic stability and job creation.

Effective responses will require action from across the Zambian society

To address the jobs challenge, concerted action is required across the Zambian society. Of course, Government matters. Laudable efforts have been made and continue to be made by the Government; for example the Industrialization and Job Creation Strategy sets out to create 1 million new formal sector jobs over five years (initially targeting 2016 as the end year).

However, despite these efforts, new and original policy thinking is needed. Developing a long-term strategy to create more and better jobs will require the input, ideas and focus from all parts of the Zambian society, not just government. The private sector, civil society and others have a crucial role to play. ZIPAR's More and Better Jobs Flagship Project will not simply be an academic exercise, cut off from the real world, but will be a practical platform for reaching out to those who can contribute to job creation. ZIPAR has therefore established an Advisory Group to guide and champion its work, which will include representatives of:

- Manufacturing businesses, through the Zambia Association Manufacturers
- Large and small employers, through the Zambia Federation of Employers
- Farmers and agricultural businesses, through the Zambia National Farmers Union
- All the key government ministries, including Ministry of Finance and Cabinet Office
- Civil society and the churches, through the Jesuit Centre for Theological Reflection
- Academia: the University of Zambia
- International development partners such as the International Labour Organisation, International Monetary Fund and Africa Development Bank.

The Flagship also envisages working through specialist bilateral technical partnership with organizations like the World Bank.

Addressing the difficult policy questions head on

The Flagship Project will provide policy thinking that confronts several hard-hitting employment challenges. Key questions which will form the basis of the project's thinking include:

- Where will "better jobs" come from, now and in the future? Which economic sectors in Zambia have the most potential to grow, while also generating sufficient numbers of good jobs?
- What sectoral, spatial and structural transformations need to take place for Zambia to realize the goal of more and better jobs?
- How can we ensure that the Zambian workforce that is coming out of our schools are sufficiently trained, skilled and of the right quality to be hired?
- How can we improve the business environment in Zambia so that there is sufficient demand for employment?
- What should the public sector be doing differently to help realize people's ambitions of productive and good quality jobs? What do international best practices suggest?

Throughout the project, ZIPAR will ask and address some fundamental policy questions. We invite every relevant stakeholder to keep track of the work of the Flagship Project as ZIPAR seeks to explain where, in Zambia, more and better jobs are likely to come from, now and in the future.

1. Introduction

ZIPAR is launching its Flagship Project on “More and Better Jobs”. This project will represent a substantial body of work and is a long-term project. It will run for one and a half to two years, seeking to address perhaps the biggest challenge facing Zambia today and in the future: how to ensure that all Zambians have opportunities to work in productive and good quality jobs.

This paper on the More and Better Job Flagship Project has two purposes. First, it sets out the nature and scale of the employment challenge in Zambia, aiming to explain why it is such a big problem for the country. Second, it sets out how ZIPAR’s project will be operationalized and how it will contribute to improved policies and strategies on job creation. That is, how will the research and policy analysis be implemented with a view to generating evidence-based policy options for informing the Government and other stakeholders? Ultimately the project will support the Zambian people’s aspirations for more and better jobs.

2. Scale and nature of the problem: jobless growth?

In this first section we set out the scale and nature of the employment challenge. In common with many other African countries there are concerns in Zambia that healthy rates of economic growth have not translated sufficiently into improved employment opportunities for the population. To understand this phenomenon we set out the broader macro-economic context before setting out in more detail the nature of the employment challenge.

2.1 Macroeconomic context: strong growth and importance of economic fundamentals

Zambia has experienced steady economic growth in the past decade and was ranked among the 10 fastest growing economies in sub-Saharan Africa (SSA) in 2012. The economy grew at an impressive average real rate of 7.7% per year over the decade between 2003 and 2013, with real GDP increasing from ZMW 23,202 billion (US\$ 4,901 billion) in 2003 to ZMW 165,632 billion (US\$ 30,673 billion) in 2013 (see also, Figure 1). Zambia’s economic growth is also reflected in the good performance of several other macroeconomic measures. According to the World Bank’s Atlas definition of Gross National Income (GNI) per capita, Zambia officially transitioned into a low middle-income economy in 2011. The annual inflation rate, which had peaked at over 100% in the 1990s was reduced to single digit levels in 2010 and has been maintained there since. Furthermore, from about 2006, the country recorded positive trade balances, a trend which continued until only very recently when a deficit has begun to mount.¹

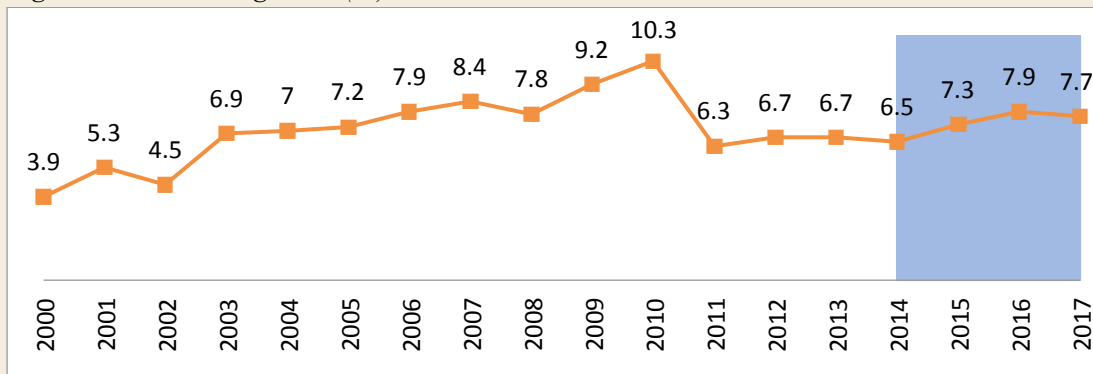
Growth in the economy has mainly been driven by growth in sectors such as construction, transport and communication and mining. For instance, construction and transport and telecommunication’s contribution to GDP more than doubled from 5.3% and 6.0% in 2000 to 11.4% and 12.4% of GDP in 2013 respectively. Mining output has also risen significantly following the privatization of copper mines in the early to mid-2000s, registering an annual growth of 20.5% during 2005–10.² While the Zambian economy remains dominated by mining, there are some signs of reduced dependency on

¹ The recent trade deficits recorded between December 2014 and April 2015, at least in part, stem from the decline in global copper prices and the resultant reduction in copper production in Zambia.

² The World Bank Economic Brief on Zambia (2014)

copper. Non-Traditional Exports have exhibited an upward trend. Nominal Non-Traditional Exports grew from US\$0.9 billion in 2008 to US\$3.3 billion in 2013.³

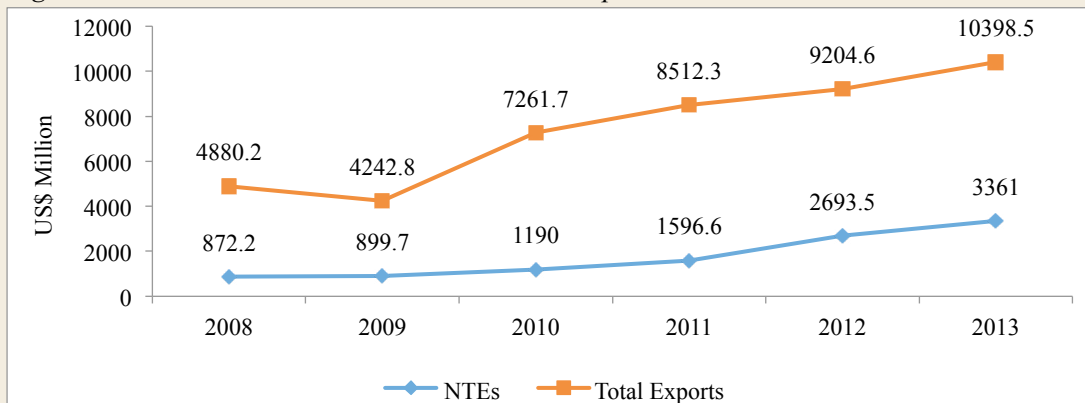
Figure 1: Real GDP growth (%)



2015-2017 are MTEF projections.

Source: adopted from AfDB and ZIPAR (2015)

Figure 2: Growth in Total and Non-Traditional Exports, 2008-2013



Source: Bank of Zambia, 2013

Paradoxically, however, despite these high levels of growth, Zambia, in common with comparator countries, has not experienced a corresponding improvement in employment outcomes. Looking to the future, we need to understand just why the type of growth that Zambia has experienced has not led to large increases in good quality jobs.

Equally it needs to be appreciated just how critical macroeconomic stability is to job creation. Put simply without strong economic fundamentals, Zambia will not even have high growth at all, let alone growth which generates significantly more jobs. It is particularly important to retain a focus on the economic fundamentals in the light of some more worrying recent trends.

The economic picture in Zambia has undoubtedly become gloomier, in the last couple of years. For instance, the Government fiscal deficit, which had reduced to 1%, peaked at 6.7% of GDP in 2013 and was 5.2 % of GDP by the end of 2014. Connected to this development is the increase in the cost of borrowing. Yields and interests rates on Government Securities (treasury bills and bonds) have risen significantly. This has crowded out the private sector as commercial banks preferences for risk-

free short-term lending to the Government has become more attractive. In turn, lending interest rates to the private sector, which had reached a low of 14% in 2012 have since exceeded 20% in 2015.

Further, the country's exchange rate has been depreciating persistently since around 2011, underpinning by structural imbalances that have prevented an export expansion in response to the local currency depreciation. Between March 2011 and March 2015, the Kwacha weakened by 60%, from ZMW4.6/US\$ to ZMW7.6.

The external debt portfolio has also increased markedly, raising concerns that it may reach Highly Indebted Poor Country (HIPC) levels again in the future. On the other hand, the Ministry of Finance's Zambia Debt Sustainability Analysis Report (2014) indicates that from a solvency perspective, Zambia's debt indicators remain below the policy dependent debt burden thresholds.

It is unclear how long the current macroeconomic downturn will persist. This will depend in part on the global economic environment and in larger part, on the macroeconomic and sectoral policy response of the Government. While ZIPAR's Flagship Project on employment will not look in detail at all matters of macroeconomic policy it of course recognises the critical interrelationship between macroeconomic stability and achieving employment objectives and will thus look into selected aspects of macroeconomic policy. Without strong economic fundamentals, growth will stagnate and fewer jobs will be generated.

Box 1: Zambian labour market – the basic facts

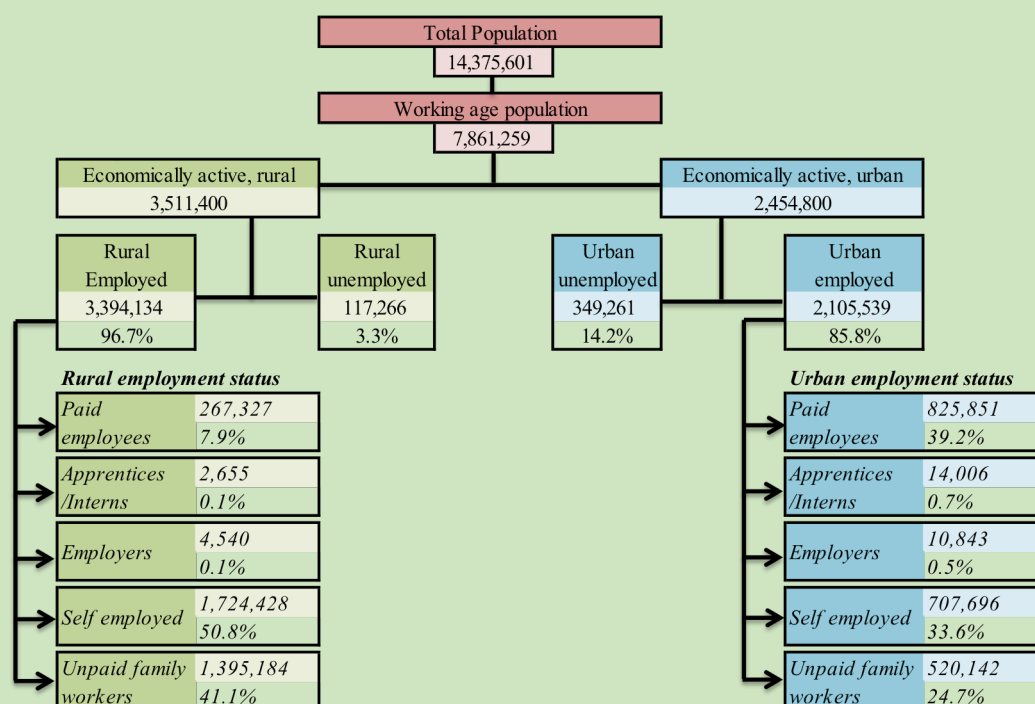
In 2012, 5.5 million people were employed in Zambia and these comprised 92% of the labour force. The diagram below provides a basic profile of the labour market in Zambia. It highlights, for example, that while overall unemployment – largely an urban phenomenon – is an issue, with around 500,000 people unemployed, low quality work is actually a bigger issue. The extent of informal employment is very high and it raises the question, among others, about the ability of informally employed persons to earn an income and earn a living.

In terms of economic sectors (Table 1), agriculture, a predominantly rural activity, is the largest employer in Zambia, accounting for 52% of total employment. Within this sector, only 27% were formally employed while a significant majority (73%) were informally employed. Agriculture therefore constitutes the largest proportion of informal employment across all sectors. Somewhat surprisingly, manufacturing posted a meagre 3% of formal employment out of those employed in the sector in 2012 compared to 97% informal employees.

Mining held the highest proportion of 'within sector' formal employment (77%), but mining accounts for just 2% of total employment overall. Despite relatively high levels of formal employment, the ability of mines, therefore, to create new jobs may be constrained.

Finally the services sector was the second largest employer overall with 42% and held the largest proportion of 'across-sector' formal jobs (72%). This was driven by public service workers hired in educations and health (teachers and health workers, respectively).

Box 1: Zambian labour market – the basic facts (continued)



Source: constructed using LFS (2012) data

Table 1: Employment by broad sector

	Total	% total employed	% across the sectors		% within the sector	
			Formal	Informal	Formal	Informal
Agriculture	2,871,035	52%	10%	60%	27%	73%
Manufacturing	217,062	4%	9%	3%	3%	97%
Mining	88,251	2%	8%	0%	77%	23%
Services	2,323,248	42%	72%	35%	34%	23%
Total	5,499,596	100%	100%	100%	15%	85%

Source: Calculated from LFS (2012)

2.2 The employment challenge: the need for more and better jobs

Critical to any successful economy is the capacity to create employment for its people. If the economy is able to create more jobs or work, more people can obtain employment and earn income for improving their material wellbeing. Through various policy documents including the Revised Sixth National Development Plan (r-SNDP) and annual National Budget Speeches, the Zambian Government has stressed employment creation as a salient economic goal.

On some measures, the strong growth in the Zambian economy has resulted in growth in employment opportunities. According to the 2012 Labour Force Survey (LFS) report, out of a labour force of 5,966,200 people, 92% were employed compared to 8% who were unemployed. Of the total number employed, 62% resided in rural areas compared to 38% in urban areas. Looking at this overall figure,

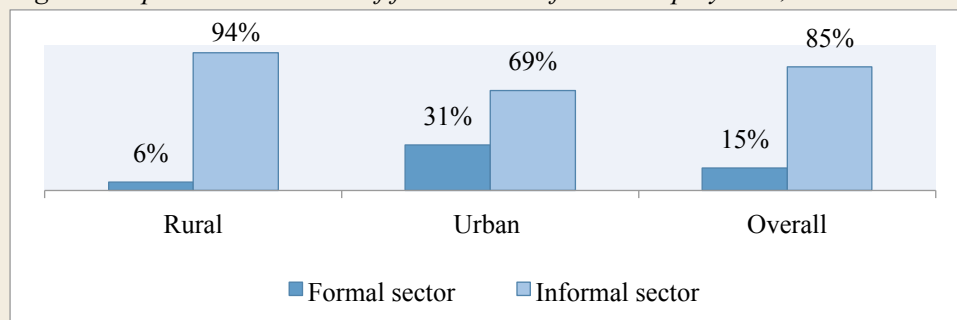
overall employment rates were high and they were particularly high in rural areas where the majority of Zambians still live.

However, these headline statistics are misleading. Zambia continues to face a substantial jobs crisis. Zambia's impeccable economic growth record since 1999 has not been inclusive enough. The economy has failed to create adequate, good quality jobs.

The quality and stability of jobs in Zambia is still well below what the Zambian society desires. One way of beginning to understand this is by looking at how many current jobs are in the informal sector. In Zambia, as in many other countries, working in the formal sector is arguably more desirable than informal sector employment. This is because, to a larger extent, formal jobs offer better pay and conditions and greater job security. They are therefore more likely to conform to the standards of decent work as prescribed by the International Labour Organization (ILO). Moreover, formal sector workers by definition, work for entities or establishments that are legally registered with the Zambia Revenue Authority (ZRA) and National Pension Scheme Authority (NAPSA) and are therefore eligible to pay taxes and receive retirement benefits. In addition, formal terms and conditions such as contract, leave and in some cases, membership in trade unions may apply.

That so many Zambians work informally is therefore a significant issue. In 2012 (LFS 2012), 94% and 69% of the labour force in rural and urban areas, respectively, held informal jobs (Figure 2.1). The picture varies across economic sectors: it is highest in the manufacturing sector with 97% of the 217,062 persons employed in the sector being informal employed and also high in agriculture and services (in which a large proportion of Zambians work). A comparison of the 2008 and 2012 Labour Force Surveys indicates that the proportion of workers in informal employment has fallen marginally; however, overall the picture is one of continued high levels of employment in the informal sector.

Figure 3: Spatial distribution of formal and informal employment, 2012



Source: constructed from LFS (2012) data

In fact it is likely that the problem of informal, low quality and “indecent” jobs is much bigger than what the official statistics reveal. This is because a big part of formal sector jobs are anecdotally thought to be informal jobs. This means the extent of job informality is much higher than depicted in the official disaggregated statistics on formal and informal employment.

Yet another dimension is that 41% and 25% of persons employed in rural and urban areas, respectively, are unpaid family workers who did not receive a financial reward for their work (see box 1). Overall, 35% of those employed in Zambia (or 2 nearly million person) are unpaid workers. The extent to which the jobs of unpaid workers can be described as decent is the subject of much debate.

These data highlight the high degree of jobs in Zambia which are of low quality of jobs, poorly remunerated and which suffer from high levels of job insecurity. Another way of looking at this is to look at the number of formal jobs which have been created in recent years. According to recent World Bank analysis, despite high levels of economic growth Zambia of 7.9% between 2007 and 2013, there has only been a 3.4% increase in formal sector jobs.⁴

2.3 Future trends: why the situation may get worse

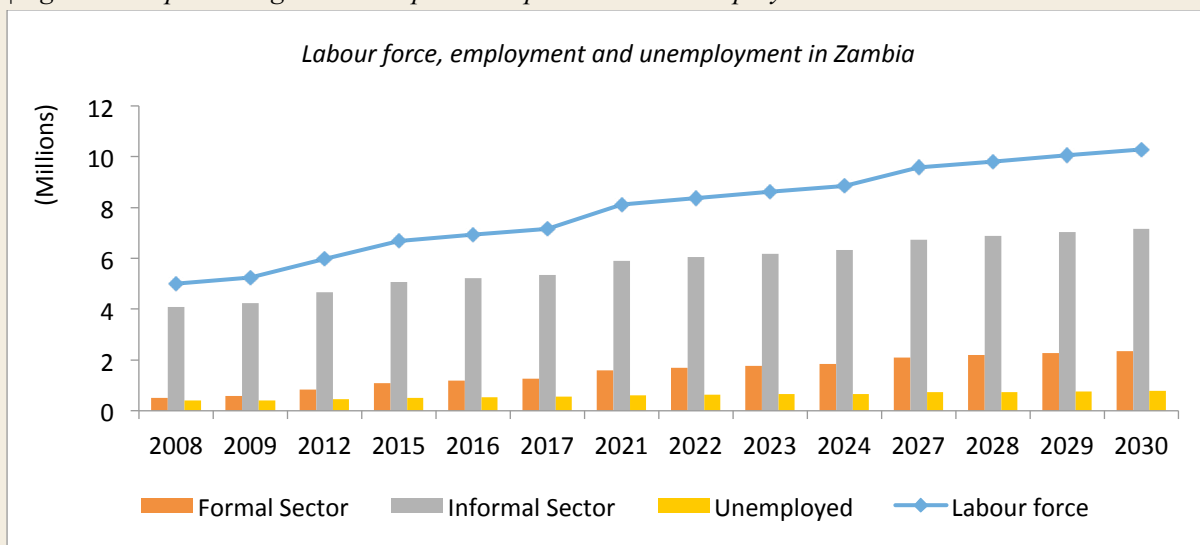
The previous section highlighted how focusing just on the headline official figures for the proportion of Zambians who are in work is misleading. These figures mask a bigger issue which is the fact that so much of the workforce is employed in low quality and precarious jobs. However, there is also reason to believe that unemployment, as measured through the official statistics, is likely to get worse in the future.

Left unchecked, the unemployment problem is bound to grow significantly in the future. The 2012 LFS reports that as of 2012, unemployment in the country stood at 8%, implying that 466,527 persons that needed jobs were without them. As we look into the future, population growth is going to add considerably to the pressure to create jobs for Zambians. Projections based the 2008 and 2012 Central Statistics Office (CSO) Labour Force Survey data indicate that the Zambian population, which is around 15.5 million now [2015], will be 24 million by 2030 (Figure 4). This means the estimated labour force will expand from 7 million persons in 2015 to 10 million in 2025. Assuming a constant unemployment rate of 8%, the number of those unemployed will increase from just over 560,000 this year to 770,000 by 2030. Assuming the informal sector maintains the same percentage of the workforce, the number of people in the informal sector would increase from 5 million in 2015 to 7 million in 2030. In consonance, the formal sector jobs that the country is keen to create will have only increase by 1.3 million over 15 years, a meagre achievement compared to the Industrialization and Job Creation Strategy's ambitions to create formal sector jobs over 5 years. Many observers argue that such ambitions are unlikely to be realized unless dynamic industrial development is achieved and sustained as the impetus for a fundamental structural transformation of the economy.

Another demographic change that will compound matters is urbanisation. Zambia, already a relatively urban society by Sub-Saharan African standards, is continuing to urbanize. Using UN figures the urban population, whose proportion of total population was in gradual decline, from 39% in 1990 to 35% in 2000, steadily increased to 40% by 2014. It is expected to reach 50% by 2030 and 58% by 2050, reflecting one of the highest rates of urbanization on the African continent. According to the CSO data 42% of Zambians already live in towns or cities, a proportion expected to reach 45% by 2025. Both accounts suggest increasing urbanization even though the projected magnitudes of urbanization differ considerably (perhaps due to measurement and/or methodological disparities). Because unemployment is almost entirely an issue in urban areas, this urbanization trend is likely to make tackling unemployment more of a challenge in the future.

⁴ See "Zambia's Jobs Challenge: Realities on the Ground", pages 17 and 18. This states: "Looking at aggregate employment data, the 2008 Labour Force Survey recorded a net employment increase of about 475,000 over 2005–08, but only 3.3% of the increase was in formal employment (CSO 2010a). These numbers depict a very slow rate of net increase in formal jobs, roughly 5,000 a year, or about 1% a year. In comparison, real GDP expanded over 2003–08 at an average rate of 5.7%. These numbers show that, given the current structure of the economy and the nature of growth, formal jobs are being created at a much slower pace than economic growth."

Figure 4: Population growth will put more pressure on unemployment



Source: authors' estimation based on the 2008 and 2012 CSO LFS reports.

3. Responding to the challenge requires action from across the Zambian society

Borrowing from Rodrick's (2010) Industrial Policy framework, inclusive growth and sustainable development are achieved if viewed as a state of mind rather than a list of specific policies, strategies and processes; they need to rely on both carrots (incentives) and sticks (regulations), and they must serve society at large.

This raises important questions about what sort of sectoral, spatial and structural transformation the Zambian economy will require in order to industrialize and achieve the desired levels of job creation. It also raises questions about the appropriate role of the State in setting the context for policy on employment creation. Public opinion also matters in terms of shaping employment policies and strategies. Little has been done to systematically explain the aspirations of the Zambian society in terms of what is valued as a decent job and what role government should play in job creation. Most sentiments end up as superficial populist statements using jargon but without an informed view about what society wants to see as the creation of 'better jobs'. The Flagship Project will address this by probing, in-depth, what Zambians themselves think about the jobs challenge.

Harnessing economic dividends from the growing population and expanding the labour force is a fundamental human development imperative for the economy. But where will the jobs, including new ones, come from, now and in the future? While we know about the basic pattern of the employment situation in Zambia, the issue of creating new and better employment is one "unknown" that, unattended to, is likely to continue eluding the economy. The truth is that it not known, at least not in any comprehensive and systematic way, which economic policies, laws, regulations, sectors, geographical locations, social attitudes and practices, and support services will yield more and better jobs in Zambia.

Policy-makers of course recognise the need to address the jobs challenge, but how to do this effectively has so far proved elusive. In the Industrialization and Job Creation Strategy (IJCS), Zambia has pronounced itself to create 1,000,000 new formal sector jobs by 2016 and has specified sectors and activities where these jobs will come from. But, what has been the achievement so far?

And more importantly, is the progress sufficient, putting Zambia on track for not just more jobs but better jobs? Specifically, what are the underlying drivers of labour quality, employability and productivity? Do labour skills gaps and other gaps abound, which possibly limit the employability and productivity of workers, and if yes, how can these be addressed? What drives employer demand for labour and what are some of the key constraints to matching labour supply and labour demand in the market? What sectoral, spatial, structural and support system changes need to happen in order for Zambia to realize more and better jobs? What should the Government be doing differently to help realize the societal ambitions of productive and decent jobs? How can general public opinion influence the discourse of policy-making and strategic decisions on employment, and how can it be harnessed to foster positive job outcomes? These are important considerations within and beyond the framework of the IJCS.

These are the major gaps in the knowledge that ZIPAR's Flagship Project will tackle head-on. It will seek to provide, for the first time, a comprehensive and coherent understanding of issues relating to the size, quality, causes and consequences of underemployment and unemployment in Zambia. It will offer practical policy solutions and strategic/programmatic interventions that foster the creation of more and better jobs in the country.

Responding to the jobs challenge in Zambia will require concerted action from all parts of Zambian society. Of course, government matters. However, new and original policy thinking is needed. Developing a long-term strategy to create more and better jobs will require the input, ideas and focus from all parts of Zambian society, not just government. The private sector, civil society and others have a crucial role to play. ZIPAR's More and Better Jobs Flagship Project will not simply be an academic exercise, cut off from the real world, but will reach out to those who can contribute to job creation. ZIPAR has therefore established an Advisory Group to guide and champion its work, which will include representatives from manufacturing businesses, large and small employers, civil society, Zambian universities as well as all the key government ministries – including Ministry of Finance and Cabinet Office – and development partners such as the African Development Bank and International Labour Organisation. The Advisory Group includes representatives from the following organisations:

Private Sector:

- Zambia Association Manufacturers;
- Zambia Federation of Employers;
- Zambia National Farmers Union.

Public Sector:

- Ministry of Finance;
- Cabinet Office;
- Ministry of Commerce Trade and Industry;
- Ministry of Education Science Vocational Training and Early Education;
- Ministry of Labour and Social Security;
- Ministry of Youth and Sport

Civil society:

- Jesuit Centre for Theological Reflection

Academia:

- University of Zambia

International development partners:

- Africa Development Bank;
- International Labour Organization;
- International Monetary Fund;

We also envisage working in specialist bilateral technical partnership with others such as the World Bank. Working with this range of organisations and others, ZIPAR's Flagship Project will offer concrete policy options and strategies, which it expects to be taken up into policy for meaningful employment creation in Zambia.

4. Understanding the private sector's perspective and the role of the Government

In the first phase of the project, ZIPAR will ask some fundamental questions. One such question concerns the appropriate role of government in creating more and better jobs and how best to support and enable the private sector to generate more employment opportunities. This means both listening to what the private sector say about the barriers and challenges they face and also developing a clear account of what role the state should play in job creation. Clear answers to a question like this will provide solid foundations for the subsequent development of policy proposals.

4.1 Listening to the private sector

While the Government means well with its employment creation policies and strategies, understanding the employment challenge also requires a better appreciation of the private sector, acknowledging in particular that the sector is highly heterogeneous both within and across economic sectors. The demand-side constraints that businesses face, which inhibit productivity, profitability and consequently, limit the employment of more workers are also crucial considerations.

The private sector has often been heralded as the engine of economic growth and the primary source of job creation, and perhaps rightly so considering that statistics indicate that private businesses or firms in Zambia accounted for 53.3% of employed persons in 2012. Conversely, 39.3% were engaged in private household employment while Central Government accounted for only 4.3% of the employed population. A meagre 1% was employed in parastatals or state owned firms and the remainder – about 1.5% collectively, were employed in NGOs/Churches, Local Government/Councils, Embassies/International Organizations and Producer Co-operatives.

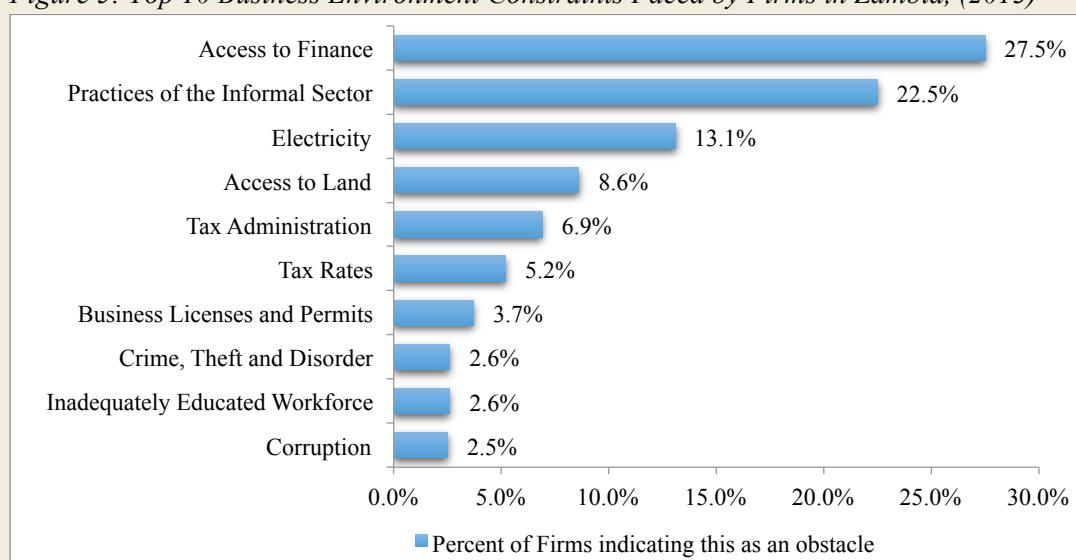
According to the most extensive business enterprise survey undertaken in Zambia (the 2010 Zambia Business Survey), Micro, Small and Medium Enterprises (MSMEs) account for 99% of the total number of businesses operating in Zambia; they employ 56% of total full-time employees; and generate 35% of annual national business turnover.⁵ Of these MSMEs, the sub-population of microenterprises that constitutes the largest proportion of the total number of businesses in Zambia estimated at about 96%, contribute about 26.4% to full-time employment but only a mere 3.3% to annual turnover in Zambia.

⁵ Zamia Private Sector Profile (2015)

Although the private sector offers one of the most sustainable and viable solutions to the employment challenge, MSMEs face several obstacles that limit their ability to grow into large businesses that can employ more workers. Among the top ten business environment obstacles faced by businesses in Zambia, nearly 28% of businesses surveyed in 2013 indicated access to finance as the biggest constraint (Figure 5). To illustrate this further, of the firms surveyed, only 9.9% used commercial banks to finance their working capital. Moreover, less than 7% of investments by firms were financed by banks. So while these firms recorded real annual sales growth of 11.4% and annual labour productivity growth of 10.3%, their contribution to average annual growth of full-time employees was only about 1.5%. Reportedly, micro and small firms were more constrained in accessing finance than medium and large firms.

The survey identified other barriers to business development: interestingly 22.5% of firms indicated the practices of informal sector competitors in the same economic sectors as one of the major business constraints. Other constraints indicated included unreliable power supply, lack of access to land and the tax administration system. But these were identified as constraints by only 13.1, 8.6 and 6.9% of the firms, respectively. Even fewer firms identified the tax rates, business licenses and permits as major constraints to doing business.

Figure 5: Top 10 Business Environment Constraints Faced by Firms in Zambia, (2013)



Source: World Bank Enterprise Surveys (<http://www.enterprisesurveys.org>)

Infrastructure development is one of the important factors that facilitate economic growth and the generation of jobs. Access to transport, telecommunications, power, gas, and water networks are critical inputs for firms as they undertake productive activities, expand, and create jobs.⁶ Studies have shown a positive correlation between investments in infrastructure and economic growth and in turn, economic growth is positively correlated with job growth.

To augment the World Bank data, a survey by ZIPAR found that firms in the manufacturing, construction and mining industries indicated the cost of in-house training to upgrade the skills and competence of youths acted as a hindrance to their ability to employ them. Further, the study revealed that 27.5% of businesses indicated that legislated severance benefits constrained their demand for

⁶ IFC Jobs Study: Assessing Private Sector Contributions to Job Creation and Poverty Reduction (2013)

youth labour and this was more prominent among firms in the manufacturing industry. Similarly, 36.4% of firms, mainly drawn from the manufacturing sector, reported that the revised minimum wage had affected their business negatively.

The study further gathered information on the perceptions of employers about constraints that inhibit them from expanding their business operations. The input cost of energy and access to finance were indicated by 40.4 and 33.3% of firms respectively, as major constraints for doing business that had a bearing on their decision to hire youths during the period January 2010 to December 2011.

Studies also emphasise the importance of innovative and productive firms (both formal and informal) with access to all productive factor endowments, with support from a stable macroeconomic environment and an enabling business climate, to underpinning job creation. How these different elements should be organized to boost firm-level productivity and employment creation is a subject of much on-going debate. The Flagship Project will provide fresh insights that contribute to this debate.

4.2 The Role of Government

The role that the Government has elected to assume in relation to employment creation has not always been clear and consistent over time. As such, it is not clear what the role of the State in employment creation ought to be or what form it ought to take going forward. There are opposing views about this.

Historically, the Zambian Government has played a range of different roles in respect of employment creation roles since independence in 1964 and after the liberalization and public sector reforms in 1991. Following independence, Zambia adopted a socialist approach in which the State dominated the economy and played a big role in almost all major sectors. Through government initiatives such as the Zambia Industrial and Mining Corporation (ZIMCO) and the Industrial Development Corporation (INDECO), the Government applied a heavy hand directly in economic activities including in the mining industry, manufacturing, wholesale and retail trade, energy, transport, finance, hotels and restaurants, and agricultural services and marketing. By implication, the State was by far the biggest source of employment, with its controlling interests in most of the industries.

However, with the liberalization and extensive public sector reforms in the 1990s the role of the State in the economy reduced significantly. The reforms of the 1990s led to the disbanding of initiatives like ZIMCO and INDECO, leading to the privatisation of most parastatal organizations. This gave increasingly more room to private sector participation in the economy. The private sector thus became an important factor in employment creation although the Government continued to play a significant direct role in various forms of employment, particularly through the employment of large public and civil service workforces. From 1991 to about 2011, the Government took the position of creator of an enabling environment for private sector led economic activity and private sector job creation. It withdrew from direct involvement in economic activity through parastatal organizations, and privatized a number of the large state-owned enterprises. In the same way, it withdrew public sector employment from the economic sectors, limiting its employment to public and civil services for the provision of public goods and services.

Since 2011, with a change in political administration and a “soft” paradigm shift of ideology, the role of the Government in direct job creation and in the economy in general seems to be growing again, albeit slowly. The recent introduction of the Industrial Development Corporation (IDC), which is a close resemblance to the former INDECO is one example of the paradigm shift given the IDC’s

mandate on industrialisation and job creation. The question of what the most appropriate role of the state should be for a country like Zambia is back on the table again.

Currently, through various policy documents Government has taken keen interest in the challenge of employment, unemployment and underemployment. The revised Sixth National Development Plan (r-SNDP) accepts the fact that the positive economic growth achieved in the past decade has not translated into expected formal job creation as demonstrated by the low levels of formal sector employment. This acceptance of the problem has led to the following:

- The Industrialization and Job Creation strategy, in which the Government set a target of one million jobs by 2016.
- For the first time since the liberalization of the economy the 2013 and 2014 Budget Speeches, included explicit quantitative targets to create 200,000 quality jobs per year as part of its macroeconomic objectives.
- The Government further reported that it had created about 58,000 formal sector jobs in the first nine months of 2013 out of that year's targeted 200,000. Although the reliability of the announced figure is probably debatable given definitional and measurement issues, this was the first time that the Government was making such a clear and specific announcement on job creation achievements. The explicit macroeconomic objective on employment creation was however not included in the 2015 Budget Speech.
- In 2014, the Government developed a Millennium Development Goals (MDGs) Acceleration Framework (MAF). The MAF recognized that there is low progress towards meeting the target for the MDG 1 of halving poverty by 2015. It therefore outlined policy intervention to accelerate progress towards meeting the target for the MDG 1.

5. International Insights: Should the Zambian government look West or look East?

With questions concerning the appropriate role of the state in employment creation it is useful to understand the range of options available. At one end of the spectrum is what could be called the “Minimal State” approach and at the other end the “Developmental State”. In between these two “ideal types” of State involvement are a range of variants to the role of the State in job creation. This section briefly describes both ends of the spectrum and then briefly discusses some of the options in between. One significant issue for the Flagship Project will be to establish the most appropriate ways for the State to be involved with job creation in Zambia.

5.1 Minimal State Approach

Many observers see the ‘Minimal State’ as the approach that was dominant in the Western world in the 1980s and one which can still be seen to represent mainstream thinking in much of Europe and America today. It assumes a small or minimal role for government, restricting the objectives of policy makers to a combination of creating macro-economic stability (including low inflation, stable exchange rates and fiscal discipline) and then supporting the creation of the right environment for growth and job creation largely through investments in skills, the protection of property rights and the creation of a good business environment.

The assumption underpinning this mainstream western view is that economic growth and job creation occur automatically when government creates the right conditions. Allowing as much space for the

market, with minimal government intervention and distortion is the most effective way of State involvement in the economy. This kind of approach is often associated with the height of the “Washington consensus” economics in the 1980s – the approach pushed by the World Bank and IMF. Countries in the developed world, which are often associated with having followed the approach include the United States and United Kingdom.

5.2 Developmental State Approach

In contrast to the above, Developmental States see a far greater role for the Government, and public policy in job creation. Macroeconomic stability – particularly of prices – would still be considered a key policy goal, as would improve skill development. However, the role of the Government would be seen as more wide ranging, covering a broader spectrum of aspects. It would include more active Government intervention in seeking to grow and develop the more productive and job-rich parts of the economy. Proponents of this approach would argue that focusing on improving the overall business environment is too generic as it reportedly ignores the fact that the constraints to creating jobs in particular parts of the economy may be binding. In such instances, the market would fail to address the constraints in the absence of strong public sector intervention.

Examples of the use of the developmental State approach historically include Japan, South Korea, Taiwan and Singapore in East Asia, in particular in the 1970s and 1980s. More recently, China may be considered as having many of the elements of a developmental State orientation. On the other hand, countries like the USA seem to favour a minimalist approach.

5.3 The Middle Way

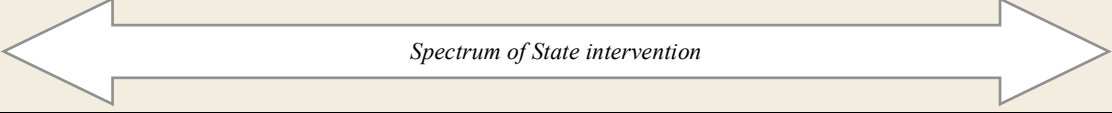
Above, two “ideal types” have been presented which could be seen as two ends of the spectrum. More recently, there has been a debate amongst academics and also within organisations like the World Bank and IMF, about what elements of the Developmental State approach could be used as part of job creation strategies. This debate has arisen for a number of reasons. One is that the 2008-2010 global economic crisis raised questions about the efficacy of the ‘minimal state’ approach. Another is that the rise of China, following the rise of other East Asian countries, provides an alternative model.

The question for many countries, including Zambia, might increasingly be about what “interventionist” and what “minimalist” aspects ‘industrial policy’ should adopt. Another way of putting: towards setting its own agenda on job creation, how much should Zambia look West towards the minimal state approach and how much should it look East towards some of the lessons from East Asian developmental states? The following questions, among others, will be important to consider:

- How can governments support specific sectors of the economy, without running the risk of creating “white elephants”? How can state support (tax incentives or subsidies or relaxed regulations), be linked to economic sector performance and sustainable job creation?
- What are the mechanisms for supporting the different economic sectors, which reduces the risk of rent seeking, weakened governance, Government failures and corruption? What degree of direct political control is appropriate?
- How can co-ordinating mechanisms between the public and the private sectors be more effective? How can such mechanisms be crafted and applied so that they ensure that public

sector policies supports and works constructively with the private sector, rather than subversively with it?

Table 2: Key Characteristics of Different Schools of Thought on the Role of the State.

<i>Minimal State</i>	<i>Middle Way</i>	<i>Developmental State</i>
		
<p>Focus on macro-economic stability:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Price stability <input type="checkbox"/> Fiscal discipline <input type="checkbox"/> Stable exchange rates <p>Government investment in skills and provision of public good and services</p> <p>Focus on generic business environment (simplified procedures, security and safety regulation, fair competition, etc.)</p>	<p>Macro-economic stability</p> <p>Support for particular sectors, which guards against creation of “white elephants”.</p> <p>Government intervention which supports the private sector, going with the grain of the market.</p>	<p>Macro-economic stability.</p> <p>Active “industrial policy” to support particular sectors of the economy to create jobs:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Subsidies <input type="checkbox"/> Incentives <input type="checkbox"/> Protectionism <p>Co-ordination between government and private sector (with strong lead by the public sector).</p>

Source: Authors Construction

6. Research Objectives

The ***broad objective*** of the research of the Flagship Project is to better understand the nature of the jobs challenge in Zambia and provide an evidence-based policy perspective on what it will take to create more and better jobs in Zambia, now and in the future. The Project aims to inform policy in a unique way by providing empirical, systematic, well sequenced and comprehensive insights. The analysis and policy recommendations will be communicated and discussed with policymakers and other stakeholders, including the public, which will increase the likelihood of influencing policy and practice changes for addressing the employment problem in Zambia. ZIPAR believes that there has not been an effort as organized, robust and comprehensive as the Flagship Project in terms of the depth of research and policy analysis that is targeted as well as the strategic approach to communicating with and engaging policymakers, the general public and other stakeholders that is envisaged.

We will continue to develop the specific objectives and themes or work strands for the project in consultation with our partners. However, some examples of the more ***specific objectives*** could include:

- To establish the main supply-side characteristics and constraints of the Zambian workforce, which limit the quality, productivity and employability of workers.*

- *To determine the main demand-side firm- (employer-) specific and structural (sectoral, geographic, business climate, etc.) characteristics, which impede or enhance labour demand.*
- *To explain the main market conditions and factors responsible for clearing the labour market or failures to clear the market.*
- *To explore the roles of the state and public opinion in determining macroeconomic policy objectives, public sector attitudes and macroeconomic outcomes (stability, public goods provisioning, etc.) in relation to the labour market in Zambia.*
- *To identify and elaborate other social, economic and demographic changes, which are likely to have a significant bearing on job creation now and in the future.*
- *To provide concrete policy options and employment creation strategies in relation to all of the above specific objectives.*

7. Moving forward

ZIPAR's Flagship Project on More and Better Jobs will address what is perhaps the greatest challenge Zambia will face in the coming decades. This paper has presented the scale and nature of the problem and some of the issues which ZIPAR, working with other organisations, will need to address over the lifetime of the project. The project will generate a comprehensive set of viable policy options with the support and engagement of organisations from across Zambian society, from the private sector to government and universities to civil society. Through the project's Advisory Group and partnerships with organisations such as the World Bank we are already actively seeking the input of others, and remain very open to involving others.

For further information about the Flagship Project please contact the Flagship Secretariat on flagship@zipar.org.zm or the Coordinator of the Flagship Project, Caesar Cheelo, on ccheelo@zipar.org.zm.

“Working towards the formulation of sound economic policies”.

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