ZIPAR
Zambia Institute for Policy Analysis & Research

MORE AND BETTER JOBS
FLAGSHIP PROJECT

FINAL REPORT

Policy Paper No.4 | December 2018

Table of Contents

List of Acronyms		ii
Executive Summary		**iv**
1	**Introduction**	**1**
2	**Background and Context of the Flagship Project**	**3**
2.1	Economic Context	3
2.2	Growth and Poverty	4
2.3	Too Big to Fail: Agriculture's Contribution to Jobs	7
2.4	Urbanisation and Job Creation	7
2.5	The Challenges of Small Businesses	8
2.6	Labour Reforms in the Midst of High Unemployment	9
2.7	Counting and Monitoring Jobs	9
3	**Getting the Overall Policy Environment Right**	**9**
3.1	Macroeconomic Situation, Business Climate and Policy Responses in 2015 and 2016	9
3.2	Proposed Policy Solutions	12
4	**Prioritizing Agri-business and Manufacturing: International Lessons for Zambia**	**14**
4.1	Overview of Employment by Sector	15
4.2	The Case of Promoting Agribusiness	15
4.3	International Lessons to Buttress the Case for Agribusiness in Zambia	16
4.3.1	Lessons from Korea	16
4.3.2	Lessons from Chile	17
4.3.3	Lessons from Botswana	17
4.4	General Sectoral Lessons for Zambia	18
4.4.1	Focusing on both comparative and competitive advantage as guiding principles in selecting key sectors to support	18
4.4.2	Public Private Partnerships must be used in sectors where the private sector faces entry barriers	18
4.4.3	There should be a framework for supporting SMEs	19
4.4.4	Investment in R&D is critical for Zambia to increase production and exports.	19
4.4.5	International Best Practice must be adopted to build institutional capacity for both private and public institutions	19
4.4.6	Provision of agriculture incentives to boost agribusiness	19
5	**Unexploited Potential: Micro-Enterprises as Building Blocks for Job Creation**	**20**
5.1	What Motivates Entrepreneurship?	20
5.2	Failure to Thrive: Challenges Facing Ambitious Micro-Entrepreneurs	21
5.3	Existing Policies and their Ability to Respond to Entrepreneur Challenges	22
5.4	Building Capacity of Zambian Micro-Enterprises	24

6	**Promoting Job-Rich Urbanisation**	**25**
6.1	Urban Area (In)efficiencies	25
6.2	Secondary Cities Labour Markets	26
6.3	Sectoral Employment Shifts with Urbanisation	26
6.4	Urban Production and Productivity	26
6.5	Urban Employment Prospects	27
6.6	Proposed Recommendations for Promoting Job Rich Urbanisation	28
7	**Striking the Right Balance: Appropriate Labour Market Regulations**	**28**
7.1	Why Labour Markets Are Regulated	28
7.2	Selected Key Reforms in Zambia's Labour Market	29
7.3	Are Zambia's Labour Regulations Striking the Right Balance?	29
7.3.1	Laws criminalizing labour offenses	30
7.3.2	Laws banning casualization of labour	30
7.3.3	Separation restrictions	31
7.3.4	The Minimum Wage Law	31
7.4	How Labour Regulations Can Promote Employment Creation in Zambia	32
8	**Counting Jobs: Basing Future Policy on Better Information**	**32**
8.1	Situational Analysis of the Current Labour Market Information System in Zambia	33
8.2	Impact of the Current Labour Market Information System on Job Creation and Recommendations to Improve the System	34
9	**Summary and Conclusions**	**36**

List of Acronyms

AfDB	African Development Bank
BOP	Balance of Payments
CEDA	Citizen Entrepreneurial Development Agency
CEEC	Citizens Economic Empowerment Commission
CSO	Central Statistical Office
FAP	Financial Assistance Policy
FCh	Fundacion Chile
GDP	Gross Domestic Product
GRZ	Government of Zambia
IDC	Industrial Development Cooperation
IMF	International Monetary Fund
LCMS	Living Conditions Monitoring Survey
LFS	Labour Force Survey
LMIS	Labour market information systems
LPS	Local Preferential Scheme
MCTI	Ministry of Commerce Trade and Industry
MOF	Ministry of Finance
MSME	Micro, Small and Medium Enterprise
NAPSA	National Pension Scheme Authority
PACRA	Patents and Companies Registration Agency
PSDRP	Private Sector Development Reform Programme
SME	Small and Medium Enterprise
SOE	State Owned Enterprise
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
WTO	World Trade Organisation
ZABS	Zambia Bureau of Standard
ZDA	Zambia Development Authority
ZEMA	Zambia Environmental Management Agency
ZICTA	Zambia Information Communications and Technology Authority
ZIPAR	Zambia Institute for Policy Analysis and Research
ZRA	Zambia Revenue Authority

Executive Summary

Zambia's employment challenge is about both a lack of jobs and a poor quality of jobs. Recent statistics from the Central Statistical Office (CSO) show that the (standard) unemployment rate, at 12.6% of the labour force in 2017 compared to 7.9% in 2012 and 7.4% in 2014, is worsening. Moreover, overall 69.8% of employed persons are informal employed, with their jobs characterized by low pay, lack of social security, limited mechanisms that ensure respect for workers' rights, and low influence or negotiating space on salaries or conditions of service. This dual challenge has existed for a while. It implies that Zambia should raise job numbers and simultaneously enhance the quality and sustainability of jobs. Achieving both of these objectives will require innovative policies that are based on evidence.

Having observed this dual challenge, ZIPAR launched the *More and Better Jobs Flagship Project* in 2015 as an initiative that sought to generate relevant, evidence-based policy options for informing the Government and other stakeholders on how to support the creation of more and better jobs. The project aimed to make a modest contribution towards realizing the job aspirations of the Zambian society. This report synthesizes and presents the findings of various pieces of analyses that were undertaken under this project. The main issues of policy concern in the report can be summarized as follows:

1) Since the mid-1990s, Zambia has general done well in pursuing conventional macroeconomic stability and growth objectives like maintaining relatively low inflation, enhancing real Gross Domestic Product (GDP) growth, maintaining low fiscal deficit (though with marked slippages since 2012), accumulating international reserves and so on. Over time, the country has established a robust macroeconomic framework through which to influence and direct key macroeconomic aggregates. However, the framework completely misses a perspective on jobs. Therefore, a perceptive on monitoring job creation through low unemployment rates and job quality through formal job numbers or proportions is lacking at the macro level. As such, policy-makers do not pay sufficient attention to jobs in a consistent way over time. Similarly, little attention is paid to Zambia's current economic philosophy on employment creation, particularly regarding where jobs should *primarily* come from, the private sector or the public sector. This hampers the formulation and persistent pursuit of macroeconomic policy on jobs.

2) At a micro or so-called sectoral level, Zambia is endowed with abundant land and water resources for agriculture. However, agricultural practices and in particular farming methods remain largely traditional and backward as they lack mechanization and other modernization elements. Zambia also continues to rely on rain-fed agriculture which affects productivity negatively in times of unfavourable weather conditions brought about by climatic changes. Activities linked to agriculture such as agribusiness (for example, processing and distribution of products produced on a farm), have also failed to achieve their potential. Access to credit and finance, lack of infrastructure such as transport and storage, lack of human capital and poor policy co-ordination all buttress the challenges in this otherwise important sector limiting employment creation.

3) The failure of Zambian agriculture to provide decent jobs for Zambians is a contributing factor to another major trend shaping the Zambian labour market – urbanisation. The rate of rural-urban migration has led to a surge in urban population which will, it is predicted, require nearly 2.8 million new urban jobs over the next 20 years, with over 1.2 million required in the next decade. Unfortunately, without policy change urban areas are not going to be able to provide anywhere near this many job opportunities. This "job-less urbanization" has further compounded living standards in the urban areas as those who cannot find jobs are absorbed in informal activities which do not guarantee consisted wages and other decent work conditions that come with formal jobs. This has resulted in towns that are bulging in terms of population but whose job opportunities are diminishing.

4) Due to lack of formal jobs, a good proportion of the working population has set up their own

small businesses as means of survival. In 2014, these types of businesses, which were mainly micro enterprises and classified as self-employment accounted for 42% of total employment. The self-employed however faced systematic challenges which made it hard for them to grow into meaningful businesses that could sustain livelihoods. Firstly, they did not have access to the finance needed to expand their economic activities, a challenge compounded by high levels of government borrowing that crowded out lending to the private sector. Secondly, they lacked access to business development services hence had limited business skills and knowhow to be able to grow. Third and last, their efforts to formalize and become formal businesses that could easily access credit, contribute to taxation and provide decent employment often failed as the cost of formalization in Zambia tended to be high.

5) The governance of work in Zambia has in some cases affected business negatively and affected job growth. A qualitative survey of firms conducted in selected industries in 2016 revealed that certain labour laws were severely constraining on the hiring of labour because of strong restrictions or even prohibitions on separation or laying off of workers. Some regulations had led to disputes and labour disruptions, which were a disincentive for employment creation. Laws such as the ban on casual labour, tightening of separation clauses and the introduction of an arbitrary minimum wages not linked to the private sector's operating costs structures, all worked together in stalling job creation, in the end adversely affecting productivity and production.

6) Zambia still lacks a comprehensive and up to date labour market information system that can be relied upon to track job growth and map those already existing. This does not only raise concerns about information asymmetry among the different players but also makes it extremely difficult to formulate appropriate pro-employment policies as well as industrial and labour organization policies and strategies, ultimately affecting job creation.

The importance of sound employment policies became even more critical during the undertaking of the More and Better Jobs Flagship project, particularly as new fiscal challenges mounted in Zambia from around 2015. Since then, the shrinking fiscal space means the government needs to not only ensure fiscal and macroeconomic stability, but employment policy is as effective as possible in creating jobs and supporting economic growth. Boosting job numbers and job productivity will contribute to growth and increase tax revenues, which, in turn, will improve the long-term fiscal position of the government.

Taking into account most of the forgoing, the Flagship project provides several concrete policy suggestions for Zambia to support a reversal of the adverse unemployment patterns and the creation of more and better jobs. Some of our policy suggestions include the following:

Unlocking jobs in the agriculture and related industries: by improving productivity through mechanisation, adoption of appropriate technologies, reduced reliance on rain-fed agriculture and pursuit of other modernization measures, the Zambian agriculture sector can become a reliable employer, reclaiming its position as top job creator in the country. Addressing key constraints such as access to credit and finance, infrastructure such as transport and storage, manpower skills as well as good policy coordination can further unlock more job opportunities in agriculture and related agribusinesses.

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.

Pursuing job-rich urbanization: Zambia must improve intra- and inter-city connectivity and leverage new infrastructure investments to stimulate growth of labour-intensive sectors in urban areas, particularly services like transportation, wholesale and retail trade, water and sewerage utilities, etc. that rely significantly on the installation of reliable relevant infrastructure for their functioning. Urban planning mechanisms need to be established and infrastructure investments that focus on strengthening links among firms and between firms and consumers need to be made.

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 of 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.

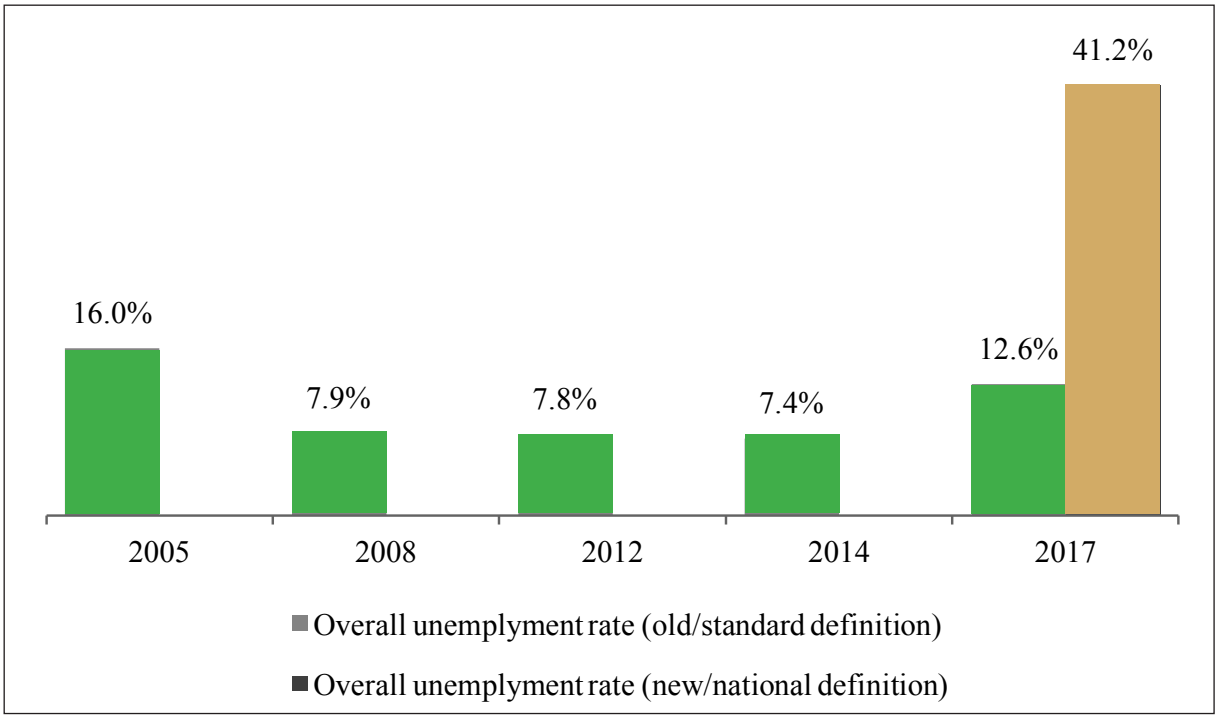
Managing and utilizing the labour market information system to monitor and track jobs: Conducting regular skills surveys and other periodic undertakings to not only monitor but also comprehensively assess and evaluate the skills matches, skills gap and skills mismatch with industry and sector needs at given point in time will be crucial for informing policy formulation and implementation. The labour market information system should be robust enough to link employers with would-be employers, especially youths, who have the relevant vocational skills.

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.

1 Introduction

Most observers agree that Zambia's employment challenge is twofold: on the one hand it is about a lack of jobs or an insufficient level of employment creation; and on the other hand, it is about a general poor quality of jobs. This dual challenge has been present in Zambia for a while and persists today. Recent statistics from the Central Statistical Office (CSO) show that unemployment is worsening, with the (standard) unemployment rate rising from 7.9% and 7.4% of the labour force, respectively, in 2012 and 2014 to 12.6% in 2018. In fact, according to the new national measure of unemployment[1], overall unemployment in Zambia was 41.2% of the labour force in 2017 (Figure 1.1).

Figure 1.1: Unemployment trends in Zambia



Source: authors construction from LFS and CSO Monthly bulletin data

In relation to the quality of jobs, overall 69.8% of employed persons were informal employed as of 2017. This means their jobs were characterized by low pay, lack of social security, limited mechanisms that ensure respect for workers' rights, and low influence or negotiating space on salaries or conditions of service.

The Zambia Institute for Policy Analysis and Research (ZIPAR) having observed this dual challenge some time ago, launched the *More and Better Jobs Flagship Project* in 2015. The Flagship sought to generate relevant, evidence-based policy options for informing the Government and other stakeholders on how to support the creation of more and better jobs. This report synthesizes and presents the collective main research findings and policy recommendations of ZIPAR's More and Better Jobs Flagship Project (hereinafter also referred to simply as the *Flagship project*). The Flagship project was specifically motivated by the observation that although Zambia experienced 15 years of sustained high economic growth between 2000 through 2014, the country continued to face challenges in creating the quantity and quality of jobs. As such, it continued struggling to make meaningful progress in reducing poverty and inequality.

1 Since 2017, Zambia implements the resolution of the 19th International Conference of Labour Statisticians (ICLS) of 2013 in its Labour Force Survey (LFS). The resolution implies new definitions of work, employment and labour underutilization, which give rise to new measurements of some labour market indicators (such as labour force and the unemployment rate). Thus Zambia now tracks new or national measure for international comparison as well as old or standard measures for local use. The detailed definitions and descriptions of the old/standard and new/national measurements of key labour market aspects can be found in various CSO Monthly Bulletins for 2017 and 2018.

The Flagship Project was conducted in the wake of mounting economic challenges in Zambia. These challenges emerged as dramatic macroeconomic instabilities and flattering GDP growth in 2015, and rehashed the ago-old questions about Zambia's dismal record of employment creation, industrial development and poverty reduction amidst sustained economic growth. The Flagship project therefore sought to generate relevant, evidence-based policy options for informing Zambian policy-makers and other stakeholders on how to support the creation of more and better jobs in the economy. It aimed to make a modest contribution towards the realisation of the Zambian society's jobs aspirations.

The Flagship Project ran for one and half years from May 2015 to December 2016. However, in crafting this synthesis report for the Flagship, insights, data and information from periods outside the project implementation period have been use. The reference period is thus considered to be wider than simply the project implementation period. For instance, some of the research studies took a longer retrospective view than May 2015. Similarly, a few studies used projections and estimates to capture the outlook or prospective view of various socio-economic aspects beyond 2016.

By the end of the Flagship Project, ZIPAR had undertaken eight full research studies. Some explored some cross-cutting dimensions of the jobs challenge in Zambia, while others delved into specific policy areas in detail. The first four in the list below focused largely on cross-cutting issues and the last four focused on more specific policy areas[2]:

i. What Zambia Needs for More and Better Jobs: Balancing between Macroeconomic Stability and Economic Restructuring;

ii. In the Eye of a Storm: The Impact of the Economic Slowdown on the Labour Market in Zambia;

iii. Promoting Job-Rich Urbanisation in Zambia;

iv. Employment and Industrial Policies and Strategies: International Lessons for Zambia on the Role of the State;

v. Labour Market Regulations and Labour Market Outcomes in Zambia (this is linked to the 'Casualization Opinion Poll Report');

vi. Effect of Investment Incentives on Employment in Manufacturing;

vii. Harnessing Industrialisation and Employment Creation from Regional Supermarket Chains; and

viii. Unexploited Potential: A Critical Review of Policies Supporting the Self-employed in Zambia.

These studies formed the bulk of the content for the synthesis report. The rest of this report is organised as follows:

Section 2 considers the background and context of the Flagship Project. Section 3 discusses the overall policy environment and how to get it right. Section 4 puts up a case for promoting agribusiness and manufacturing, while Section 5 explores the unexplored potential of microenterprises as a building block for job creation. Section 6 considers how urbanisation, if properly leveraged, can contribute to the creation of more and better jobs for the urban work force. Section 7 provides an analysis of some of Zambia's labour regulations and how to strike the right balance to avoid over- or under-regulating labour markets, while Section 8 offers some insights into how the labour market information system can be improved. Section 9 offers a final summary and conclusion on the Flagship Project.

2 All of these papers can be found at http://www.zipar.org.zm/resource-centre/publications/category/10-zipar-flagship-more-and-better-jobs Note that at the time of going to print, two of the listed papers were not yet published on the website. These are (a) "Employment and Industrial Policies and Strategies: International Lessons for Zambia on the Role of the State"; and (b) "Effect of Investment Incentives on Employment in Manufacturing".

2 Background and Context of the Flagship Project

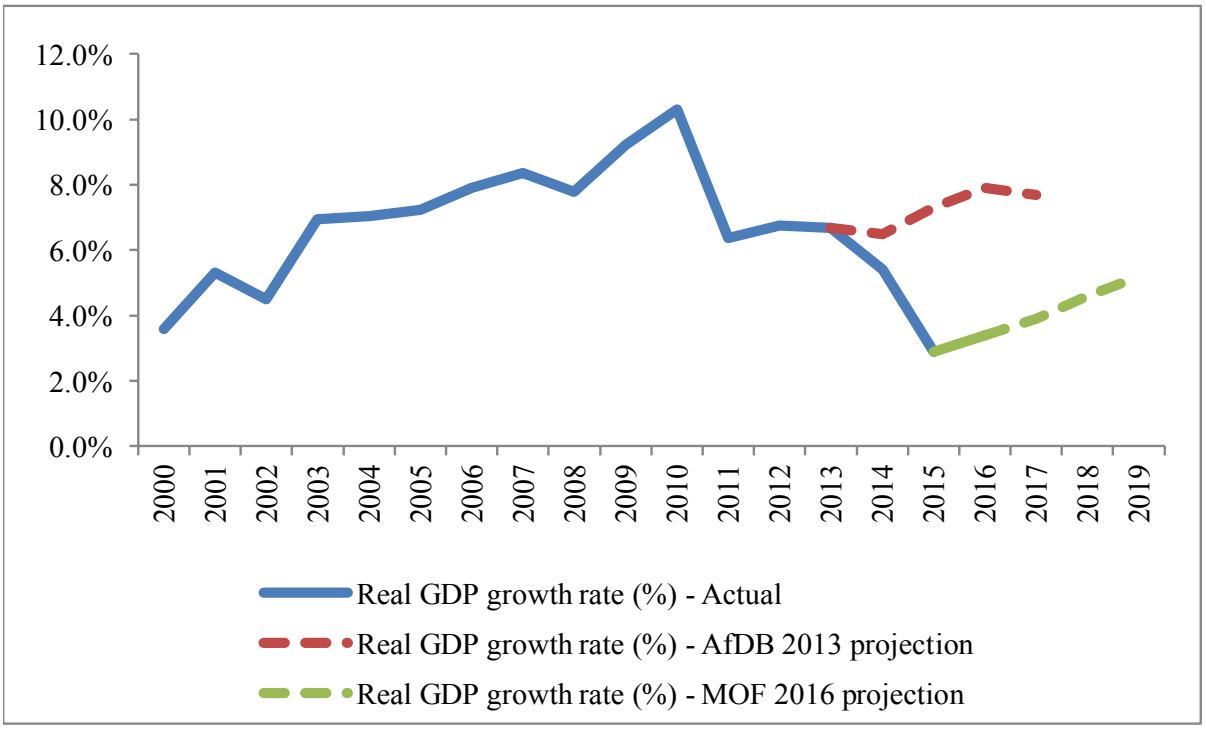
The Flagship Project was designed as an undertaking to conduct research and policy analysis with the aim of providing a greater understanding about key jobs issues in Zambia, particularly what it will take to create more and better jobs in Zambia, both now and in the future. The project was crafted and executed within a general economic context in Zambia that changed quite dramatically in some ways during the project's lifespan. To fully appreciate what motivated the project, both the long-term and the more immediate economic context are worth noting and these are explored in this section.

2.1 Economic Context

For 15 years between 2000 and 2014, Zambia experienced steady economic growth. On average, the economy's real Gross Domestic Product (GDP) grew at an impressive rate of 6.7% per year between 1999 and 2014. GDP per capita increased five-fold from US$333 in 1999 to US1, 738 in 2014. This strong growth led to Zambia being ranked among the 10 fastest growing economies in Sub-Saharan Africa in 2012 and being reclassified from a low-income country to a lower middle-income country a year before that. As projected by the African Development Bank in 2013, the economy was expected to maintain this upward trajectory between 2015 and 2017, with real growth anticipated to rise to 7.9% in 2016 before marginally slowing down to 7.7% in 2017. However, this did not happen.

Instead, in 2015, the country experienced a mix of severe exogenous shocks and domestic policy challenges. These exogenous shocks included: (i) a copper price slump which negatively affected Zambia's balance of payments (BOP) performance as well as fiscal revenue earnings; (ii) a severe electric power shortage; and (iii) a high degree of exchange rate volatility, which also triggered high inflation. These shocks resulted in a significant drop in the real GDP growth rate to 2.9% by the end of 2015 compared to the 6.7% during the preceding decade and a half. Nevertheless, by the end of 2016, the Zambian authorities were projecting a growth path that would see Zambia increase its real GDP growth rate to 5.2% by 2019 (Figure 2.1).

Figure 2.1: Real GDP Growth Rate Outcomes and Projections (%)

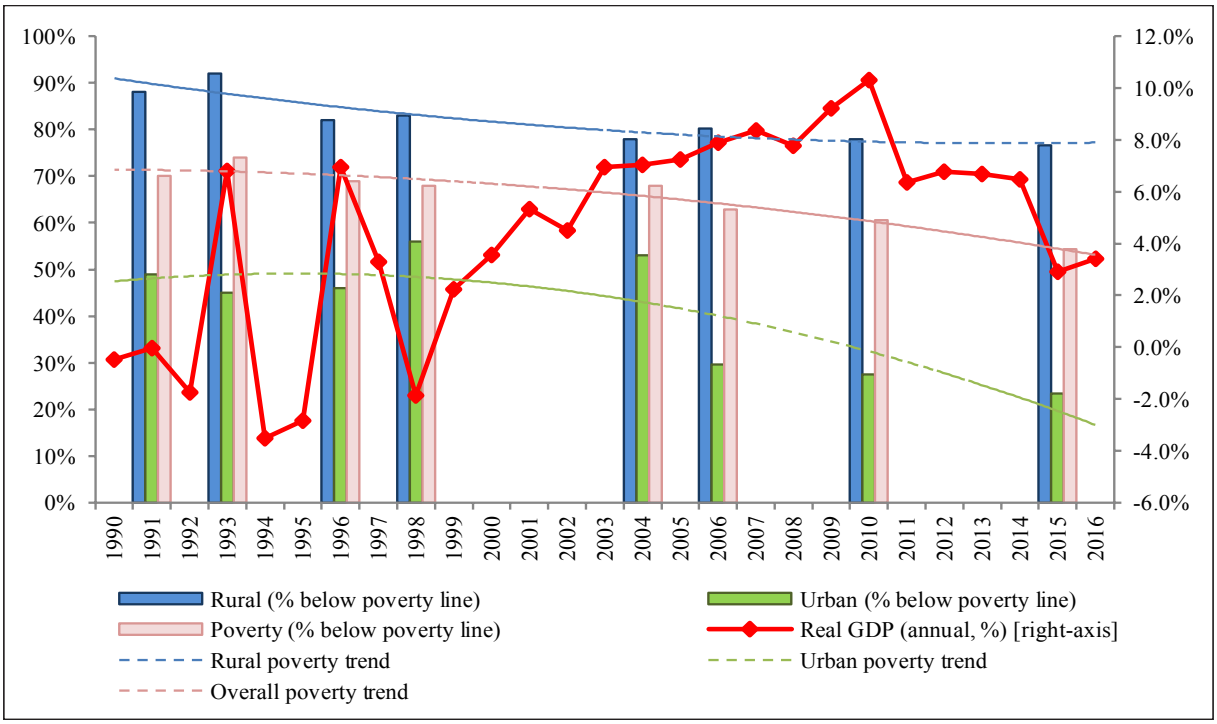


Source: Constructed from AfDB and MOF data

2.2 Growth and Poverty

Despite the sustained growth of the economy for a decade and half, this did not result in significant poverty level reduction, particularly in rural areas. As shown in Figure 2.2, overall poverty levels declined by only 16 percentage-points over the 24-year period between 1991 and 2015 (an average of 0.67 percentage points per year), with rural poverty remaining very high at 77% in 2015. This drop from 88% in 1991 (i.e. 11 percentage-points) demonstrates a lower level of improvement than the urban poverty levels which fared much better, with a marked drop from 56% in 1998 to 23% in 2015.

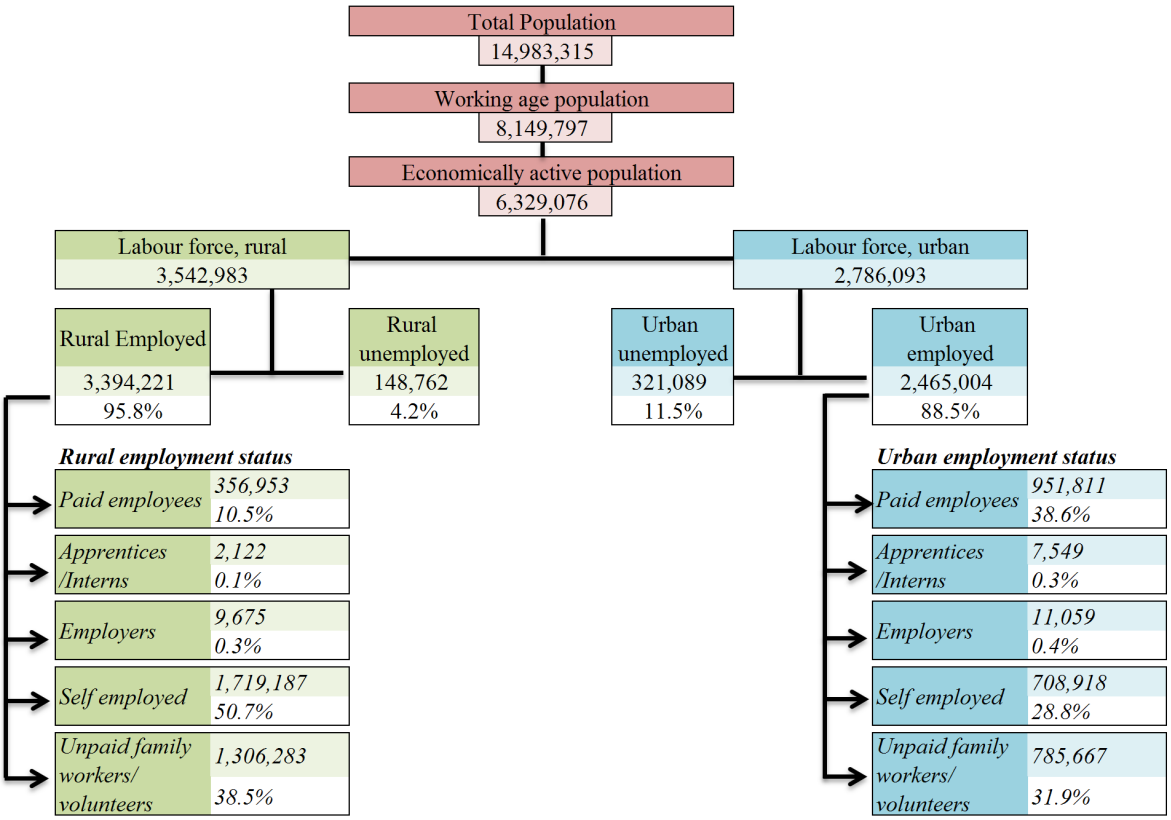
Figure 2.2: Average Real GDP Growth and Poverty Levels



Source: Constructed from CSO data

To understand why growth has not translated into significant poverty reduction and job creation, we consider the employment structure. According to the LFS, of the 15 million people, 8.1 million were of working age (aged 15 years or older) and 6.3 million were economically active (see Figure 2.3). Out of the total labour force, 5.9 million people (or 92.6%) were employed, implying an overall unemployment rate of 7.4%. The rural labour force comprised of 3.5 million people with 95.8% being employed. In urban areas, the labour force was 2.8 million people, 88.5% of whom were employed.

Figure 2.3: Population Distribution by Employment Status



Source: constructed using LFS (2014) data

Given this relatively low unemployment rate, these statistics could suggest that the employment challenge in Zambia should not be of much concern. However, it is established that formal sector employment – which has the greatest potential of conferring better employment conditions and thus a reprieve from poverty – is limited in both rural and urban areas. The 2014 LFS shows that only one in 20 people in the rural areas and about one in five people in the urban areas are in the formal sector.

Workers in urban areas are relatively better able to engage in gainful, formal employment when compared to their rural counterparts. The formal and informal employment profile in Zambia has a clear spatial pattern: even though overall employment was higher in rural areas than in urban ones, the proportion of those formally employed in rural areas (4.8%) out of the total employed rural population was much lower than that in urban areas (18.9%) This suggests that the productivity, security and returns for rural employment were all relatively lower than those for urban employment (this is an issue which is picked up in Section 3.7 and further explored in a forthcoming report by the JustJobs Network[3]).

Table 2.1: Formal and Informal Employment, by Rural/Urban Area

	Rural	*Urban*
Formal employment (%)	4.8%	18.9%
Informal employment (%)	95.2%	81.1%
Total (number)	3,394,221	2,465,004

Source: constructed using LFS (2014) data

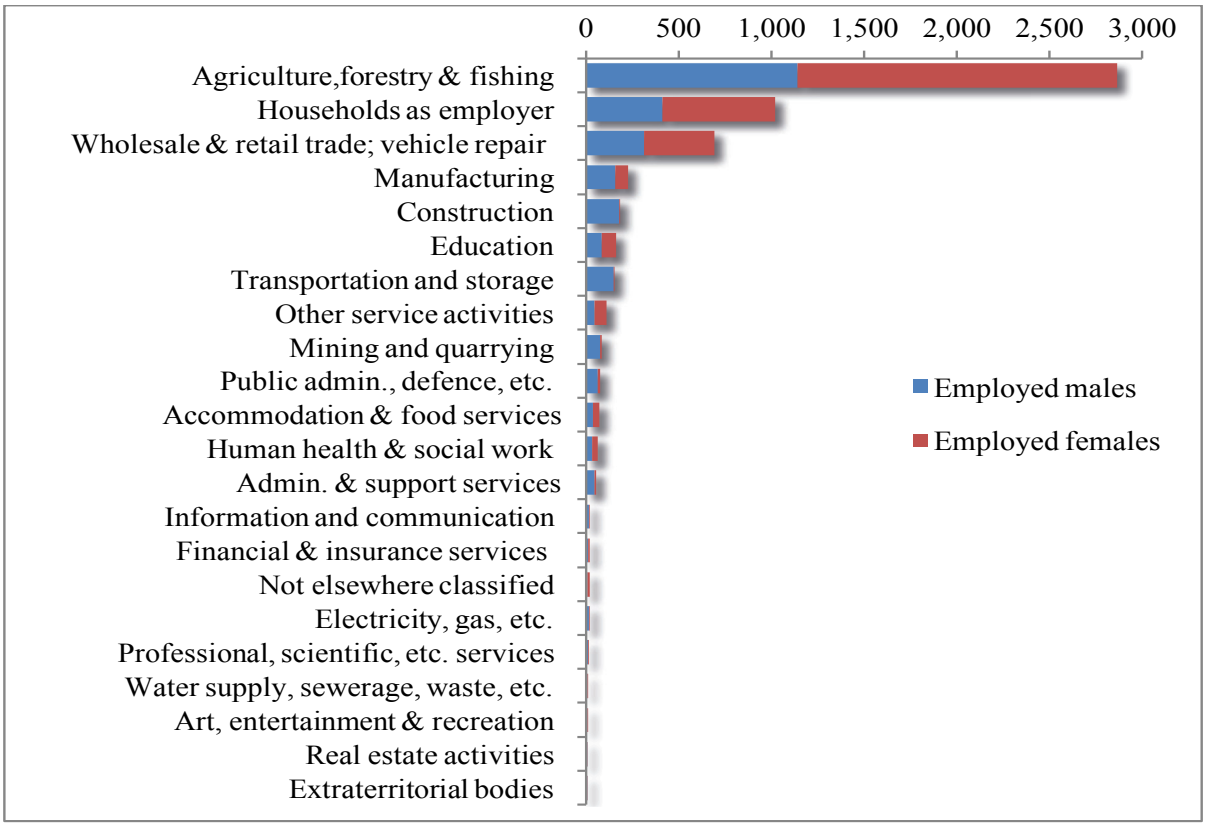
Those employed in rural areas are more likely to be either self-employed or unpaid family workers. The 2014 LFS showed that 89% of employed people in rural areas were either self-

3 The forthcoming report from the JustJobs Network explores the spatial distribution of employment challenges and labour market outcomes in Zambia, with a focus on "secondary" and "tertiary" cities – that is, urban areas outside Lusaka.

employed or unpaid family workers/volunteers. This was relatively higher than in urban areas where the combination of the same groups (self-employed or unpaid family workers/volunteers) was 61% of employed persons. Such employment statuses are less gainful and more informal.

Employment is mostly in less productive sectors and dominated by females who are likely to be poor. Agriculture – a typically rural activity – employed the largest workforce, accounting for 48.9% of employed persons. This was followed by the service sector which represented 45.9% of the total employed labour force. Manufacturing and, in particular, mining activities, were relatively very small in the Zambia's employment profile, accounting for 3.8% and 1.4% of employed persons, respectively. Regarding the employment distribution by industry and sex, the 2014 LFS showed that the top-three largest employer industries, namely (i) agriculture forestry and fishing; (ii) households as employers; and (iii) the wholesale and retail trade (plus motor vehicle repair), were all dominated by female employees (see Figure 2.4). The next seven of the top-ten largest employer industries were male dominated.

Figure 2.4: Number of Employed Persons (15 years or older), by Industry and Sex ('000)



Source: Constructed using LFS (2014) data

However, these longstanding challenges have been compounded by the economic slowdown and its impact on the labour market. A survey of the general public and individuals provided some insights into the effect of the economic slowdown on the labour market. The findings reveal that revealed that most respondents had a bleak perception of how the Zambian economy was performing. When asked about the 'general economic situation in the country in the last 12 months', three quarters thought that it had become either 'much worse' or 'somewhat worse'. The overwhelming majority of individuals – three-quarters (75%) – felt that employment opportunities had been badly affected by the economic downturn. The hardest hit by the job losses were those with low levels of education and young people, in particular recent graduates from universities and colleges. The business survey also found that redundancies had been particularly prevalent in economic sectors such as mining, construction and transport.

While there are signs that the Zambian economy is slowly recovering, the impact of the 2015 and 2016 economic slowdown is likely to still linger on in the Zambian labour market and therefore provides a context for this Flagship Project Report.

2.3 Too Big to Fail: Agriculture's Contribution to Jobs

Agriculture is undoubtedly Zambia's largest employer and has the potential to create millions of new jobs and absorb millions of new job seekers. But various obstacles continue to limit the sector's ability to contribute to employment growth. These include limited investment in agriculture infrastructure and limited access to finance, lack of appropriate technologies and reliance on rainfall making the sector liable to adverse weather conditions and climate change, limited extension services, and entrepreneurial and business development services, tailored specifically for agriculture, agro-processing and agro-product trade. While a large proportion of the Zambian population in inherently agrarian – mainly due to the abundance of arable land and water, knowledge and knowhow of new modern farming techniques and technologies is quite limited; that is, even in agriculture a marked skills deficit exists. As a result of these and other challenges, agriculture has been unable to generate high job numbers, improve the quality of agricultural sector jobs or make a meaningful dent on poverty.

2.4 Urbanisation and Job Creation

Due to the challenges associated with rural areas and agriculture in particular, there have been significant movements out of rural agriculture. Following the re-urbanisation that started in the early 2000s, most rural people migrated to urban areas hoping to live the "Zambian Dream". Between 2008 and 2014, the share of all Zambian workers in agriculture fell from 71.4% to 48.9%.

The new migrants, who struggle to make ends meet because they lack the skills to compete for the paltry formal jobs available, compounded the urban unemployment challenge. Urban unemployment stood at 11.5% in 2014 and was higher among the youth. It was particularly more alarming among the 15-19 year olds (28.3%) and 20-24 year olds (20%). Left with no other alternative, the majority of the youth find themselves taking up jobs in the low-productivity informal sector where income tends to be low, irregular and unpredictable.

Non-farm informal jobs have been on the rise, increasing from 66.2% of all non-farm jobs in 2008 to 80.7% by 2014. Moreover, among the sectors that have expanded the most rapidly since 2008 is informal community, social and personal services (low-value-added service sector occupations), which increased by 655%. By 2014, over 1.2 million people were employed in these informal services, of whom 1 million were engaged in 'activities of households as employer' – domestic work like cleaning, cooking, and gardening. This shows that those who leave the rural agriculture sector end up in low-productivity non-farm jobs in urban areas.

Some of the sectors where urban jobs are concentrated and growing are declining in terms of contributions to overall GDP (for example, manufacturing and wholesale and retail trade). This raises questions about the quality, skills-match and productivity of the new labour entering these sectors. It also raises questions about the average (real) wage that the workers entering these sectors will attract. Workers in these sectors are unlikely to experience substantial wage growth if this trend persists.

Rising inequality has eroded the gains made in reducing poverty in urban areas. It can be argued that moving to the urban areas offered rural residents an escape from poverty, going by the significantly lower poverty levels in urban areas. However, the decline in urban poverty has been somewhat eroded by increasing income inequality. Nationally, the Gini coefficient – a metric used to compared inequality over time and across geographical locations, increased from 0.65 to 0.69, and from 0.60 to 0.61 in urban areas. This suggests an increase in inequality between urban and rural areas and within urban areas.

2.5 The Challenges of Small Businesses

The small businesses that absorb a high number of youths face a lot of constraints. With the majority of the enterprises being small, they find it extremely difficult to access credit from financial institutions because of high collateral requirements, high interest rates and short repayment tenures. They are generally considered by commercial banks as a high-risk group when it comes to finance. This is because most of them have very low capitalization and often fail to meet requirements set by financial institutions.

The cost of formalisation is also a challenge. A micro enterprise that is formalised faces a 3% tax on annual turnover. It is also required to purchase numerous trading licenses from the local council, a problem which is especially acute in the tourism sector. These licenses include fire, health, liquor, business levy, personal levy, land rates and signing and stamping licences (all from the local councils) and, in addition to this, licensing and/or certification from the Patents and Companies Registration Agency (PACRA), Zambian Environmental Management Agency (ZEMA), Zambia Bureau of Standards (ZABS) and the Zambian Revenue Authority (ZRA). Once in the formal sector, there are also barriers to taking on more employees: an additional worker attracts additional costs which include the minimum wage and contributions towards National Pension Scheme Authority (NAPSA), workers' compensation, employees' meals and transport allowances.

Further, micro enterprises find it hard to access government support services, especially under the Ministry of Commerce Trade and Industry (MCTI), Zambia Development Authority (ZDA), the Ministry of Tourism and Arts, ZEMA and Zambia Information Communications and Technology Authority (ZICTA).

2.6 Labour Reforms in the Midst of High Unemployment

The issues highlighted above have to some extent implied labour supply has exceeded demand. This has led to labour market distortions making it necessary for the Government to intervene with a series of labour reforms. Government has put in place regulatory systems that seemingly favour the workers more than the employers. These include the setting of minimum wages for workers without labour movement representation, particularly domestic workers, shopkeepers and general workers. In a bid to protect workers from abusive working conditions, Government banned casualization of labour. However, most employers are reluctant to hire workers on a permanent basis, preferring instead to engage workers on short-term contracts. From the perspective of employers in the private sector, some of these labour reforms impede job creation and thereby worsening the unemployment problem. Going forward, Government has to strike a balance between the needs of employers and employees.

2.7 Counting and Monitoring Jobs

The identification of labour market issues critically rests on the availability of data, information and analysis. labour market information systems (LMIS) provide an essential basis for employment and labour policies, and inform the design, implementation, monitoring and evaluation of policies that are better focused and targeted. However, Zambia lacks a functional and comprehensive labour market information system. This poses a significant constraint on monitoring the impact of the policy environment on job losses and job creation, as well as regular skills surveys to monitor the skills gap and skills mismatch at given intervals to inform policy formulation.

3 Getting the Overall Policy Environment Right

Macroeconomic stability and a conducive business climate must be secured as prerequisites for job creation. This means that policy measures must be formulated and implementing for sustaining stable prices, a stable exchange rate, a manageable public debt stock, and a competitive business environment that is supportive of the private sector. These recommendations stems from important observations on macroeconomic and business climate experiences during 2015 and 2016 in particular.

3.1 Macroeconomic Situation, Business Climate and Policy Responses in 2015 and 2016

A range of exogenous shocks and domestic policy misalignments and failures occurred in 2015 and 2016, ushering in the most dramatic economic instability and deterioration seen in Zambia in over 20 years. These affected businesses, jobs and economic growth. For instance, according to the 2016 Annual Report (MoF, 2017), the real GDP growth rate dropped to 2.9%, resulting in several challenges, including mounting fiscal and current account deficits, a sharp increase in public debt, and huge job losses. As reported by various authors, the key events which led to the fall in economic fortunes were:

- *Copper price shocks and external imbalances:* Copper prices had persistently declined since 2011 but the decline was especially sharp in 2015, falling by 33% during the year (compared to an 11% drop in 2014 and a 10% drop in 2013). With rapidly declining copper prices, production and exports, Zambia's trade balance deteriorated, turning negative for the first time in nearly ten years in December 2014. The trade deficit continued to mount, reaching its deepest level in October 2015 when net merchandise exports reached minus K2.6 billion. Given the dominance of international trade in the current account, the growing trade deficit readily resulted in sharp current account decline. The current account balance went from a surplus of 2.1% of GDP in 2014 to a deficit of 3.5% of GDP in 2015. Thus, during 2015 and 2016 the economy was no longer able to generate sufficient foreign exchange from exports to cover the import bills. The imbalance imposed additional pressure on Zambia's overall balance of payment position.

- *Shock of electric power shortages*: A severe hydroelectric power shortage ensued around July 2015 owing to low levels of rainfall recorded in the 2014/2015 rainy season. This reduced water inflows into Zambia's main reservoirs for hydroelectric power generation by 35-48% and significantly affected electric energy supply in 2015. This ushered in a period of severe electricity rationing (or so-called 'load-shedding') in the second half of 2015. By the close of 2015, most hydro electricity users were going without power for 8-12 hours a day. In July 2015, mining companies were asked to operate within restricted power allocations and were offered additional power at relatively higher cost. Looking beyond the mining sector, rough estimates by local commentators in Zambia suggested that the load-shedding alone reduced industrial productivity in manufacturing and agro-processing by between 30-70% between June and October 2015, and cost the economy about US$4.3 billion in lost GDP by the end of the year, implying a 16% reduction in the estimated end-year nominal GDP.

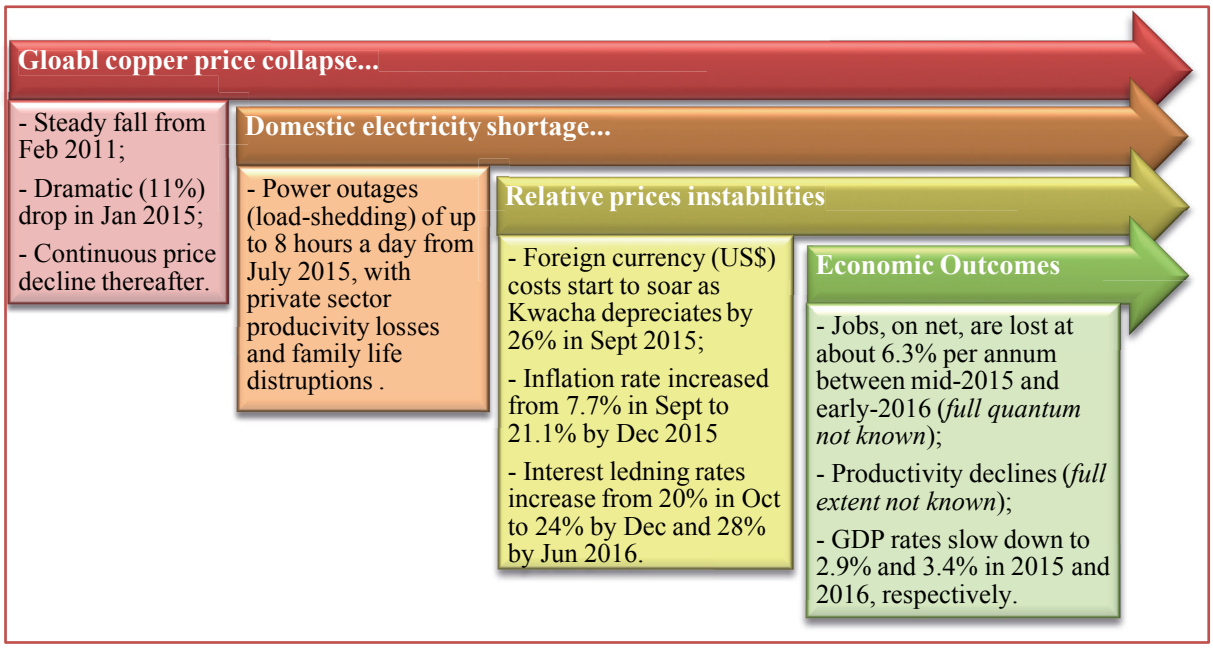
- *Shocks from exchange rate volatility and commodity price changes:* The dual impacts of the sharp copper price decline and energy crisis fanned adverse market sentiments and fuelled speculative behaviour in Zambia's financial markets. Due to these factors, the local currency, the Kwacha, came under tremendous pressure in the second half of 2015; in September, the Kwacha collapsed, depreciating by 26% in nominal terms in a single month. Given the high import content of domestic production and consumption, particularly food imports, the currency decline resulted in a strong pass-through effect to domestic prices, partially explaining the dramatic 13.4 percentage point increase in the inflation rate from 7.7% in September 2015 to 21.1% by December 2015. The monetary authority responded to the exchange rate volatility and sharp increase in the inflation rate

by tightening monetary policy, in November, increasing the policy rate to 15.5% (from 12.5%) and increasing the statutory reserve ratio. These measures raised the nominal cost of borrowing significantly and the lending interest rate increased from a monthly average of 20% over the period April 2015 to October 2015 to 28.6% by June 2016.

Coupled with the Government's huge appetite for borrowing – reflected in rising yield rates on government securities (Treasury Bills and bonds – liquidity preferences for lending to the private sector declined, and private sector credit and investment were crowded out. This, in addition to the load shedding, resulted in a significant dampening of private sector productivity and outputs. The ZIPAR (2016) business survey observed that government policies, macroeconomic instability and exogenous shocks were the main contributors to the economic downturn in Zambia in 2015. When asked to identify the main factors contributing to the economic slowdown, 78% of respondents mentioned the depreciation of the Kwacha, 68% stated the load shedding, 54% said the high interest rates, 51% said inflation and 46% said government policy in general. These were the top five most pressing issues during the downturn which were not directly or indirectly within the control of the Government.

Figure 3.1 summarizes the sequence of exogenous shocks that affected Zambia in 2015 and highlights some of the key economic outcomes as a result of the shocks.

Figure 3.1: Sequence of 2015 exogenous shocks and outcomes



Source: Author's construction

An important observation in the aftermath of the 2015 crisis was the incoherent macroeconomic policy responses to the crisis. As already noted, the monetary authorities responded to the economic slowdown by further tightening monetary policy, which had already been conservative. This was to re-establish commodity prices and local currency stability, to defend the external balances position to the extent possible, and to renew confidence in the financial markets. Monetary policy did not falter on maintaining healthy international reserves. Nonetheless, the economy suffered the trade-off as the tight monetary policy caused a withdrawal of liquidity from the market and crowded out the private sector.

Conversely, fiscal policy remained lax in 2015 and 2016, following the same trend seen during 2011-2014. The Government increasingly went off-budget as it continuously took on heavy capital development infrastructure projects and social spending programmes, including the following:

- Heavy expenditure on major road projects tied to the Link Zambia 8,000 project, and the

Lusaka urban roads around (L400) project);

- Continuation of agricultural subsidies in the Farmer Input Support Programme, Strategic Food Reserves and Food Security Packs;
- Importation of high-cost emergency energy in the wake of the energy crisis that emerged in June/July 2015;
- The rising debt service repayments; and
- Payments to sustain a heavy fuel subsidy.

Ultimately, the mismatch between the revenue and expenditure sides of the budget caused a deterioration of the overall fiscal balance, which reached 9.9% of GPD by the close of 2015 (from a deficit of 1.8% of GDP in 2011). The deficit also resulted in a rapid escalation of total public debt as the public sector borrowed in order to finance the mounting fiscal deficit. The total public debt stock by the end of 2015 was estimated at 56.3% of GDP compared to 21.9% and 20.8% of GDP, respectively in 2008 and 2011 (IMF, 2017). Worries about the debt becoming unsustainable increased, with many observers calling for the Ministry of Finance to update its debt sustainability assessment and calling for the establishment of an IMF-supported recovery programme to help address the deep imbalances that emerged in 2015.

Clearly, the stances on monetary policy and fiscal policy were quite at variance before, during and after the 2015 crisis. And both stances, as disparate as they were, hurt Zambia's job prospects and outcomes. On the one hand, the tight monetary policy constrained and crowded out the private sector, thus reducing private sector demand for factor inputs including labour. On the other hand, the loose fiscal policy and sustained high spending seemingly did not reach the main engine for Zambia's jobs and growth, the private sector, given its focus on public infrastructure development and social sector programmes. A few short-term jobs were created through government road construction projects, but these were short-lived as workers in the private construction companies readily became redundant as the public sector stacked up payment arrears and registered stalled projects. The macroeconomic policy response misalignment remained a significant concern throughout 2016 as did their impact on the employment profile.

3.2 Proposed Policy Solutions

Going forward, the fiscal, monetary and planning authorities should consider the following specific recommendations:

In terms of short-term *price stabilization policy*, the monetary authority should continue with its monitoring of financial conditions and tailoring its monetary policy stance in line with prevailing conditions. In times when exogenous shocks cause overheating such as inflation spikes and exchange rate volatility and pass-through effects, the Bank of Zambia should tighten monetary policy, thus withdrawing liquidity from the market and reducing the over-heading. Granted, this will have deleterious effects on credit extension to the private sector, with risks of productivity and output declines. However, these trade-offs will be almost inevitable indirect costs in the face of exogenous shocks that are beyond the control of policy-makers and actors in the domestic economy. Conversely, as conditions become more favourable, the monetary authority should ease monetary policy significantly, reducing the policy rate and statutory reserve ratio in order to stimulate credit to the private sector, productivity and growth.

Concerning *exchange stability*, in the short-term, the Bank of Zambia should maintain its stance of pursuing a flexible exchange rate regime and intervening in the foreign exchange market to smooth exchange rate volatility only when the volatility becomes excessive and when its source is well-known. A well-known source is important because interventions in cases where the volatility is driven by speculation or currency attacks and not genuine market movements can cause a severe depletion of international reserves, sometimes without even fixing the

volatility problem.

As already noted, by the close of 2016, concerns were already mounting that public expenditures were excessive and unrelenting and the public debt stock was growing much too quickly. Therefore, as part of the fiscal authority's short-term efforts to foster fiscal consolidation and re-establish fiscal fitness, the authority should formulate and consistently implement an *emergency expenditure rationalization and prioritization plan* augmented with a *debt management initiative*. An explicit short-term or stop-gap strategy that rationalizes public spending will also support the realignment of fiscal and monetary policies, which were mismatched during much of 2015 and 2016.

Over the medium-term, the monetary authority should support the building of external sector resilience of the economy, particularly through building the countries international reserves. The authority should empirically explore options for expanding reserves beyond the conventional macroeconomic target to maintain them at least three months of import cover. The fiscal authority should transform the expenditure rationalization and debt management initiatives to more structured medium-term strategies backed by appropriate policies and legal frameworks.

Many of the intermittent macroeconomic imbalances and vulnerabilities to exogenous shocks discussed thus far arose as a result of structural distortions and constraints in the Zambian economy. These relate to inefficient and uncompetitive services, inadequate physical infrastructure, low quality human capital, weak science, technology and innovation bases, and generally, low productive capacities and productivity outcomes in the real sectors. Therefore, in the long-term, the Government, led by the planning authorities, should focus on spurring a structural transformation process that brings about fundamental economic restructuring for Zambia. Some of the main elements required for supporting long-term thinking include: national consensus on Zambia's preferred economic philosophy and development paradigm; widely consultative, inclusive, long-lasting and legislatively bound development plans that are, preferably, delinked from the political cycle and last beyond five years (taking a leaf from Chinese plans, some of which have been known to last for 16 years); medium terms key policies on domestic industry, trade, investment, and competition; and supporting short-term policies, programmes and structural reform efforts (the so-called low-hanging fruits).

This for instance, the Seventh National Development Plan, which was still being crafted by the end of 2016, was an important aspect for supporting long-term thinking and acting. During the formulation process, the authors of the Plan should ensure to incorporate genuine consultative tenets, particularly around what the economic philosophy and development planning during (and possibly beyond) the Plan period should be. The authors should also ensure that the Plan is anchored to appropriate legislation that gives it potency or effectiveness during implementation.

In the medium-term, a key element for economic restructuring will require the establishment and implementation of an industrial policy that builds productive capacities, enhances competitiveness, and drives job creation in priority sectors of the economy such as agro-business and manufacturing. As suggested in UNCTAD (2016)[4], the policy should foster the economic restructuring of key services sectors such as energy, telecommunications, finance and transportation. For instance, UNCTAD (2016) recommends that policy-makers should work towards building a competitive economy through interventions that reduce the production, business and trade costs. Key to this is the reorganization of the domestic services sector and enhancement of its capacity. Policy-makers must work towards increasing competition and pushing for regulatory reform, particularly making them less onerous on the private sector. The country should establish a strong base of domestic services reform spearheaded by the Ministry of Commerce Trade and Industry.

UNCTAD (2016) also advocates for the unilateral liberalization of services in the financial,

4 UNCTAD (2016) "Zambia Trade Policy Framework: Harnessing the Potential for Trade and Sustainable Growth in Zambia", United Nations Conference on Trade and Development (UNCTAD), © Copyright United Nations, UNCTAD/DITC/TNCD/2015/4

telecommunications, transport and energy sectors at the WTO level, and the liberalization of business and professional services, communication services, financial services, transport services and labour mobility in respect of the entry of business persons, at the regional level. It offers important suggestions for binding the de facto opening of the telecommunications, transport, financial and energy sectors at the WTO, which would allow the country to attach conditions for development purposes, using GATS articles IV and XIX. Zambia's current applied MFN tariff structure should be tailored to support the industrial policy through a strategic tariff policy that takes account of sector strategies of the policy.

In relation to human development, protecting social sector spending on health, education, water and sanitation and social protection will be imperative for accumulating the right amount and quality human capital. Sustained strategic planning and execution of public investments in the social sectors will be a key cornerstone for build the skills base of Zambia's labour force. The authorities should ingrate these social sector oriented elements into their medium- and long-term plans and strategies. They should also establish legal frameworks to specifically protect the public expenditures going to the social sectors.

Other more general policy reforms that will improve the macroeconomic and business climate in Zambia include: land policy reforms; human settlement policy reforms; and policy interventions to manage and harness Zambia's demographic transition. However these ideas have to be unbundled and assessed in more detail.

4 Prioritizing Agri-business and Manufacturing: International Lessons for Zambia

This section focuses on some of the specific strategies and measures – beyond those already discussed in Section 2 above – that Zambia must pursue to strengthen its industrial policy so as to facilitate employment creation. Rodrik's (2014)[5] concept of industrialization is defined as "restructuring policies in favour of more dynamic activities generally, regardless of whether those are located within industry or manufacturing per se". Rodrik further argues that industrial policies and strategies that are targeted at supporting a broad range of activities, and not specific sectors, increase the potential for structural transformation to promote the creation of more quality jobs.

Today, many African countries are drawing on lessons from around the world and are adopting successful industrial policies. Perhaps most well-known, countries like Ethiopia have adopted strategies which have successfully grown some sectors of the economy, such as the garments industry.

This section maintains and amplifies the argument that once macroeconomic stability has been secured, for the ensuing economic growth to be sustainable and contribute to the creation of productive employment, it must be accompanied by structural transformation. The section explores and draws lessons from strategies that countries have used to restructure and grow their respective industries from an agricultural base. Harnessing the potential of agribusiness will require foreign investment, particularly in the cash-crop, livestock, aquiculture and forestry subsectors. This could be achieved by investment in (i) technologies and home-grown research and development; (ii) business development services tailored for agro-processing;(iii) financing for private sector and public-private partnership investments in aggregation centres or commodity exchanges for grains, animal feeds, livestock products and by-products; and improving market access with a focus on meeting standards of targeted export markets.

To better understand this, Chansa *et al* (2016) undertook an extensive desk review involving

5 Rodrick, D. (2004). *Industrial Policy for the Twenty-First Century.* UNIDO.

a comparison of selected countries in terms of how they implemented industrial policy.[6] This section draws considerably from the analysis in Chansa *et al* (2016) that adopted a dual focus on historical lessons and comparative analysis from three countries that had successful industrial development experiences.

4.1 Overview of Employment by Sector

A sectoral decomposition of employment levels reveals that employment levels in Zambia have largely been driven by the services sub-sectors (Table 4.1). Almost all of the sectors had an overall positive percentage change over the period 1985 to 2014 with electricity, services and trade growing by 289.5%, 169% and 124% respectively. The finance sector contracted by 52.9% over this period, but a closer examination of the trend reveals that in the sub period 1985 to 2012, only four out of the nine sectors had an overall positive percentage change. These are electricity, trade, services and finance which grew by 109.6%, 102.8%, 87.7% and 2.2%, respectively. In the remaining sectors, employment contracted over this sub period with the construction sector experiencing the largest contraction of 51.6% followed by the transport and manufacturing sectors at 36.2 and 24.8%, respectively.

Table 4.1: Employment by Sector

YEAR	1985-1989	1990-1994	1995-1999	2000-2004	2005-2009	2010-2012	2014	% change (1985-2014)
AGRIC	79,460	80,140	62,981	54,025	64,653	77,995	106,764	34.36
MINING	64,560	60,200	44,019	41,444	41,990	54,337	67,002	3.78
MANUF	75,280	70,160	48,571	52,512	50,794	56,601	76,470	1.58
ELECTRICITY	6,600	6,780	5,003	7,329	10,217	13,836	25,705	289.47
CONSTRUCTION	38,500	26,780	13,416	7,879	11,957	18,640	59,085	53.47
TRADE	49,400	51,760	47,430	47,550	73,216	100,162	110,653	123.99
TRANSPORT	32,760	31,440	42,329	32,830	22,759	20,889	58,196	77.64
FINANCE	31,880	35,760	37,462	39,168	38,430	32,595	15,023	-52.88
SERVICE	158,080	166,880	175,180	159,840	196,677	296,682	425,302	169.04
TOTAL	**530,460**	**529,880**	**476,799**	**442,638**	**510,693**	**671,738**	**944,200**	**26.63**

Source: Constructed from CSO data

4.2 The Case of Promoting Agribusiness

To achieve the goal of creating more and better jobs we turn to the agriculture sector which is key in attaining broad-based economic growth, food security and poverty reduction. This sector is not only key for employment creation because it is labour-intensive, but also because it tends to have stronger linkages with the rest of the economy (UNIDO, 2012). One sector that is widely considered as important for potential growth and job creation for Zambia is agribusiness. Agribusiness refers to the sum total of all operations involved in the processing and distribution of products produced on a farm, this includes production operations on a farm, storage, processing, transport and sale of agricultural commodities and items made from them. Agribusiness could create employment and income along the value chain from the primary producer to the ultimate consumer, widen the tax base, and increase foreign exchange earnings (GRZ 2006). Therefore, understanding what the barriers to expansion of agribusiness are and how successful countries have overcome these barriers is important for Zambia.

The debate about the State's participation in the agriculture sector has been on-going in Zambia for a long time. Observers note that over-participation of the state in the sector usually leads to market distortion and reduces the efficiency of the sector ultimately hampers gains from forward linkages. The overarching belief has tended to be that the private sector, underpinned by the right private sector institutions and structural set-up, a reliable business climate and a stable macroeconomic environment are critical for fostering positive employment outcomes and

6 Chansa *et al* produced an evidence paper, written for the ZIPAR flagship project, which is available upon request to ZIPAR.

increasing productivity. In turn, this promotes inclusive growth, poverty reduction, prosperity and sustainable development. The challenge of achieving this kind of structural change in Zambia requires bringing into focus the role of the State; we look at the key role that the State has played in the agriculture sector in our comparator countries.

4.3 International Lessons to Buttress the Case for Agribusiness in Zambia

4.3.1 Lessons from Korea

The rapid economic growth and industrialisation in the 1950s and 1960s' in South Korea was partially anchored on a prudent import-substitution industrialisation strategy. During this period, the State invested in agricultural programs such as irrigation systems, land reforms, education and development of high yielding varieties. This investment resulted in increased land and labour productivity and provided a more predictable and conducive environment for new technologies and crop varieties. This enabled the State to use the rural economy to pursue growth, stability and equity in a complementary rather than a competitive manner.

The rise in agricultural output served as launching-pad for agricultural processing industries such as the textiles, food and beverages and wood products which initially became leading export sectors. The dynamism of the agriculture sector and export-push contributed to the rapid rises in the demand for labour and a rise in the skill-intensity of labour demand (Kim, 1991).

In addition to supplying labour and raw materials to the domestic industry, the increase in productivity made food cheaper benefitting both urban and rural poor. In the economy as a whole, the lower food prices helped firms to keep wages low amid increasing productivity in the industrial sector.

Large business conglomerates, known as chaebols, were used as principal agents of industrialisation. They exported technologically sophisticated products often using US-trained South Korean scientists and engineers. State-owned enterprises were set up to accomplish tasks that were deemed risky by the private sector and could not be forced upon it to undertake. The South Korean government's interventionist policies relied on heavy consultations between the state and the private sector. This strategy resulted in structural transformation with the contribution of Agriculture to GDP falling from an average of 40% in the period 1962-1966 to 13.5% in the 1980s and 2.5% in 2010. Its contribution to employment has also drastically declined from an average of 63% in early 1960s to 6.4% in 2010. This led to increased productivity and redistributed employment to other sectors of the economy.

4.3.2 Lessons from Chile

Chile had a general strategy for identifying potential growth sectors which also applied to the agribusiness sector. Chile, like many other developing countries faced a number of challenges in developing the agribusiness sector. These challenges were both small and large and required a mix of interventions to solve them. The State focused on sectors that were within reach, given the country's existing or potential comparative advantage, and that have strong growth prospects in the international economy.

The State used a combination of channels to get this done and chief among them was the sending of business unit managers and key employees to other countries to learn the practical skills. This was the case in the cultivation of Salmon where the state sent key workers to Norway to go and learn how to adapt the Norwegian technology to Chilean conditions in the early days of setting up the industry.

The State also put in place policies that were geared towards solving the coordination problem in order to allow this sector to take off as desired. To address the problem of access to credit, the state introduced a loan guarantee scheme. This guarantee reduced the risks that banks faced when lending to the agribusiness SMEs. There were also deliberate efforts to provide human

capital for the agribusiness. This involved targeted training and acquisition of skills required for the various agribusiness firms. It was realized that this was a necessary step in order to raise productivity to desired levels for a viable export led sector. The Government facilitated the development of training programmes in biochemistry, pathology, engineering, business administration and aquaculture, among others, at local universities such as Universidad Austral en Valdivia and Universidad Los Lagos. Estimates show that the number of people trained between 1996 and 2002 increased by 500% to 2,060 workers. There was also a fiscal incentive, which enabled firms to claim tax deductions on expenses incurred in training their workers (UNCTAD, 2006).

4.3.3 Lessons from Botswana

At independence, Botswana like most African countries inherited a poorly performing economy; it was among the ten poorest economies in the world. However, following a number of developmental policies and state interventions in the economy, Botswana was able to transform the economy within 15 years after independence to one of the best performing economies in the world. GDP grew at an average annual rate of 14.3% from 1965 to 1980 and 12.1% for 1980-85 (Owusu and Samatar, 1997). Botswana developed its industrial policy as a deliberate measure to diversify its economy away from diamond mining. The policy entailed provision of financial support to newly established industries, and to programs targeted at supporting and promoting citizens' engagement in new business ventures. The Government also created an enabling environment for the establishment, growth and development of Micro, Small and Medium Enterprises (MSMEs) (Zizhou, 2009).

To foster the creation of SMEs, the government of Botswana established a Financial Assistance Policy (FAP) scheme in 1979. This financial program provided grants to newly established industries with an objective of creating sustained employment for the unskilled labour in a cost effective manner particularly in the manufacturing sector. The support took the form of labour and capital subsidies, tax holidays and training subsidies.

The government invested in countless skills trainings and entrepreneurship development among other programs targeted at employment creation. In 2001 the Citizen Entrepreneurial Development Agency (CEDA) was created with the aim of assisting citizen-owned enterprises to create employment and to diversify the economy.

In diversifying the economy from the mining sector, the government had embarked on support for other sectors to promote diversification. The strategy focused on leather processing in the manufacturing sector and a few other import-substituting industries. In 1980s, the government promoted both export industries and labour intensive manufacturing activities in an effort to broaden the production base. The support included the use of the Financial Assistance Policy (FAP) scheme, the Local Preferential Scheme (LPS) and the Selebi-Phikwe Regional Development Project (IMF, 1999). These schemes included provision of financial support, promotion of government purchase of locally produced goods to promote local production. These strategies led to structural change resulting in reallocation of workers from a low labour productivity sector – agriculture - to higher productivity manufacturing and services sectors. By 2010, the agriculture sector employed less than 40% of workers compared to about 83% in 1970.

4.4 General Sectoral Lessons for Zambia

A number of important issues have emerged from the three case studies concerning general sectoral policies. The following are the lessons for Zambia in relation to general sectoral policies, plans, initiatives and strategies:

4.4.1 Focusing on both comparative and competitive advantage as guiding principles in selecting key sectors to support

This requires a systematic strategy to identify key sectors to support in the economy. The

strategy has to be comprehensive yet focused. This argument is advanced in the context of a finite resource envelope and the fact that concentrating resources in a few key sectors which are viable and have significant contribution to GDP will have a much larger impact on the economy and employment creation. A similar approach must be adopted in the identification of potential agribusiness sectors. The evidence from the three case studies suggests that by focusing on the economy's comparative and competitive advantage, the state will inadvertently foster job creating industrial development.

4.4.2 Public Private Partnerships must be used in sectors where the private sector faces entry barriers

The State has an important and privileged position in leading the way in opening up sectors which may initially have been perceived to have an unfavourable risk to return profile by the private sector. Evidence from the case studies has demonstrated that economies usually have certain sectors where the chances of setting up a successful company may be very low for a variety of reasons such as lack of expert know-how in that sector, uncertainty about markets, and lack of infrastructure.

4.4.3 There should be a framework for supporting SMEs

Lack of access to credit has been identified as a major constraint facing SMEs. This is explained by the fact that SMEs are generally viewed as high risk clientele and as such banks and other financial institutions will only deal with them if they are able to charge higher interests. This inevitably reduces the ability of the SMEs to access the much needed credit. Evidence from the case studies suggests that the State created mechanisms for supporting SMEs both technically and financially, this significantly reduced the barriers that SMEs and improved their capacity to create employment.

4.4.4 Investment in R&D is critical for Zambia to increase production and exports.

Investment into Research and Development (R&D) is costly. Henceforth the State must have a clear R&D funding strategy. The state must also play a leading role in fostering experimentation, learning by doing, research and development, accumulation of tacit knowledge, innovation, technology adoption and adaptation. The evidence from the case studies is unanimous on this matter. The evidence also highlights two possible approaches in as far as organizing R&D efforts is concerned; the Korean approach of focusing on new inventions and technologies and the Chilean approach of focusing efforts on undertaking and adopting already established technologies. Lessons from the latter are most relevant and practicable for Zambia.

4.4.5 International Best Practice must be adopted to build institutional capacity for both private and public institutions

Korea had already an existing pool of human capital but in addition the State sent people to learn practically from other countries like Japan and USA. Chile also sent people to learn from other countries. A good example of this was in the cultivation of Salmon where they sent people to Norway to learn how to adapt the technology used in this sector. For Botswana, most of the policy reforms undertaken by government have been assisted by informed research by local research and academic institutions. However, the country received a lot of support from the multilateral organizations in form of advisory capacity and in research.

4.4.6 Provision of agriculture incentives to boost agribusiness

A number of barriers to the development of the agribusiness have been identified such as access to credit and finance, lack of infrastructure such as transport and storage, lack of human capital, policy environment, low mechanization and poor co-ordination. A number of lessons about how to overcome these barriers are noteworthy from the comparator case studies. In the case of Chile, overcoming these constraints involved a number of interventions. For instance, incentives like subsidies to improve access to credit, subsidies for improving irrigation systems and soil recovery programs were provided.

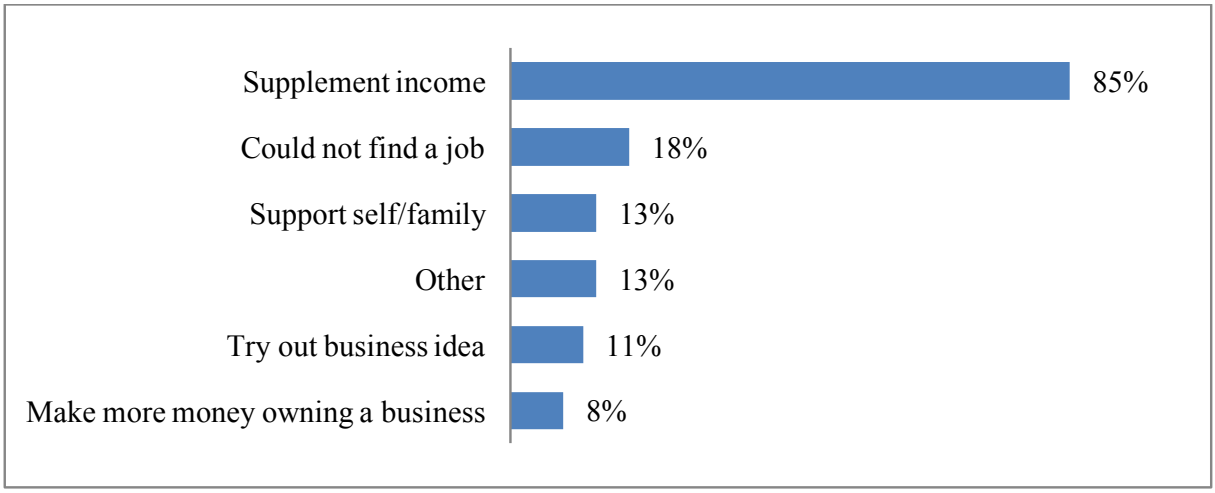
5 Unexploited Potential: Micro-Enterprises[7] as Building Blocks for Job Creation[8]

As Zambia grapples with the unemployment problem, discussion and debate has been sparked as to whether the formal sector can absorb the burgeoning labour force which is rising in tandem with an expanding national population. One of the potential coping mechanisms used by those that cannot be absorbed into the formal sector is to engage in entrepreneurial activity, such as sole proprietors or micro-enterprises, to make a living. Given that 44.2%[9] of the population in Zambia is self-employed, it is clear that this is a path that many have seen as a practical solution for self-sustenance. As such, it becomes imperative to explore just how viable this avenue is for job creation, particularly beyond self-employment. In this exploration, we examine what motivates Zambians to move into entrepreneurship; what determines the success of micro-enterprises and their ability to take on more labour; the role that the state needs to play to support private sector growth; and policy recommendations on how all these efforts could be enhanced.

5.1 What Motivates Entrepreneurship?

In Zambia, most people that turn to entrepreneurship as sole proprietors and micro-enterprises are driven more by the desire to supplement household income, than the capitalist motivation of profit and wealth accumulation. ZIPAR's research found that 85% of entrepreneurs stated they were in business to supplement existing income (see Figure 5.1). This suggests that, most entrepreneurs in Zambia have a primary source of income from wage employment and entrepreneurial business is merely a secondary economic activity. A commonly held view is that a lack of adequate employment opportunities is often what pushes labour into self-employment. However, only 18% of entrepreneurs cited this as a reason for starting a business. Therefore, whilst scarcity of employment opportunities is not the primary motivation behind entrepreneurs starting a business in Zambia, it is an important contributing factor to the number of micro-enterprises that are setup, coming second only to supplementing income.

Figure 5.1: Reasons for Starting a Business



Note: percentages add up to more than 100 because respondents were able to give more than one answer to the questions.

Source: 2010 Zambia Business Survey, World Bank

7 Micro enterprises were defined for the purposes of this study as those with annual turnover of up to K150,000 and up to [and including] 10 employees. Small enterprises are taken to mean those with an annual turnover of between K151,001 – K300,000 and 11-50 employees.

8 Billima-Mulenga (2015) Unexploited potential: A critical review of policies supporting the self-employed in Zambia

9 2012 Labour Force Survey

In light of the main motivations for starting a business that have emerged, and the fact that the vast majority of businesses never bother to register, the majority of the self-employed in Zambia can therefore be termed as 'survivalists'. These micro-entrepreneurs have been forced into business by lack of employment opportunities elsewhere and exhibit little or no ambition to grow their businesses and create more jobs. Even so, there are still a proportion of micro-entrepreneurs that are ambitious and have every intention of doing more than just survive. It is difficult to say exactly how large this group is, but it is broadly represented by the 11% who said that their reasons for starting a business were to "try out a business idea" and the 8% saying that they started a business because one can "make more money owning a business". It can be argued that it is these ambitious entrepreneurs in the micro, small and medium enterprise (MSME) sector that could provide an avenue for job creation, and hence can be leveraged to create more and better decent jobs. However, the research found that too often these promising entrepreneurs are frustrated by barriers that impede their growth and ability to eventual graduation into large enterprises.

5.2 Failure to Thrive: Challenges Facing Ambitious Micro-Entrepreneurs

The primary focus of the research conducted into self-employment in Zambia was on sole traders and micro-enterprises that wanted to expand their businesses. Efforts were made to understand the factors that might hinder the potential of these enterprises to thrive and become drivers of job creation. Some of the challenges that emerged included limited access to finance, limited access to government services, and high cost of formalization and doing business.

In terms of access to finance, nearly half of those interviewed said it was extremely difficult to access credit from financial institutions because of high collateral requirements. Additionally, high interest rates and short-tenures are regarded as a hindrance to access to finance. MSMEs in general, and micro-enterprises in particular, are considered by commercial banks as a high-risk group when it comes to finance. This is because most of them have very low capitalization and often fail to meet requirements set by financial institutions. As such, with this limited access to finance, it is often difficult for budding businesses to expand beyond the infancy stage and develop the capacity to create additional employment.

Furthermore, according to the focus group discussions and key informant interviews conducted, micro-enterprises find it difficult to access government support services, especially under the Ministry of Commerce Trade and Industry (MCTI). This sentiment was expressed among all entrepreneurs and across all districts, and was attributed to the fact that most of these institutions are either only found in the capital city, Lusaka, or in the provincial headquarters. This was found to be the same sentiment for support provided by Zambian Development Authority (ZDA), the Ministry of Tourism and Arts, ZEMA and Zambian Information Communications and Technology Authority (ZICTA).

The cost of formalization was also cited by most entrepreneurs as a constraint to business growth. A micro-enterprise that is formalized faces a 3% tax on annual turnover. They are also required to purchase numerous trading licenses from the local council, a problem which was found to be especially acute in the tourism sector. These licenses include fire, health, liquor, business levy, personal levy, land rates and signing and stamping licences; all from the local councils. In addition to these, businesses are also required to obtain licensing and/or certification from the Patents and Companies Registration Agency (PACRA), Zambian Environmental management Agency (ZEMA), Zambian Bureau of Standard (ZABS) and Zambian Revenue Authority (ZRA). And this is all simply to enter the formal sector.

Once in the formal sector, there are also barriers to taking on more employees. For most businesses interviewed, an additional worker attracts additional costs which include meeting the minimum wage (which most said they could not afford), as well as contributions towards National Pension Scheme Authority (NAPSA), workers' compensation, employees' meals and transport allowances. Moreover, once additional employees have been taken on board, there is also a high cost of separation in the event that a business can no longer sustain its labour

force and needs to reduce it. For example, by law, employers are required to offer employees a severance package of not less than two month's basic pay for each completed year of service. All these factors can act as deterrents to not only growing ones business, but also businesses expanding their workforce.

5.3 Existing Policies and their Ability to Respond to Entrepreneur Challenges

Zambia currently has many policies focusing on MSMEs, however, most of these do not differentiate between the various characteristics of enterprises. In particular, micro-enterprises find it especially difficult to benefit from these policies. Through the Private Sector Development Reform Programme (PSDRP), the government has undertaken reforms to address some of the challenges faced by MSMEs. Additionally, there are reforms and programmes by the MCTI through the ZDA which also seek to address these challenges. However, in the rare cases where the policy objectives appear to meet the needs of the self-employed, such policies are either poorly implemented, or not implemented at all.

Outlined in Table 5.1 are the existing policies which are intended to support micro and small enterprises. The last column summarises the weaknesses of these policies in achieving this aim, and the mismatch between them and the needs of entrepreneurs.

As detailed above, the current policies do not directly meet the needs of micro-enterprises in Zambia with some of the policies being either too vague or too general to accommodate them. Some of the gaps in policy that can be identified include lack of policy and programme implementation, policy mismatch, lack of integrated business support services, and poor policy co-ordination.

Of the policies and programmes that government has in place for MSMEs, many are not implemented effectively or completely. For example, the issuance of a single business levy as a way of reducing the cost of doing business licensing is yet to be effectively implemented in most districts. Furthermore, there are conceptual challenges where the government's definition of micro-enterprises does not fit with the characteristics of businesses in the real world. Indeed, there is a large variability within the definition which makes it hard for policies to cover all the micro-entrepreneurs. Additionally, lumping micro-enterprises together with small and medium enterprises (SMEs) creates a problem because these two groups of businesses are, in reality, very different. The lack of a clear and accurate definition has resulted in policies that are not sensitive to the challenges faced by micro enterprises.

Furthermore, most government programmes are centred on training, but they do not provide interventions that ensure that entrepreneurs benefit from existing value chains. That is to say, there is a lack of integrated business support service. For example, there is very little that has been done to facilitate access to markets, both locally and internationally, for micro entrepreneurs. As such, while entrepreneurs may receive training on business management, which may result in increased output, market access still remains a challenge.

Table 5.1: Summary of Policies on Entrepreneurship in Zambia

Policy	*Objectives*	*Applicability to Micro-Enterprises*	*Weaknesses*
MSME Development policy	❖ Facilitate MSME access to finance ❖ Enhance market opportunities for MSMEs ❖ Enhance business development services ❖ Provide appropriate operating premises and business Infrastructure	❖ None of the objectives applicable to micro enterprises have been effectively implemented. There are however efforts to improve access to finance through the formulation of an alternative stock market tailored to MSMEs	❖ Most objectives not achieved - access to finance remains difficult - markets not accessible to MSMEs - business development services limited and duration is often too short ❖ Most entrepreneurs are too small to join an alternative stock market
Strategy paper on industrialization and job creation	❖ Lower the cost of doing business ❖ Streamlining and strengthening of inter-agency coordination ❖ Reduce input costs for sectors ❖ Expand export opportunities through trade facilitation measures and tax reforms	❖ Micro enterprises can benefit from a lower cost of doing business	❖ This has not been effective: - land still inaccessible - business licensing processes is still a barrier to business - transport and communication remain expensive due to undeveloped infrastructure - corruption is an issue in the public sector

Citizens Economic Empowerment Commission ("CEEC")	❖ Promote citizen economic empowerment through provision of finance ❖ Provision of business development services ❖ Fostering improvements in the policy environment	❖ Micro enterprises have benefited from business development services ❖ Micro enterprises are recipients of micro loans	❖ These are not very successful: - loans either too small or too large for micro enterprises - high default rates on loans reducing funds available for other would be beneficiaries - loans and grants prone to political influence - business development services not linked to recipients of funds
ZDA Act	❖ Spur private sector development through incentives ❖ Provide marketing support services to MSMEs ❖ Designate industrial estates for the location of MSMEs in manufacturing	❖ None are applicable to micro enterprises.	❖ Incentives do not benefit micro enterprises because of their low capitalization and size ❖ Business development services provided in form of training is often said to be too short and inadequate

Finally, there is a lack of cohesion among the institutions working with MSMEs. For example, the entrepreneurs targeted for the provision of finance are not the same as those targeted for other programs such as business training. This has in part been the result of piecemeal efforts when it comes to addressing the challenges faced by micro enterprises. Instead of a holistic approach being applied, the current situation is often marked by interventions that seek to address only one challenge at a time while ignoring the others.

5.4 Building Capacity of Zambian Micro-Enterprises

The main challenges that have been identified as affecting sole entrepreneurs and micro-enterprises have been identified as stemming mainly from the policy environment which is currently uncoordinated, lacks cohesion and is ignorant of the type of entrepreneurs that exist in Zambia. To this end, there are a few policy directions to be explored to help enhance the capacity of micro-enterprises. These include the need to distinguish micro-enterprises from other businesses, lower the cost of doing business, and improve access to finance while also reducing the associated costs. Once the policy environment is improved to make it easier for micro-enterprises to thrive, these are the businesses that can grow into:

- *Redefine micro-enterprises:* There is need to distinguish micro-enterprises from bigger

businesses; to differentiate them from even small and medium enterprises. The definition of a micro-enterprise based on annual turnover of up to K150,000 is too broad and unrealistic for the current situation on the ground. The variability within the group itself is far too large.

- *Lower cost of doing business:* The multiplicity of fees and charges required for formal businesses impose a high cost and strain on sole and micro-entrepreneurs. Ministries and different agencies of Government should coordinate themselves and streamline some of these requirements. Government may consider the following options:
    - Design a one-stop shop for various fees and registration licenses specifically designed for MSMEs
    - Consider introducing tax holidays for MSMEs as current incentives only exist for investments of at least $500,000
    - Incentivise micro enterprises by revising the turnover tax to be tax on profit to improve record keeping among micro-enterprises
- *Reduce the cost of finance and improve access:* There is need to diversify funding sources for micro-enterprises away from Government. Strengthening micro-finance institutions and encouraging cooperatives could help increase access to finance. ZIPAR has also recommended enhancing relationship banking between the banks and MSMEs in the past through creation of an institution that could provide business development services to MSMEs by intermediating between the banks and MSMEs.

6 Promoting Job-Rich Urbanisation

As the 21st century unfolds, the inevitability that a growing share of people will live in cities is juxtaposed with deep uncertainty about what the urban future holds. However this need not be so if economies find ways of dealing with this global phenomenon. In Zambia urbanisation is a socio-economic and demographic change that is likely to significantly affect job creation now and particularly in the future. Therefore, if properly leveraged urbanisation can contribute to the creation of more and better jobs for the urban work force.

At independence in 1964, Zambia was among the most urbanised countries in Africa. But it de-urbanised in the mid-1980s due to falling copper fortunes, structural adjustment policies involving *inter alia* large-scale retrenchments of public sector workers and a higher prevalence of HIV/AIDS in cities. Recently, urbanisation has recovered to its pre-1980s level and population projections suggest that Zambia's urban working age population (those aged 15-64) will further grow by 3.7 million people between 2015 and 2035, a million of whom will be youth (those aged 15-24). Given Zambia's high urban labour force participation rate, which stood at 74.7% in 2014, this translates into a requirement of nearly 2.8 million net new urban jobs over the next 20 years, with over 1.2 million urban jobs required in the next 10 years (Randolph and Jain, 2016).

Given its rise, rather than viewing urbanisation as simply a spatial consequence of socio-economic and demographic changes, policy-makers need to treat cities as a key site of policymaking if they are to achieve their broader aims, including job creation. Since urbanisation is neither inherently good nor inherently bad, 'good urbanisation' must be identified and nurtured. This is the kind of urbanisation that not only provides municipal services like housing, transportation, water, sewerage, and waste collection, but delivers secondary services as well, such as decent livelihoods and sustainable jobs for residents. However, in order for urbanisation to be leveraged for job creation in Zambia, there is a need to understand the characteristics and challenges that are present in Zambia's urban areas.

6.1 Urban Area (In)efficiencies

Services in Zambia's capital and smaller cities are not efficiently organized. For instance, when it comes to transport within Zambian cities, one of the primary challenges the country currently faces is affordability. Lusaka is one of the most expensive cities in the world in relation to affordability when it comes to public transportation. Measuring affordability in terms of the ratio of bus fare to GDP per capita, transport in Lusaka is three times more expensive than Kampala, Uganda, and 10 times more expensive than Mumbai, India. The average Lusaka household spends 26% of its income on public transportation. Moreover, congestion leads to long commutes: nearly 40% of riders on the Lusaka bus system report that an average trip takes longer than 40 minutes, which is relatively long for a city of Lusaka's size (Randolph and Jain, 2016).

6.2 Secondary Cities Labour Markets

Lusaka will likely continue to dominate the urban landscape in Zambia, and its population growth is expected to outpace the national rate of urban growth until at least 2030 – this is mainly due to the slower rate of growth in Zambia's secondary cities (mostly in the Copperbelt) and older urban centres. Given that employment outcomes in Lusaka are not demonstrably better than in the rest of the country, its growing share of the urban population is not likely driven by the strength of its labour market (for instance, although paid workers in Lusaka are the largest urban labour market in the country, they saw a decline in their wages of about 17% between 2012 and 2014 in real terms and held the lowest real wage earnings in 2014); but rather by the lack of better options for rural dwellers. The trend spells growing pressure on Lusaka to produce jobs for an expanding urban workforce.

To relieve Lusaka of some of its urbanisation pressure to generate productive jobs and to improve equity in the spatial distribution of growth, development and jobs, understanding what it would take to revive the labour markets of secondary cities in the Copperbelt, such as Ndola and Kitwe, is critical. Government policy should, therefore, focus on achieving such a revival.

6.3 Sectoral Employment Shifts with Urbanisation

Sectoral shifts in employment in Zambia are movements out of rural agriculture, mainly to urban informal services. Between 2008 and 2014, the share of all Zambian workers in agriculture fell from 71.4% to 48.9%. Conversely, informal non-farm jobs increased from 66.2% of all non-farm jobs in 2008 to 80.7% by 2014. Moreover, among the sectors that have expanded the most rapidly since 2008 is informal community, social and personal services (low-value-added service sector occupations), which increased by 655% and by 2014 over 1.2 million people were employed in these informal services, over 1 million of whom were engaged in 'activities of households as employer' – domestic work like cleaning, cooking, and gardening. This trend reflects urbanisation and, broadly speaking, illustrates a lack of higher productivity jobs available to those who leave the agricultural sector.

Some of the sectors where urban jobs are concentrated and growing are declining in terms of contributions to overall GDP (for example, manufacturing and wholesale and retail trade). This raises questions about the quality, skills-match and productivity of the new labour entering these sectors. It also raises questions about the average (real) wage that the workers entering these sectors will attract. Workers in these sectors are unlikely to experience substantial wage growth if this trend persists.

6.4 Urban Production and Productivity

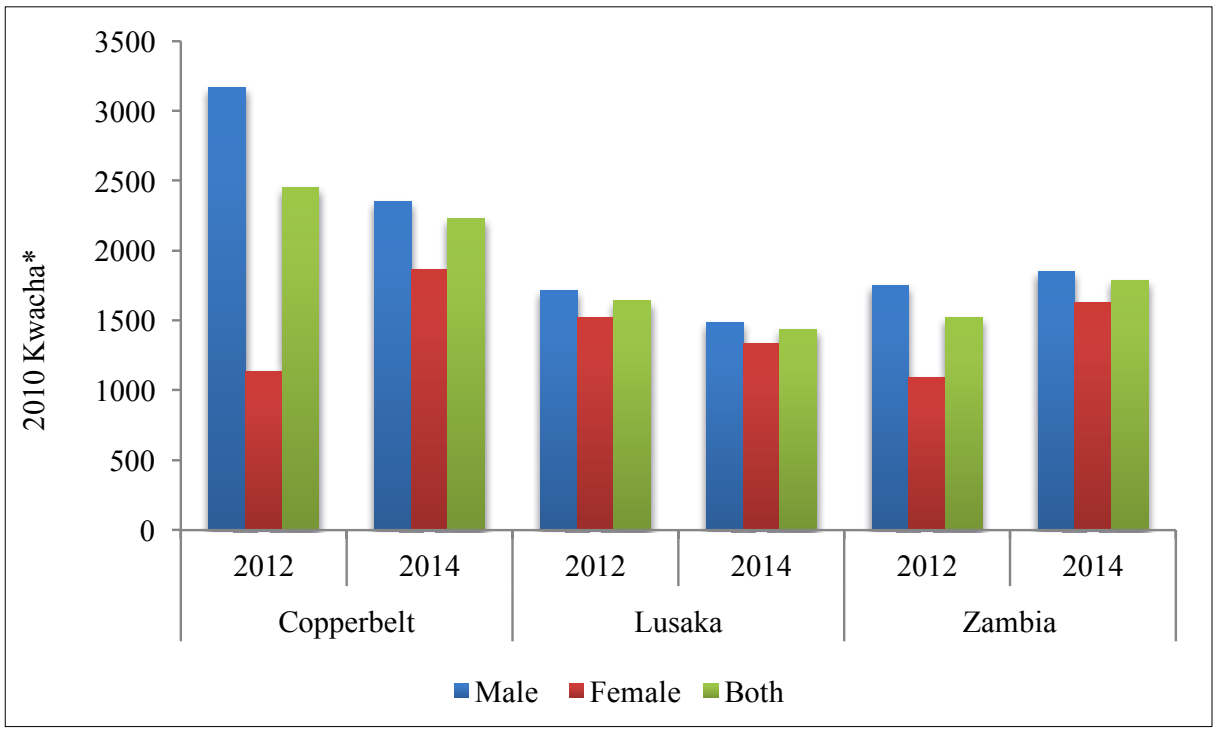
There is strong potential for Zambia's cities to be centres of production, and thus centres for productive employment creation. This is evidenced by the difference in earnings between Zambia's urban and rural firms: while most MSMEs in Zambia overall had reported average sales of 600 Kwacha per month (Billima-Mulenga, 2015), 76% of micro enterprises in Zambia's major cities had monthly sales of greater than 2,000 Kwacha.

Real wages in Zambia's most urbanised provinces have declined significantly despite the overall real earnings rise of wages in the country. For instance, urban paid workers in Lusaka, the largest urban labour market in the country, saw a decline in their wages of approximately 17% between 2012 and 2014 in real terms. The low earnings potential of urban workers becomes starker when examining the informal economy. As of 2014, rural informal paid workers were earning 13.5% more than their urban counterparts. In part, this is because even though the Copperbelt and Lusaka provinces host over 60% of paid employees in Zambia, the number of unpaid family workers [in these areas?] is still growing faster in absolute terms than the number of paid workers in both provinces [and this therefore lowers the average wage-earning figures]. Again, these trends point to the severe lack of productive job creation in urban areas, outside the small, and shrinking, formal sector, which employs just over a quarter of urban Zambians.

6.5 Urban Employment Prospects

An urban worker's likelihood of finding employment, and the type of employment he or she will find, depends on the region in which he or she resides. For instance, the difference in employment outcomes between Lusaka and the Copperbelt partly stems from the sectoral composition of their economies. The economy in the Copperbelt – shaped by large-scale investment in the mining sector – is driven more by global factors, like the demand for copper exports, so that its workers find themselves more vulnerable to the boom-bust cycle of the global mining industry (though it is true that they also earn more on average than those employed in non-mining sectors). On the other hand, the distribution of employment across industries suggests greater diversification in Lusaka. The share of workers in key urban sectors – construction, hospitality and logistics – is nearly double in Lusaka compared to the comparative share in the Copperbelt. This is part of the reason for Lusaka's lower unemployment levels – it has a diverse, informal economy that has the capacity to absorb more workers. The downward pressure of higher employment on average wages is also evident in Lusaka.

Figure 6.1: Average Monthly Earnings of Paid Workers in Copperbelt and Lusaka, Male and Female (Real Terms, 2010 Prices)



Source: constructed using LFS (2012, 2014) data

6.6 Proposed Recommendations for Promoting Job Rich Urbanisation

The implications for policy of this analysis have crossovers to some other themes explored

in this paper. However to specifically promote job rich urbanisation the following are the recommendations:

- Zambia must improve intra- and inter-city connectivity and leverage new infrastructure to investments to stimulate growth of labour-intensive sectors in urban areas through creation of transport networks. For example transport networks which support public transportation system to enable small businesses to access markets.

- There is need to establish urban planning mechanisms and undertake infrastructure investments that focus on strengthening links among firms and between firms and consumers: for example, urban road projects (like Pave Zambia 4,000) must consider the needs of micro, small and medium enterprises, especially those in labour-intensive sectors like agro-processing.

- Bolster efforts to recognize and upgrade informal settlements: for example, giving security of tenure to owners of businesses in informal settlements provides confidence for people to invest.

- Support MSMEs in urban areas, for example by improving access to productivity-enhancing services like piped water and electricity and upgrading the infrastructure at urban markets as well as creating strong incentives.

7 Striking the Right Balance: Appropriate Labour Market Regulations

Creating jobs in Zambia, like in many countries will also depend on the nature of existing labour market regulations. Traditionally, the main objective of regulating labour markets is to ensure smooth interactions between labour demand and supply for the enhancement of productivity. Nonetheless, there is need for careful action to avoid overly or under regulating labour markets as in both cases labour markets may be jeopardized. This is because inadequate labour laws would not protect workers effectively while overly stringent ones can impede job creation and end up hurting the workers whom they are intended to help. Based on the foregoing, this section provides and analysis of some of Zambia's labour regulations and how they have affected job creation. The analysis is based on a qualitative assessment of firms and their perceptions on how the 2015 labour reforms especially affected their businesses and contribution to job creation.

7.1 Why Labour Markets Are Regulated

There are strong theoretical justifications for government regulation of the labour market most of which apply in the Zambian context. Some of the main reasons are summarised below based on a World Bank (World Bank, 1995):

- *Uneven market power:* workers may find themselves in a weak bargaining position in relation to employers which can raise concerns about their protection from unjust treatment.

- *Discrimination:* workers belonging to groups with little voice or power such as sex, race, ethnicity etc. may experience disadvantages in the labour market.

- *Insufficient information:* workers, and some employers, may not have adequate information about each other to make informed decisions about the conditions of work.

- *Inadequate insurance:* workers are typically unable to insure themselves against all labour market-related risks associated, for example, with unemployment or disability.

These rationales underpin a series of potential policy interventions which the Zambian Government has rightly introduced in the recent past. The main ones are the basis of this chapter.

7.2 Selected Key Reforms in Zambia's Labour Market

Zambia's most important legislative frameworks are provided through the Employment and the Minimum Wages and Conditions of Employment Acts. In 2015 the government made several amendments to the Employment Act which affected hiring and termination of employment. Some of the most significant changes introduced included:

- The 'banning' of casualization of labour and making it a criminalizing offence. Under the new law, the C.E.O of a non-compliant company is liable to pay a fine or be jailed for at least 6 months.

- The tightening of separation clauses: first by mandating firms to pay a severance package in a case of abrupt contract termination. This involves paying not less than 2 months of basic pay for each completed year of service for an affected employee. Secondly, by requiring employers to provide a 'valid' reason every time they terminate employment. These put restrictions on separation.

- The upward revision of the minimum wage and the addition of new categories of workers such as house helps and shopkeepers as special groups of workers to receive the minimum wage.

7.3 Are Zambia's Labour Regulations Striking the Right Balance?

As earlier alluded to, the most important issue about labour regulations is striking a balance so as not to stifle the labour market while trying to protect the different parties. Zambian authorities must thus answer the question of whether current labour regulations are striking the right balance. Internationally, various labour regulations have resulted in negative implications for the whole economy, especially job creation. Particularly, too stringent regulations have been a disincentive to job creation in a number of countries. For instance, laws requiring employers to obtain government permission to lay off workers in India and Zimbabwe found substantially fewer jobs (Fallon & Lucas, 1991) following this type of regulation. Rules discouraging temporary contracts, such as casual labour, and making severance costs higher, have also resulted in employers being less willing to take on new employees (Betcherman, 2004). In Colombia, a Government move to reduce the costs associated with firing resulted in a 25% fall in unemployment (Kluger, 2000).

Clearly, there is enough evidence supporting the need to mind the type of labour regulations that Zambia should introduce in order not to stifle the chances of creating jobs. This section presents the feedback of Zambian firms in selected sectors of the economy on some of the key labour laws. The views presented here were mostly explored in focus group discussions and represent the actual experiences of Zambian businesses as they tried to comply with the regulations. The major challenges identified by firms included the following:

7.3.1 Laws criminalizing labour offenses

The Government introduced a new law to jail C.E.Os of companies who would be found to employ casual labour in an effort to curtail the problem which had become rampant. However, this has turned a labour related offense into a criminal one as defaulters can be taken to the police and be tried in a criminal justice system instead of the industrial relations court. As a result it has become common nowadays for complaining employees to report their employers to the police rather than the industrial relations body, which traditionally should handle all labour related complaints. The view of business houses in Zambia is that criminalisation of labour has the potential to scare away would be investors for fear of going to jail in case of a labour misunderstanding. Additionally, employees rushing to report cases to the police bring more confusion at firm level as the police are not trained in handling labour disputes.

7.3.2 Laws banning casualization of labour

The ban on casualization was originally meant to stop the practice which had become rampant and instead promote more decent employment contracts. It is also true that Government introduced the law to indicate that it favoured permanent employment contracts more than short ones. However, most firms felt that this law has made it extremely difficult for them to do business. Firms who regularly have activities that require labour only for shorter periods said they have been facing serious labour constraints. One example given was of plant maintenance – in this case, firms said they were unclear what they should do where a plant needed maintenance more than once over a period of time, since the law does not allow piece work to exceed six months. Others complained of needing labour on a seasonal basis and the ban on casualization did not make it easy for them.

Nevertheless, it is important to note that there seemed to be a lot of ignorance among firms surrounding this particular law. In its current form, the ban on casualization clause has a list of types of employment which should not be classified as casual employment. These include piecework, seasonal employment and consultancy. Therefore, some of the labour constraints faced by firms stemmed from failure to understand the law and its provisions which can be avoided with more sensitisation.

Casualization Opinion Poll

ZIPAR also conducted an opinion poll, of 199 people, during the 2015 Lusaka Agricultural and Commercial Show, exploring attitudes towards the banning of casualization. Findings included:

- Approximately two thirds (63.8%) of respondents thought government should restrict but not ban casualization.
- A similar proportion was open to personally being employed on a casual basis: nearly two-thirds (63%) were open to being employed as casual workers.
- More than half thought government should regulate casualization.

Other views expressed were wide-ranging with a number calling on government to enforce the current regulations on casualization. Others expressed the need to allow casual employment in economic sectors that are cyclical, such as agriculture, as well as for professionals. Others advocated for disallowing employers to hire workers on a casual basis as this precluded many workers from enjoying benefits of permanent employment.

Overall, however, while there was considerable disagreement, most respondents were against the banning of casualization and the view of Zambians interviewed by ZIPAR was more in favour of regulation, not abolition.

7.3.3 Separation restrictions

Provisions relating to severance pay were salient issues for respondents. Two main aspects come out strongly. First, employment termination or redundancy – whereby the employer is supposed to pay two months' pay for each completed year worked. Firms observed that severance packages are a disincentive to employing on long-term basis. Employers noted that they would rather go into a fixed short-term contract with employees and they could then pay a gratuity, which is a 'thank you' package, upon retirement of employees. For redundancy specifically, the fear of employers is that it is very expensive to let go of employees in times when business is struggling and needs to shed some labour. The current situation locks firms into very difficult circumstances in which both cases, keeping employs or laying them off is very expensive. Additionally, for requiring firms provide a 'valid' reason for firing a person, firms complained of the vagueness of the clause as the term 'valid' is not clearly defined.

7.3.4 The Minimum Wage Law

The role of the minimum wage is to raise the wages of lowly paid workers in an effort to enhance their purchasing power. This is expected to reduce the number of working poor and is an important factor in reducing income inequality. In setting the minimum wage it is advisable to be cautious to not let it become a disincentive for firms to hire. Thus, like many other labour

regulations, striking a balance between raising workers' wages and maintaining firm profitability is an important issue.

Nonetheless, the adjustment of the minimum wage in 2012 was received with mixed reactions among firms. The first contention was that there was no logical explanation of how the new threshold of K700 was arrived at as the Government had no justification. Secondly, the minimum wage was uniform and all sectors and businesses regardless of size and profitability were required to pay the same. Thus, some firms managed, while others failed to adjust to the new threshold disadvantaging workers.

The following were some of the important issues about the Zambian minimum wage:

a. ***Due to low wages already in existence at the time, the minimum wage threshold imposed an unbearable burden on some firms.***

   The minimum wage threshold that was set in 2012 put an unbearable burden on firms in a lot of sectors. As prevailing wages were already low, the set threshold which was set implied more than doubling existing wages for firms in some sectors to be compliant. For example, at the threshold of K700, firms whose average wages were K700 were expected to start paying K1400 to all those deserving a minimum wage. This is doubling existing wages which was unattainable for many firms especially those in sectors like agriculture which generally has low wages.

b. ***The unbearable burden the minimum wage imposed on most firms meant they were not able to comply.***

   Because of the high burden of the minimum wage, most firms failed to comply. These did not only break the law but also denied the lowly paid workers an opportunity to get a better pay.

In conclusion, the difficulties of the minimum wage were all founded in the fact that the process of setting it was not clear as it did not put into consideration other important factors such as the capacity of firms to pay. Additionally, firms indicated that they were never consulted on the process of setting the threshold which made them feel the Government did not have interest in their welfare. This contributed to non-compliance.

7.4 How Labour Regulations Can Promote Employment Creation in Zambia

It is clear that Zambian authorities ought to craft labour regulations more carefully in order to contribute to job creation. Striking a balance should therefore be the main focus of all labour market regulations. Based on the issues that have been outlined in this chapter, the following are some of the practical considerations to ensure Zambian labour market regulations do not impede job creation:

From a more general perspective:

a. ***Reform processes must be consultative enough***: all stakeholders such as business associations and labour unions must be consulted throughout the reform process so that all interests are considered. This can help in striking a balance in how reforms affect employers and employees.

b. ***Increase reform sensitization***: new reforms must be accompanied with wide sensitization before enforcement. This would help businesses understand all provisions under each law to avoid unnecessary constraints that emanate from lack of reform understanding.

From a more specific perspective:

a. ***De-criminalise labour offenses***: the law of trying labour offenders in a criminal justice system must be done away with as it is a deterrent to would be investors or employers of labour.

b. ***Clarify the exceptions for casual labour***: the law that bans casualization of labour has several clauses that clarify the types of employment which are not casual. The authorities must increase sensitization to ensure firms understand and make use of the options as provided in the law.

c. ***Relax separation restrictions***: severance packages make it hard to separate which affects the rates of hiring. As it is commonly understood that it is only as easy to hire as it is to fire, dialogue is needed for firms to come up with more flexible ways of separation that are not very costly.

d. ***Set the minimum wage logically and objectively:*** the minimum wage setting mechanism must be logical and objective for all stakeholders to understand the basis of adjustments. This can minimise misunderstandings and increase compliance.

e. ***Consider a sector based minimum wage:*** as the minimum wage affected different sectors differently, it is important that the authorities put into consideration various sector characteristics in setting the minimum wage threshold. Factors such as sector productivity and profitability must become part of the considerations for setting the minimum wage.

8 Counting Jobs: Basing Future Policy on Better Information

Labour markets thrive on strong and up to date information systems. A strong and up to date labour market information system is useful not only for tracking job growth but also for mapping where jobs are and the sectors that are contributing to job growth. Relevant information is key to giving an accurate depiction of the labour market as it benefits both the job seekers and the employers and ultimately leads to good decision making. Access to excellent quality, comprehensive and timely information is relevant to the labour market.

The issue of employment transcends national boundaries especially now that globalisation has had some impacts on the labour market, offshoring is being practiced in international markets, and this has increased the manufacturing jobs to developing countries with lower production costs. This has been made easy and possible with the coming of computers and the internet for transferring information globally.

The demographics of the labour force primarily makes up labour market information; this also includes information on employment by location or region, demand and supply of labour and the different earnings. The collection and analysis of this data can enable policy makers to make predictions about the future labour markets by using the correct tools. This information effectively develops awareness of the labour market situation.

Unforeseen events can affect the jobs market. The cholera epidemic for instance had a major impact on some sectors of the Zambian economy in 2017/2018, trading places found to have poor hygiene and unsafe were closed down (jobs were lost and businesses closed). Such unforeseen external factors can an industry and drastically change the job numbers.

Understanding the labour market helps individuals in disappearing jobs to recognize and appreciate the value of their transferable skills. This helps their preparedness so that they still remain relevant by continuing to learn. At both local and national level, the framework must provide up-to-date accurate accessible information which builds sector profile and employment

trends. This will influence individuals to be aware of any changes to enable them to adapt their learning, qualifications and career choices responding to influences in the wider environment.

8.1 Situational Analysis of the Current Labour Market Information System in Zambia

The *Labour Force Survey (LFS)* for Zambia is a household survey carried out by the Central Statistical Office in conjunction with the Ministry of Labour and Social Security. Since its inception in 1986, the LFS provides key indicators of the labour market such as: Unemployment rate; Participation rate; Employment to population ratio; Under-employment rate; and the Informal sector and Formal Sector employment. Successive LFSs were conducted in 2005, 2008, 2012 and 2014. The LFS uses face-to-face interviews with the household members for data collection. The survey is funded by the Government of the Republic of Zambia was designed to be conducted every two years. The main objective and purpose of the LFS is to measure the size of the labour force and its characteristics with the view of providing guidance in the formulation and implementation of labour market policies and programmes. One of the specific objectives is to assess the levels of unemployment so that job creation efforts could be intensified.

The *Living Conditions Monitoring Surveys (LCMS)* evolved from the Social Dimensions of Adjustment Priority surveys conducted in 1991 and 1993, by the Central Statistical Office. So far, four Living Conditions Monitoring Surveys have been conducted; The Living Conditions Monitoring Survey I of 1996; The Living Conditions Monitoring Survey II of 1998; The Living Conditions Monitoring Survey III of 2002/2003 and The Living Conditions Monitoring Survey IV of 2004. The surveys are intended to highlight and monitor the living conditions of the Zambian society. The LCMS amongst other things identifies vulnerable groups in society and enhance targeting in policy implementation and to monitor the impact of government policies and donor support on the well-being of the Zambian population.

Sadly, readily up to date mechanism for mapping and tracking the jobs in the Zambian labour market do not exist. There is simply no timely labour market data. The Labour Force Surveys (LFSs) and the Living Conditions Monitoring Surveys (LCMSs) are published with time lags that are too large for the surveys to reliably inform short-term policy and planning. Such surveys are designed to inform us where the jobs are, the respective sectors and occupations. Tracking Zambia's development agenda has often been difficult due to lack of labour market data on employment and earnings. Government policy also help boost jobs in particular sectors, for instance with the increased emphasis on education and health, there has been an increase in the employment opportunities in these sectors. Hundreds of universities and colleges dotted around the country today produce thousands of graduates every year. But there is little evidence if at all this training leads to employment or indeed if the graduates put into practice the skills they acquired through the training.

The Zambia Revenue Authority, the National Pensions Scheme Authority, Ministry of general education, training institutions, Ministry of labour and other government wings and organisations are good sources for labour market data. The administrative records collected for different purposes help in record keeping which can be utilised to monitor trends. The content and coverage of the data collected by these agencies can give a picture of the labour market statistics. This increases evidence-based policy making because the administrative data sources increases accuracy and reduces the respondents burdens commonly experienced in surveys both in terms of the time and effort needed to participate in the survey as well as the difficulties in collecting such data in a survey. Additionally, there have been issues of privacy concerns in surveys making respondents quite uncomfortable to disclose certain information. Administrative data has the potential to serve the needs of data shortages and provide supplementary labour market data. It would be imperative for the Central Statistical Office (CSO) to strengthen its relationship with the relevant agencies that possess and provide this administrative data by having a formal data sharing agreement through institutional arrangements and collaborate with these agencies. This is an integral part of the whole data provision process.

8.2 Impact of the Current Labour Market Information System on Job Creation and Recommendations to Improve the System

The different data sources pose a challenge of creating confusion with the labour market statistics as it becomes difficult to know which of these sources provide more complete and precise information. In some cases, different data sources may end up telling opposing stories showing completely different trends. There are a number of issues that result from the use of administrative data for statistical purposes. One such issue is the operational definitions of the variables in question; in some cases they do not conform to international best practices. This then undermines the quality of the data variables being used; additionally the updating of these variables by the agencies may be slow. Thus the overarching issue is that administrative data is collected for a different purpose. The first thing to do before using these sources is to understand the issues within these respective secondary data sources. It is for this reason that the different data sources need to be harmonized to minimize the discrepancies in labour market statistics. This calls for the development of a reconciliation frame.

To date, Zambia does not have a framework for monitoring or tracking the performance of various economic entities at both creating and securing jobs. The country usually only manages to provide non-systematic and lagged job insights through the Labour Force Surveys (LFS) and the Living Conditions Monitoring Surveys (LCMSs) whose results and insights are significant in influencing policy direction.

With lack of a proper framework in place, such survey statistics cannot be sufficient enough to influence policy making and effective planning especially in the short term. It therefore becomes difficult to monitor the cyclical changes in the employment trend figures due to short term economic bubbles and bursts. The benefits and usefulness of the statistical reports (LFSs, LCMSs) are not utilised to full their potential as the publishing of the results lag behind. For example, it takes nearly over two years from the time of Labour Force Survey to officially publish certain large scale surveys results such as the LFS, with economic conditions changing dramatically overtime rendering the results less efficient than presumed. This undermines the effectiveness of the implemented employment generating policies such as the National Youth Policy and Action Plan on Youth Empowerment and Employment. There is therefore need to develop a strong and sustainable Management Information System on the labour market and should cover both the formal and informal sectors. Indeed creating a streamlined system for this dynamic market economy.

ZIPAR's 2016 Labour Market Survey and Poll aimed to fill an information gap: there is insufficient timely labour market data. This should be rectified by:

- Conducting regular skills surveys to monitor the skills gap and skills mismatch at given intervals to inform policy formulation.
- A national labour market data base is also essential in linking employers with youth who have the relevant vocational skills. This will help solve some problems of frictional unemployment, thus reducing the time spent job hunting and hiring.
- Adopt measures that will be target to integrate young people into the labour-market through specific interventions. One way of doing this could be through offering employment services such as job search assistance by creating skills assessments and career counselling centres which will be especially beneficial to the majority poor.
- Ensuring easy and reader friendly labour laws and information on available incentives which are straightforward to understand for employers. This may include for instance clear explanations on things such as severance packages and also information regarding access to non-tax incentives. The provision of meaningful interpretation of labour market information and intelligence.

An overview of the current international practices in the generation, analysis and dissemination of labour market data from a selected few countries shows for instance that Canada provides monthly as well as quarterly updates on labour market activities to generate occupational profiles. This information is then used for counselling and career service planning, making informed policies to generate employment. India is currently developing a Labour Market Information Network System at both National and Regional levels. This computerized network will connect the Labour bureau to various regional labour offices under the Ministry of Labour. In Singapore, it is the responsibility of all social sectors to jointly provide labour planning strategies. The only thing that the government does is to oversee by playing a coordinative role and facilitates labour market information in a timely and accessible manner.

9 Summary and Conclusions

In dissecting the jobs challenge in Zambia, the Flagship Project covered a plethora of topics, issues and perspectives ranging from supply-side and demand-side constraints, economic instability, tax incentives, and labour regulation to urbanisation. That the project covered so many seemingly unrelated topics reveals the complexity of the problem and therefore, implies that solutions will have to combine multifaceted sets of interventions to sustainably, comprehensively and more practically create jobs.

This report has highlighted the nature of the jobs challenge in Zambia. It has argued that given the country's economic structure, job creation has been less than satisfactory despite the country registering some impressive growth early at the turn of this century. As a starting point, we noted the detrimental effects of economic instability on employment creation. Therefore, a key message this report is delivering is that economic stability is crucial for jobs, mainly for two reasons: (i) a stable macro-economic environment will at a minimum protect existing jobs. It is important that jobs are safeguarded even as policy strives to create more and better jobs. (ii) It creates an environment conducive for the economy to thrive and allow for the creation of jobs. Unstable economic environments where the economy is contracting produce so much uncertainty thereby undermines the ability of firms to take on new hires. Hence, it is vital that the short-term macro-economic stability issues are taken very seriously if any meaningful resolution of unemployment is to be made. The nature, severity and source of instability may differ from time to time and as such, achieving stability will have to respond in a manner that the situation at hand requires.

When considering the longer-term employment strategy, we argue here that a modern industrialisation strategy will be the most critical going forward for providing more and better jobs not only for the youth who are entering the jobs market but the greater part of the unemployed labour force. This is so because some sectors of the economy, such as agro-business, will drive the structural transformation which is imperative for employment creation especially that the current economic structure has failed to create a sufficient number of jobs despite some historically good economic growth having been recorded. Key to achieving the desired structural transformation of the economy will be an industrial policy crafted by the state. This policy, to be successful, should be well-integrated and must aim at dealing with the disincentives as well as incentives that have not succeeded in encouraging the private sector to thrive and create jobs in the process. Good industrialisation will not only create jobs, but it should also improve productivity and raise average incomes.

Measures in this industrial strategy must directly and indirectly support job creation. Indirectly, rendering support for firms to grow is critical. Areas for concern here include the lack of participation of local firms in important value chains such as the supermarkets value chains. Thus, incentives and appropriate regulation in this regard will unlock local firms' production capacities and increase their competitiveness. For example, establishing a Supplier Development Fund financed by supermarkets to empower local suppliers to fully participate in the supermarket supply chains would help local firms to improve the quality of their products;

assist them to expand their existing and potential production capacity; potentially reduce firms' input costs; enable supermarkets to increase and diversify their local sourcing capacity; provide a guaranteed route to market for local products of good quality; establish and build long-term, effective supplier partnerships between domestic firms and supermarkets; and increase the participation of MSMEs that are more constrained but have the potential to grow and supply supermarkets or larger markets beyond Zambia.

Markets, however, are not the only constraints facing the private sector. Credit and the tax code have often been problematic. Therefore, tax incentives and loan guarantees targeted at relatively smaller firms (SMEs) would go a long way as the evidence has shown. Further credit lines can be unlocked through strengthening of micro-finance institutions and financial cooperatives to increase competition in the financial sector. This will, in the long term, accord SMEs access to cheap credit. Arising from the reality that informal economic activities employ more labour that the formal sector, the government must look to incentivize and support micro-enterprises which employ a staggering 44.2% of the labour force. As this report has already found, the main areas of concern in relation to micro-enterprises are access to credit, low/lacking business skills and poor government support services. Interventions must also distinguish micro-enterprises from the relatively larger small and medium enterprises (SMEs) to improve targeting and efficacy.

Additionally, the broader business environment requires improving if sustainable private sector growth is to be achieved. This will ensure that job creation is also sustained. In this regard, undertaking general reforms in key services sectors such as energy, telecommunications, finance and transportation to ensure greater reliability, efficiency and cost-effectiveness of these services will be critical going forward. One step in this vein is planning for cities which are fast urbanising to ensure that such services are made available to the expanding urban population and that sprawling settlements are embedded with opportunities for gainful employment. Given that the labour market has seen some sectoral shifts in shares of employment from rural agriculture to the urban informal non-farm sector, better city planning will form a key ingredient to the jobs creation recipe.

In creating jobs in a more direct way, the state may, using state-owned enterprises (SOEs), undertake those economic activities deemed very risky by the private sector to push the industrialisation agenda forward as did South Korea. This should nonetheless be in close consultation with the private sector to enable the private sector to gradually begin to takeover and perform those activities. This should make such activities and subsequent jobs more sustainable in the long-run. So, the state could make strategic bets and once these are successful, they could be privatized as in the case of Fundacion Chile ("FCh"). In Zambia, the Industrial Development Corporation (IDC) could be used as the forerunner for such undertakings.

Furthermore, a solution for dealing specifically with youth unemployment would be the introduction of wage (payroll) subsidies for firms that employ the youth. Lower pension's contributions would also make it easier for firms to take on younger hires.

In view of the forgoing, it is worthwhile to itemize the several concrete policy suggestions emerging for Zambia from the More and Better Jobs Flagship project. Some of key policy suggestions are therefore highlighted below:

Unlocking jobs in the agriculture and related industries: by improving productivity through mechanisation, adoption of appropriate technologies, reduced reliance on rain-fed agriculture and pursuit of other modernization measures, the Zambian agriculture sector can become a reliable employer, reclaiming its position as top job creator in the country. Addressing key constraints such as access to credit and finance, infrastructure such as transport and storage, manpower skills as well as good policy coordination can further unlock more job opportunities in agriculture and related agribusinesses.

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.

Pursuing job-rich urbanization: Zambia must improve intra- and inter-city connectivity and leverage new infrastructure investments to stimulate growth of labour-intensive sectors in urban areas, particularly services like transportation, wholesale and retail trade, water and sewerage utilities, etc. that rely significantly on the installation of reliable relevant infrastructure for their functioning. Urban planning mechanisms need to be established and infrastructure investments that focus on strengthening links among firms and between firms and consumers need to be made.

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 of 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.

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 employers with would-be employers, especially youths, who have the relevant vocational skills.

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.

Zambia Institute for Policy Analysis and Research (ZIPAR)
P.O. Box 50782, Lusaka, Zambia
CSO Annex Building
Corner of John Mbita and Nationalist Road, Lusaka

Tel: +260 211 252559
Fax: +260 211 252566

Email: info@zipar.org.zm
Website: www.zipar.org.zm

www.facebook.com/OfficialZIPAR

Twitter: @ZiparInfo

"Working towards the formulation of sound public policies".