

# JESUIT CENTRE FOR THEOLOGICAL REFLECTION (JCTR)

## SURVEY ON EMPLOYMENT GENERATING POLICIES IN ZAMBIA

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## Acronyms and Abbreviations

ALMPS	-	Active Labour Market Policies
CEEA	-	Citizen Economic Empowerment Act
CSO	-	Central Statistical Office
CSOs	-	Civil Society Organisations
DWCP	-	Decent Work Country Programme
FDI	-	Foreign Direct Investment
FFTUZ	-	Federation of Free Trade Unions in Zambia
FNDP	-	Fifth National Development Plan
GRZ	-	Government of the Republic of Zambia
ILO	-	International Labour Office
IMF	-	International Monetary Fund
JCTR	-	Jesuit Centre for Theological Reflection
LFS	-	Labour Force Survey
MFEZ	-	Multi-Facility Economic Zone
MSME	-	Micro, Small and Medium Enterprises
NELMP	-	National Employment and Labour Market Policy
PLMPS	-	Passive Labour Market Policies
PSD	-	Private Sector Development
SNDP	-	Sixth National Development Plan

UNDP	-	United Nations Development Programme
ZCTU	-	Zambia Congress of Trade Unions
ZDA	-	Zambia Development Agency

## 1.0 Introduction

The basic fact that low income households possess few assets of their own can hardly be contested. The most abundant resource at the disposal of the poor is their labour. Thus, a development strategy that more fully employs a country's human resources and raises the returns to labour becomes a powerful tool for raising household incomes and reducing poverty (World Bank, 2001). In other words, when employment expands along with production, the benefits of economic growth will be widely shared. However, despite the numerous attempts by the Government to promote formal employment in Zambia, it is very clear that change is happening at a snail's pace. Besides, there has been growing concern among the citizenry regarding the quality of employment that has resulted from recent efforts at employment generation, particularly in the context of foreign private investment driven job creation thrusts. It is, therefore, important for policy makers, business houses and civil society organizations to begin to act on present possibilities to ensure that formal employment, both in terms of quantity and quality is prioritized in Zambia.

This report draws on a study undertaken by the Jesuit Centre for Theological Reflection (JCTR) that sought to understand the policies, strategies and practices currently being undertaken by the Government of the Republic of Zambia in generating formal employment. Admittedly, a question would arise as to why the focus of this study was on formal employment when the nature of employment in Zambia includes informal employment. This was deliberate precisely because Zambia's formal employment is closely associated with work that generally meets decent work<sup>1</sup> standards i.e. work that guarantees adequate income, social protection, the respect of fundamental rights and principles at work

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<sup>1</sup> Decent work refers to work that provides adequate income and respects fundamental rights at work, social protection and social dialogue (ILO, 2008). With traits back to the Philadelphia Declaration of 1944, reaffirming that labour is not a commodity, the ILO 2008 Declaration on social justice for a fair Globalisation summarised the four strategic objectives of the Decent Work Agenda (DWA) as: (1) securing jobs and employment by creating a sustainable economic environment and better coordination of macroeconomic policies; (2) Developing and enhancing measures of social protection – income security and labour protection – adapted to national circumstances; (3) promoting and enforcing the fundamental principles and rights at work, including equal opportunities regardless of gender, ethnicity and alike; (4) Developing social dialogue and tripartism as methods for reaching viable solutions to the global economic, social and political challenges.

as well as social dialogue (ILO, 2008:7). Besides, it is the case that Zambia provides substantial investment incentives whose benefits in relation to formal employment creation remain unclear. Thus, understanding why formal employment is moving at a snail's pace despite substantial investment incentives provided by Government required a more focussed investigation.

The motivation for this study was, therefore, to inquire into the formal employment challenge in Zambia and the policies, incentives and institutional structure dealing with it in order to understand how best to inform sustainable strategies for formal employment<sup>2</sup> in the future. Within this context, the study sought to critically examine the nature of the employment challenge in Zambia and the policies, incentives and institutions that deal with it, and how these are linked to the overall economic development strategy. This inquiry entailed answering at least three related questions:

- How is the current employment policy structure addressing the challenge of formal employment generation in Zambia and what are the major gaps and implementation constraints?
- Why is the share of formal employment in the overall employed population in Zambia not growing despite substantial investments and huge incentives provided by Government to the private sector through local and foreign private investment - oriented tax and investment incentives?
- How is the current institutional structure addressing the challenge of formal employment generation in Zambia and what are the major gaps and implementation constraints?

Based on a literature review and key stakeholder interviews, the outcome of this study distils official Government positions, consolidated experiences and stakeholder views regarding the challenge of formal employment in Zambia.

The results are not surprising but revealing. First, while acknowledging the existence of various policies, strategies and programmes of intervention on employment, the findings point to an absence of a coordinated policy approach to employment generation in Zambia. Second, the study reveals that there is no institution of government (either at department, ministry or cabinet level) charged with the overall responsibility of employment generation in Zambia. In other words, there is no driving institution for formal employment generation in Zambia. Third and related to the second one, the study reveals an absence of an institutional mechanism for coordinating various sector policies, strategies and programmes on employment. Fourth, the study establishes that recent investment incentives targeted at attracting foreign private investment in Zambia has had no substantial incremental impact on formal employment. In fact, it appears that the Zambia Development Agency (ZDA) focuses mainly on attracting foreign investment, and apart from a few minor policies, there does not seem to be a substantial policy around domestic investment. Some efforts at policy

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<sup>2</sup> As used in this paper, formal employment refers to the type of employment which offers regular wages and hours, which carry with it employment rights and where wages are taxed (ILO, 2003:7).

level have been made on linking Foreign Direct Investment (FDI) to domestic firms such as providing preferential procurement scheme for Zambian companies, which could be an incentive for foreign companies to partner with Zambian companies. However, more needs to be done on how to link Foreign Direct Investment (FDI) to domestic firms to maximise benefits arising from such partnerships.

Other evident gaps in the policy structure dealing with employment generation in Zambia include: lack of reliable employment statistics; lack of appropriate employment targeting and lack of active labour market policies. Besides, it was apparent that investment incentives are poorly governed because they do not appear to be supportive of domestic investment nor provide for linkages between foreign direct investment and domestic firms. On the other hand, employment growth is being led by the mining sector which is capital intensive in nature (with very limited backward and forward linkages to the rest of the economy) and thus only generates low rates of formal employment growth.

Arising out of the study, the first broad recommendation made is that Zambia should adopt a direct approach to formal employment generation, mandate the Ministry of Finance and National Planning to be the focal Government institution to drive the employment generation agenda as well as provide a co-ordination mechanism for various institutions, policies, strategies and programmes of intervention on employment. Within this context, the need to design and implement Active Labour Market Policies is underscored, including the need to re-orient the educational doctrine for improved skills, employability and labour productivity. The paper also recommends a re-visitation of the structure of investment incentives currently administered by the Zambia Development Agency and the Ministry of Mines and Mineral's Development, among others, to ensure foreign private investment can be properly governed and that it can serve the goal of generating the desired levels and quality of formal employment. Within this context, the paper argues that it should be important for government to seek to optimise the role that domestic investment can play in employment creation, and particularly devise ways of linking foreign direct investment to domestic firms and also the facilitation of upgrading local businesses. In essence, measures to stimulate investment and employment should be so optimised as to stimulate both foreign and domestic investment and be able, in the longer term, to judiciously link up the two. Another issue going forward that the paper urges is economic diversification and value-addition to ensure that growth, for instance, in the mining sector that is inherently capital intensive is complimented by growth in employment intensive sectors, such as agriculture. A call is also made for an improved labour market information system that should be able to generate adequate statistics on employment and, thus, enable reporting on employment creation on an annual basis – alongside economic growth and inflation targets in every budget.

The report is structured as follows: the next section provides a background to the study and the labour market context. The context provides a sense of the structure of the Zambian labour market and its main characteristics. The third section highlights the objectives and methodology used. The fourth section presents and discusses the key findings along three broad themes: policies and strategies for employment; incentives for employment promotion - their features, implementation and effectiveness and, the institutional structure dealing with the employment challenge. Section five concludes the study and teases out key recommendations for informing future strategies for formal employment generation.

## **2.0 Background and Context**

### **2.1 Background**

The background to the study was informed by the stark reality that Zambia is among many developing countries struggling to create adequate formal employment opportunities for its people. For instance, while the labour force grew by about 4.2% over the period 2000 to 2005 (i.e. rising from 4.7 million in 2000 to 4.9 million in 2005), formal employment only grew by 1.7% over the same five year period, i.e. rising from 487,340 in 2000 to 495,784 in 2005 (CSO, Labour Force Survey 2005).

Incidentally, Zambia's annual economic growth rate averaged about 5% for the period 2000 - 2005 and has since grown to average between 5% and 7% in the last five years (GRZ, Economic Report, 2009; Budget Address, 2011). Ironically, this growth appears to have very little impact on the generation of adequate formal employment opportunities. Besides, Zambia has in the recent past given up substantial amounts of financial resources that might have accrued to the national treasury from tax holidays and waivers that are offered to attract foreign private investment. Arguably, the benefits of such investment in relation to formal employment creation remain unclear. On the other hand, the quality of the limited levels of formal employment being generated has come under heavy attack by the labour movement and civil society organisations on account of decent work deficits.

However, the achievement of higher levels of quality formal employment ought to be a national concern. While Civil Society Organisations (CSOs) and other stakeholders have been calling for an increase in the levels of formal employment, the advocacy campaigns have not been consistent or grounded on a concrete understanding of the various policies and institutions dealing with the employment challenge in Zambia. This knowledge gap limits the effectiveness of advocacy work. Thus, closing this gap was seen as a necessary step in identifying corrective measures and strategies for going forward.

### **2.2 Context**

In terms of context, this study was located within the Zambian labour market situation. As a useful starting point, therefore, this section discusses the labour market context. It inspects the structure of the Zambian labour market and characterises the main labour market processes and outcomes relevant to the scope of this study. The underlying motivation was to understand the Zambian labour market and its more recent dynamics that are central to the appreciation of the employment challenge in Zambia as well as vital in laying the conceptual infrastructure for subsequent evaluation of the appropriateness and effectiveness of the existing policy, incentive and institutional structure dealing with it.

#### ***Lack of adequate labour market statistics***

At the on set, it must be noted that there is limited information on labour markets in Zambia, and what is available is not strictly comparable over time. At the time of this study, for instance, the last official labour force survey results available were for 2005. The lack of

such survey results for over five years makes it difficult to; for example, judge the employment effects of government policy with any degree of precision and disaggregation. Filling this labour market statistics vacuum would, therefore, appear of the essence in order to provide a basis for evidence based planning and reviews in the area of employment. Given the magnitude of this challenge for the Government of Zambia, however, some innovative thinking can be brought to bear on how the Non-Governmental Organisations (NGOs) and private sectors can play a complimentary role in generating employment and labour market data. Applying international standards, for instance, in the design of relevant surveys that can be used by the NGO and private sector to capture employment and labour market data that could compliment official government statistics may provide some way in remedying the current dearth of labour market data in Zambia.

### ***Higher proportion of informal employment***

Existing evidence, however, points to a higher proportion of informal employment<sup>3</sup>, resulting in part from the privatisation and liberalisation measures that were part of the structural adjustment programmes of the 1990s(UNDP, 2007:42). Waves of economic adjustment programmes have slashed public sector and public service employment, [leaving the informal economy as the only refuge for retrenched workers] (Schiphorst, 2004:2).The result of these combined processes has been that formal employment in the primary labour market has diminished. For example, as the formal sector contracted and turned to be unable (or unwilling<sup>4</sup>) to create new jobs, the informal economy<sup>4</sup> grew in size. Indeed, given the contraction of the formal sector, many retrenched workers sought refuge in the informal economy (Muneku, 2001: 84.). In addition, many workers have had to supplement diminishing income from wage employment in the formal sector with earnings from activities in the informal economy, often doubling or tripling the number of jobs one person holds (Schiphorst, 2004:3). At the same time, there has also been observed the ‘informalisation’ of the workforce in a number of industries that are taking advantage of the de-regulated labour market to exploit unlimited supplies of domestic labour. Undoubtedly, therefore, declining formal employment in Zambia has been associated with an expansion in informal employment. In other words, informal employment in Zambia has responded, desired or otherwise, to the effects of economic adjustment. Overall, then, with the contraction of the formal sector in Zambia, there has been noticed a rise in informal jobs, a growth in a wide range of informal economic enterprises and the ‘informalisation’ of the workforce in many industries.

Table 1 below captures the proportion of the labour force in formal and informal employment in Zambia. Evidently, informal employment is at a high of 88% of the total number of the people employed.

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<sup>3</sup> A 2004 Central Statistics Office (CSO) survey on living conditions defined informal employment as employment where the employed persons were not entitled to paid leave, pensions, gratuity and social security and worked in an establishment employing five (5) persons or less”(LCMS 2004:64). For the purpose of this study, this definition is adopted.

<sup>4</sup> While the phenomenon of the informal economy is not new in Zambia, evidence suggests the informal economy rapidly expanded during the structural adjustment episodes of the 1990s. See, for instance Muneku (2001).



**Table 1: Proportion of Labour Force in Formal and Informal Employment**

Sex/ Residence	Formal employment	Percent share of formal employ ment	Informal Employment	Percent share of informal Employ ment	Total number of employed
All Zambia	495,784	12	3,635,747	88	4,131,531
Males	330,109	17	1,611,710	83	1,941,820
Females	131,383	6	2,058,329	94	2,189,711
Rural	60,388	2	2,959,033	98	3,019,421
Urban	389,239	35	722,872	65	1,112,110

**Source:** Labour Force Survey 2005(2007:45)

Table 1 also reveals a gender dimension to informal employment in Zambia. As seen, 94% of the females in employment are in informal employment compared to 83% of the males. In comparison, formal employment is dominated by males who accounted for 17% of the total employment to 6% of the females. Besides, the 2000 Census reveals that between 1990 and 2000, there was a proportionately higher decrease in females in formal employment (from 14.7% in 1990 to 9.0% in 2000) than in the males in employment (from 39% in 1990 to 25.7% in 2000). Thus, the share of women in formal employment has drastically reduced over the years while it has increased in informal employment. A large number of women are now engaged in low paying and less productive jobs in the informal economy in urban areas, while another large group of women are engaged in small scale farming in rural areas. Overall, about 80% of informal employment in Zambia is in the agricultural sector while only 20% is in the non-agricultural sector (Labour Force Survey 2005, 2007:45).

### ***Changing economic structure***

Against the background of this formal and informal employment dichotomy, however, is an economy whose development path has largely been chequered. Admittedly, the economy has been and still remains heavily dependent on receipts from the export of copper and cobalt, which currently account for about 75% of export receipts but only contribute 8% to formal employment (SNDP, 2010:5). In the 1960s, copper prices were on the increase thus contributing to high profits in the mining industry that increased government revenue. These high mining industry profits propelled rapid economic growth. Employment levels also grew. As Chiwele (1995:6) writes, “the 1970s and much of the early 1980s saw Zambia experience high levels of employment, with deficits in some professions and specialities”. Looked at this way, it seems the case that copper prices largely explains the employment performance throughout the economy during the 1970s and early 1990s. During this period, however, agriculture (which is predominantly rural based) was not the priority of the government’s development strategy and only half-hearted attempts were made to integrate

the agriculture sector with that of mining. This lack of diversification made the economy vulnerable to external shocks. Consequently, given the levels of poverty in rural areas and the kind of predominant activities (small-scale farming, casual wage labour, etc.), being unemployed has since not been an option<sup>5</sup>.

Over the period 1975 to 1980, the economy suffered massive contraction largely as a result of the world energy crisis and the vulnerability of the economy due to its heavy reliance on mineral receipts, as demand for industrial inputs such as copper had reduced. Falling exports receipts and the rising import prices resulted in a high balance of payment deficit. In an effort to maintain import levels, the Zambian government borrowed from external sources resulting in huge foreign debt. Rising production and import costs led to high inflation rates and a drastic fall in formal employment levels (Chiwele, 1995; Seshamani, 1999; Masiye and Wake, 2005). This led to disequilibria in the economy that necessitated the adoption of the structural adjustment programme under the aegis of the International Monetary Fund (IMF) and the World Bank (WB) in 1991.

More recently, the impact of the 2008-9 global financial crisis has had its toll on levels of formal employment in Zambia. The crisis mainly emanated from decreased demand of Zambia's main commodity export, copper, as a result of the slowdown in economic activities in the major economies. The reduced demand for copper led to a sharp fall in global copper prices during 2008-2009. From a high price of US\$8,985 per tonne, in July 2008, the price fell to below US\$3,000 by the end of 2008. As earlier indicated, copper exports account for about 75% of Zambia's total exports, and they have played a pivotal role in the resurgence of the economy, whose growth in the last five years has averaged between 5% and 7%. The global financial crisis, however, resulted in job losses predominantly in the mines, where it is estimated that more than 10,000 jobs were lost within the formal economy mining companies (ILO, 2010:2). The loss of jobs in the formal economy inevitably forced retrenched workers to seek alternative employment in informal activities, leading to further growth in informal employment.

In response to the global financial crisis, Zambia endorsed and seeks to implement the policy measures contained in the Global Jobs Pact. These measures are aimed at enhancing economic recovery and boosting employment.<sup>6</sup>

### ***Declining formal employment trends***

With the adoption of structural adjustment measures, however, formal employment fell drastically when reform packages, especially privatisation and trade liberalisation were accelerated. It is estimated that about 77,000 workers were displaced between 1993 and 1996 as a result of initial efforts at structural adjustment measures (Muneku, 2001). A Technical Committee established at the end of 1996 to administer a modular training programme jointly run by Future Search, Zambia Federation of Employers and Industrial Training

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<sup>5</sup> Due to a limitation in available employment statistics, a dis-aggregation of agricultural employment into unpaid, on subsistence or near subsistence farms was not feasible.

<sup>6</sup> Outcomes of the Global Job Pact, 13-17 June 2009, Geneva ([www.ILO.org](http://www.ILO.org))

Centre observed that between 1996 and 1998, the total number of workers displaced rose to 90,000 (GRZ, Joint Technical Committee, 1997:1).

Overall, official statistics indicate that formal employment declined from a 546,000 in 1992 to 495, 784 in 2005(Labour Force Survey 2005, 2007:46). Table 2 below captures the trend in the growth of the Zambian labour force and formal employment in the period 1995 to 2005, pointing to a rise in the labour force without a commensurate increase in formal employment opportunities. For the ten-year period (i.e. 1995-2005) for instance, the labour force increased by about 32% while formal sector employment only increased by 2%, suggesting that the formal sector had steadily diminished as the main source of employment in Zambia. As a percentage of the total labour force, formal employment has over the years declined significantly from 75 percent in 1975 to 12 percent in 2005 (CSO, Selected Socio-economic Indicators, 1999; Labour Force Survey 2005, 2007).

**Table 2: Growth of Labour Force and Formal Employment, 1995- 2005**

Year	1995	1996	1997	1998	1999	2000	2005
Labour Force (million)	3.7	3.8	3.9	4.4	4.6	4.7	4.9
Formal Employment	484,967	479,400	475,100	467,444	477,508	487,340	495,784

**Source:** CSO, Quarterly Employment and Earnings Inquiry (2003); Labour Force Survey 2005; SNDP (2010).

### *Labour supply*

Further, one observes that the quality of labour supply in Zambia has suffered during the period of the 1990s and 2000s during which time the economy has been undergoing economic restructuring. The UNDP (2007:37) observes that education attainment, after impressive progress up to 1980, regressed, in literacy indicators, enrolment rates and participation in vocational training. These trends have affected formal sector competitiveness through growing high-skill shortages in various sectors (Chiwela and Chinganya, 1997 quoted in UNDP 2007:37). The deterioration in the quality of labour supply has obviously affected the productivity of the labour force, and exacerbated the demand factors constraining employment growth. This creates the potential for a vicious cycle as labour quality declines at the same time as skill-shortages also create labour demand constraints, resulting in fewer and lower-quality employment opportunities. The impact of the HIV/AIDS pandemic has also taken its toll among people of the working age.

### *Youth unemployment*

In addition, the formal employment challenge in Zambia assumes even more alarming proportions for the youth cohort. As reported by the Central Statistics Office<sup>7</sup>, unemployment is a more serious problem in the young age groups of 15-19 (22.6 percent); 20-24 (20.8 percent) and the 25-29 (13.9 percent). The peak is in the age-groups 15- 24 (CSO Census of Population and Housing, 2000). Given that young people (under 25 years) in Zambia comprise about 65 percent (roughly 6 million) of the total population, youth unemployment must be of special concern for policy makers and other stakeholders. Every year, a huge mass of school leavers are entering the labour market without hope of finding a decent job. Box 1 below recounts a story of one unemployed university graduate.

**Box 1: Story of an Unemployed University Graduate**

*“I must confess that getting a job in Zambia is not easy, it’s been 1 year and 8 months since I graduated from school and since then I have made hundreds of applications to no avail. In a few instances when I was called for interviews I was told I was qualified in every aspect they were looking for except I had no work experience. One wonders how I’m going to get this work experience if I cannot be given a chance to work”...*  
Interview conducted with a university graduate

*(Extracted from the JCTR’s Satellite Homes Survey Report, January, 2011)*

While it can be acknowledged that entrance into the labour market by college and university graduates also depends on the field of specialisation and the qualitative aspects of the qualification such as whether one graduates with a distinction, merit, credit or mere pass, it may not be denied that the rate at which the labour market is generating formal jobs has not kept pace with the influx of new labour market entrants. For instance, the Labour Force Survey of 2005 reports that formal employment grew from 487,340 jobs in 2000 to 495,784 jobs in 2005, representing a net increase in formal employment of about 8,000 jobs over the five year period. In other words, for the period 2000 and 2005, the economy was creating on average about 1,690 formal jobs per year which clearly is insufficient to absorb the influx of youths poured onto the Zambian labour market every year. The approach to skills development and national qualification framework will therefore need to be made responsive to the changing needs of the labour market. For instance, the national qualification framework may need to consider the possibility of promoting and academically recognising non-curricular activities such as sports and music and accordingly grading such activities. The goal, as SADC’s Regional Indicative Strategic Development Plan (RISDP) asserts,

‘being to contribute to the reduction of human poverty and to improve the availability of educated, skilled, healthy, flexible, culturally responsive, productive and efficient human resources for the promotion of Zambia’s competitiveness in the global economy’(SADC, RISDP, 2009:88).

**Quality aspect of employment**

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On the other hand, as the structure of the economy has changed and competitive pressures for enterprises have increased, enterprises faced with intensified pressure of market forces have adopted new strategies. Sometimes these new strategies have entailed a search for lower labour costs. Sometimes new forms of work organisation have been introduced that centre on increasing flexibility of labour, as well as outsourcing of many activities and services. For a labour market that has also undergone de-regulation such as Zambia is, the combined effect of economic restructuring and competitive pressures has resulted in precarious forms of employment such as sub-contracted and casual work. The story of Lwita captured in Box 2 illustrates this point.

**Box 2: Story of Lwita, Sales Assistant at a Lusaka Based Mini-mart**

*My name is Lwita (not real name). I am 18 years old and completed my Grade twelve at Kabulonga Girls High School in 2008. My grade twelve results were not good enough for me to enter college. So I decided to look for a job in order to make ends meet while waiting to re-sit for two subjects in which I did not do well. May be if I do well I can be accepted at the University of Zambia where I hope to get a Government Bursary. In the meantime, I am only working here as a casual worker but the problem here is the conditions of service. I get K300, 000 per month and I don't know whether they will renew my contract after six months. We work from morning to 22 hours when the supermarket closes but we can't complain because the boss won't renew our contract.*

*Extract from Interview, January 2011*

***Declining real public sector wages***

An associated labour market phenomenon in Zambia is that wage levels, particularly for the public sector workers and the informal economy have tended to be on the low side, both in real and nominal terms. To a large extent, the episodes of more drastic wage cuts were associated with devaluations of the kwacha in the 1980s and 1990s. Seshamani and Kaunga, reports that in 1996, real wages in the public sector had dropped to approximately 45 percent of their 1984 value (Seshamani and Kaunga, 1996). But, that would be the beginning of long descent. Public sector wages today are among the lowest paid within the formally employed category with the highest paid unionised employee earning K2, 814.610 gross salaries per month while the lowest paid in the Classified Employee category earns K870,881 gross salary per month. A housing allowance in the range of K160, 000 to K435, 000 is paid in addition to the wage. The combined earnings are then subjected to personal income tax which has increasingly become burdensome for the limited number of people in formal

employment.

Personal Income Tax Rates with effect from 1st April, 2009 were as follows:

<b>Chargeable Income per annum</b>		<b>Tax Rate</b>
First K 8, 400, 000	@	0%
Next K 7, 620, 000	@	25%
Next K33, 000, 000	@	30%
Balance	@	35%

In summation, this section has inspected the labour market situation in Zambia and underscored the following issues: a weak labour market information system; a changing economic structure that has altogether influenced labour market processes leading to the following labour market outcomes: a higher proportion of informal employment, declining formal employment, deterioration in quality of labour supply, a rise in youth unemployment and declining real public sector wages. The HIV/AIDS pandemic has also taken its toll. On the other hand, the quality of limited employment being formally generated was characterised as being on the low side, particularly on account of the terms, conditions of work and employment rights. Altogether, this catalogue of issues characteristic of the Zambian labour market presents a formidable challenge for dealing with the employment challenge in Zambia.

### **3.0. Objectives and Methodology**

#### **3.1 Objectives**

The overall objective of this study was to inquire into the formal employment challenge in Zambia and the policies, incentives and institutional structure dealing with it in order to understand how best to inform sustainable strategies for formal employment in the future. Specifically, the survey aimed to:

- Analyse the employment challenge in Zambia and the policies and strategies that deal with it and how these are linked to an overall employment strategy.
- Examine the nature of the investment incentives provided by Government for a private sector driven employment generation agenda and how these are being implemented and their effectiveness in promoting formal employment.
- Analyse the nature and functionality of the institutional structure dealing with the challenge of employment in Zambia and how the coordination role is being performed.

#### **3.2 Methodology and Methods of Data Collection**

The study used inductive research methodology. Inductive analysis begins with specific observations and builds towards general patterns (Moonilal, 1998:11).<sup>8</sup> On this basis, the study built on a review of written materials as well as structured discussions and in-depth interviews. Thus, two data collection methods were used. First, a review of important documents that shed light on the employment challenge in Zambia and the policy, incentive and institutional structure dealing with it. The sources for this data included: related books, articles, journals, pieces of legislation, policy documents, published and unpublished papers and documents from the Internet. Second, discussions and interviews with key informants drawn from key stakeholder institutions in Government, private sector, the academia, civil society organisations, trade unions and individual experts.

### ***3.3 Limitation of Study***

This study was not without limitations. Admittedly, investigating the employment challenge in Zambia is a mammoth task requiring time and resources beyond what was currently available. The study was, therefore, restricted to dealing with the policy, institutional and investment incentive structure dealing with formal employment. Lack of consistent and timely labour market data also limited the depth of analysis. At the time of this study, for instance, the last official labour force survey results available were for 2005. The lack of such survey results for over five years made it difficult to; for example, judge the employment effects of government policy with any degree of precision and disaggregation. Even with these limitations, however, the study offers some very useful insights that can inform critical debates and advocacy work on appropriate policies, strategies and initiatives for formal employment in Zambia.

## **4.0 Key Findings and Analysis**

This section aims to present and discuss key study findings on employment generating policies in Zambia. Due to a limitation in scope of the study, the focus is on three main areas: (1) policies and strategies dealing with employment in Zambia, (2) investment incentives and their effectiveness on the promotion of formal employment in Zambia and, (3) the nature and functionality of the institutional framework dealing with employment in Zambia. The section is organised into three main sub-sections. The first presents and analyses findings on policies and strategies dealing with employment while the second presents investment incentives and analyses their effectiveness in the promotion of formal employment. The third sub-section presents and analyses the institutional structure dealing with employment in Zambia.

### ***4.1 Policies and Programmes Dealing with Employment in Zambia***

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<sup>8</sup> Inductive method is a contrast to the hypothetical-deductive approach, which requires the specification of the main variables and the statement of specific research hypothesis before data collection (Moonilal, 1998:11).

The study establishes that the broad policy framework dealing with employment generation in Zambia encompasses the following: the vision 2030; the National Employment and Labour Market Policy (NELMP); the Fifth National Development Plan (FNDP); the Sixth National Development Plan (SNDP); the Micro-Small and Medium Enterprises (MSME) Policy; the Private Sector Development Programme (PSD); the National Youth Policy, the National Gender Policy and the Decent Work Country Programme (DWCP). Each of these is discussed in turn in the following few paragraphs.

#### **4.1.1 Vision 2030**

The Vision 2030, launched in January 2007, outlines the desirable long-term paths of the socio-economic indicators to satisfy people's aspirations, and articulates possible long term alternative development policy scenarios at different points through the year 2030. The vision will be operationalised through the implementation of five national development plans, beginning with the FNDP covering the period 2006-2010. Among its aspirations includes "decent work opportunities that ensure respect for fundamental rights and principles at work".

#### **4.1.2 National Employment and Labour Market Policy**

The official policy document on employment in Zambia, however, is the National Labour Market and Employment Policy adopted in 2005. The policy identifies a range of key government priorities on which to concentrate its efforts to create more and better quality employment, including the promotion of Small and Medium Enterprises (SMEs); identification and support for job and business opportunities for men and women, as well as mainstreaming special interest and vulnerable groups such as the young and disabled people; the prevention and mitigation of HIV and AIDS; promotion of social dialogue and strengthening of social partners; provision of social protection and security; and the creation of an effective Labour Market Information Systems(LMIS).

A critical examination of the National Employment and Labour Market Policy reveals both strengths and weaknesses. The first strength is that it recognises the need for the creation of 'employment with decent work conditions.' This is an important policy recognition because of the need to ensure that jobs being created provide adequate income and respect fundamental rights and principles at work.

A further strength of the policy is that it recognises the need for an effective institutional framework for coordinating and implementing various sector strategies for employment. This responds to a felt need to overcome the uncoordinated manner in which the institutional and policy structure dealing with employment operates in Zambia. The policy also articulates the role of social partners and other stakeholders in the implementation process.

However, the policy is not without weaknesses. Firstly, the policy remains unimplemented, raising troubling questions about implementation capacities for translating policy into concrete actions. The Ministry of Labour and Social Security attribute this lack of



implementation to inadequate funding from central treasury and the absence of an adopted implementation plan for executing the policy. By and large, it would appear that the Ministry of Labour and Social Security has no clear mandate to champion the employment generation agenda in Zambia. Its preoccupation is with the labour administration side of workplace issues and not necessarily employment generation. The question then arises as to whether there exists an apex institution to drive the employment generation agenda in Zambia. Clarity sought from the Policy Analysis and Coordination Division at Cabinet Office points to an existing gap in terms of who takes charge of employment generation in Zambia. In other words, there is no institution specifically charged with driving the employment generation agenda in Zambia. This constitutes a serious weakness in approach to employment generation in Zambia. Who for instance, must take responsibility over employment generation in Zambia? Who should be held accountable? It would appear that currently there is no one!

The lack of clarity in terms of who has the mandate to drive the employment generation agenda within Government has had its own implementation challenges. For instance, the Ministry of Youth, Sport and Child Development claims the role of an implementer of youth employment promotion policies while the Ministry of Labour is unsure about where the boundaries end in its role when it comes to employment issues. A similar confusion exists when it comes to the implementation of gender related employment policies vis-a-vis the role of the Gender in Development Division (GIDD). The Policy and Coordination Division at Cabinet office maintains that this confusion should not arise because of the existence of inter-ministerial committees that ensure that there is a coordinated approach to implementation of Government policy. The reality on the ground, however, suggests policy coordination challenges.

Another weakness of the National Employment and Labour Market Policy is that it does not adequately analyze the dynamics of the informal economy or present a coherent strategy regarding informal employment. But, informal employment currently account for the majority of employment in Zambia. In this regard, conditions in informal employment should have been addressed systematically within the context of this policy and its implementation plan.

Further, and with respect to the implementation of the National Employment and Labour Market Policy, another weakness is that the implementation plan for this policy was never adopted and therefore is still in draft form. Hence, different actors, sectors and institutions concerned with the implementation aspects of the policy do not know what is supposed to be done by them.

It would, therefore, appear that no one has been put in charge of the employment generation agenda or given the incentives to implement the National Employment and Labour Market Policy. A modest attempt was made to incorporate some aspects of the policy into the FNDP but even then the policy remains unused. Elements incorporated into the FNDP suffered a similar fate of under funding.

#### **4.1.3. Fifth National Development Plan (FNDP)(2006-2010)**

The Fifth National Development Plan (FNDP) is another key policy meant to generate employment in Zambia. The plan, whose theme was “*Achieving Broad-based Wealth and Job Creation through Technological Advancement and Citizenry Participation*” had included a separate chapter on employment and labour specifying the following interventions: i) decent work agenda, ii) labour market management and information system, iii) labour market legal and regulatory framework reform, iv) occupational safety and health promotion, v) national labour productivity promotion, vi) mainstreaming special interest and vulnerable groups, vii) comprehensive social security system, viii) HIV/AIDS interventions at the work place, ix) child labour prevention, x) mitigation of labour migration, and; xi) family planning.

These interventions were built along the areas identified in the National Employment and Labour Market Policy of 2005. Admittedly, there was consistency between the national development plan’s employment programmes and the interventions identified in the national employment policy document. However, the employment and labour chapter in the FNDP suffered the same fate of inadequate financing as the National Employment and Labour Market Policy to which it owed its major content.

Most fundamentally, a major weakness in respect of employment generation regarding the FNDP was the lack of prioritization of the employment objective in its overall macroeconomic framework as well as the absence of a strong foundation for employment-intensive programmes that would have resonated with the overall theme of the plan that was captioned as job creation. Indeed, while one of the FNDP’s goals was job creation, a critical look at its five main macroeconomic policies and objectives reveal that none of these five dealt directly with employment. The five main macroeconomic policies and objectives of the FNDP were: low and stable inflation; improved debt management; effective public expenditure and revenue management; sound economic governance and transparency and; stable and competitive exchange rates (FNDP, 2006:11). The employment objective was conspicuously missing from the macroeconomic framework. This was not in line with the 2004 Ouagadougou Declaration which called for ‘employment creation as an explicit and central objective of economic and social policies’<sup>9</sup>. Arguably, employment was treated as a sector issue and, therefore, not located at the center of the macroeconomic framework. For this reason, employment was not assigned a major role as a means of improving access to income and lowering poverty rates. Rather, it was regarded, as a by-product of economic sector policies - which sector policies, unfortunately, could not address the challenge of employment by themselves.

The macroeconomic policy thrust of the FNDP, therefore, primarily focussed on emphasising faster growth of sectors with employment potential so as to ensure relatively higher employment content of aggregate growth.

This was supported to a certain extent by some macroeconomic, credit and fiscal measures. Arguably, as the World Bank posits, “it was expected that once macroeconomic policies for economic growth were fully operational, this would result into increased job opportunities” (World Bank 2002: 22). But, this anecdotal assumption of the ‘trickle down’ effect has been

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<sup>9</sup> 2004 Ouagadougou Declaration on Employment and Poverty Alleviation in Africa, Commitments, point 3, page 4.

challenged, both in theory and practice. For instance, the United Nations Development Programme (UNDP) found that where conventional approaches have been implemented, they have resulted in the following forms of growth:

- ✓ Jobless growth – growth that does not expand employment opportunities;
- ✓ Ruthless growth – growth associated with increasing inequality and poverty;
- ✓ Voiceless growth- growth in the absence of democracy or empowerment;
- ✓ Rootless growth - growth that withers cultural identity;
- ✓ Futureless growth – growth that squanders resources needed by future generations (UNDP 1996 Human Development Report).

In the Zambian case, it would appear that recent growth has neither led to increased formal jobs nor substantial reduction in poverty and inequality. As earlier argued, sustained positive growth rates in the region of 5%-7% over the last five years have not expanded formal employment beyond 2% for the same five year period. Poverty, though has slightly come down in the recent past remains high at over 60% of the total population. This situation points to Zambia's recent growth assuming the form of jobless and being ruthless.

More fundamentally, the foregoing discussions points to a lack of a comprehensive employment strategy at the 'Macro' level in the FNDDP. At the 'Meso' or sector level, however, various policies, programmes and strategies targeting specific groups can be identified. However, an investigation of the overall thrust of these initiatives suggests an absence of an integrated approach. This paper posits that for interventions, policies and programmes of employment promotion to be successful they need to be closely integrated into wider socio-economic development strategies and macroeconomic policies (ILO, Global Employment Agenda, 2001). As ILO(2001) emphasises, employment policy should become a concept of all macro and sector policies; not a sector policy.

#### **4.1.4 Sixth National Development Plan (2011-2015)**

The Sixth National Development Plan (SNDDP) 2011–2015 is the successor to the Fifth National Development Plan (FNDDP), which is aimed at actualising the aspirations of the Vision 2030 of becoming “a prosperous middle-income nation by 2030”. The strategic focus of the SNDDP is “*infrastructure and human development*”. Its guiding principles are stated as improved accountability, decentralized process and efficient resource allocation and mobilization. The objectives of the SNDDP are: to accelerate infrastructure development, economic growth and diversification, to promote rural investment and accelerate poverty reduction and to enhance human development.

While recognizing the importance of balanced growth in all sectors of the economy, the SNDDP priority growth sectors are identified as: agriculture, mining, tourism, manufacturing, commerce and trade, information and communications technology (ICT), energy, education and skills development, health and water and sanitation.

A key employment objective of the SNDDP is to increase formal sector employment and improve the quality of the workforce. According to the SNDDP, this will be achieved through

growth and investment strategy, and reforms aimed at enhancing the flexible functioning of labour markets so as to facilitate employment creation. The SNDP further notes that ‘in this regard, the key legislation to be reviewed will include Employment Act Cap 268, Minimum Wages Act Cap 272 and the Industrial Relations Act Cap 269’ (SNDP, 2010:12). Arguably, however, enhancing the flexible functioning of labour markets may entail low wages and no decent work. But perhaps more inspiring, has been that employment has been included as a national Key Performance Indicator (KPI) in the SNDP, with clear targets for the next five years, 2011-2015. Admittedly, formal employment creation has been given precedence with Government aiming to double formal employment by 2015 and reduce informal employment by about 15%. In addition, the national economy will be guided by the Millenium Development Goal (MDG) target (1b) agreed upon in 2008 by the international community aiming to achieve ‘full and productive employment and decent work for all, including women and young people’ by 2015. However, this will only be meaningful if the target can be reported on in every national budget and a clear road map given on how to achieve the set targets.

The SNDP still falls short of Active Labour Market Policies (ALMPS) in the improvement of the demand for labour and the quality of employment, through both demand and supply-side policies that should have been embedded in the national plan. ALMPs are Government programmes that intervene in the fight against employment and poverty. They are alternatively called employment intensive policies and are part of the 10 core elements of the Global Employment Agenda and the ILO Decent Work Agenda (LEDRIZ, 2010:16). The opposite of ALMPS are passive Labour Market Policies (PLMPS). More specifically, ALMPs are:

- Concerned with active support for labour market integration through demand or supply-side measures
- Explicitly contingent upon participation in programmes that enhance labour market (re) integration
- Programmes involving labour market training, job creation in the form of public and community work, enterprise creation and employment subsidies.

Target groups include the youths and older people, women and disabled. Overall, they contribute towards improvement in a person’s employability and hence increase re-employment opportunities.

More fundamentally, the SNDP employment generating agenda will continue to suffer from the lack of a driving institution or Government Ministry. Currently, as noted earlier there is no Government institution that will drive the employment promotion agenda

#### **4.1.5 Micro and Small Enterprise Development (MSME) Policy**

The government has recently approved the Micro Small and Medium Enterprises (MSME) policy. This policy is designed to guide efforts on promoting the start up and growth of MSMEs, in order to increase their contribution to income generation, employment creation and to Gross Domestic Product (GDP). Some of the strategies envisaged under the policy include facilitating access to finance, markets and business development services for

MSMEs, which employ more than 70% of the aggregate working population in Zambia. This policy is intended to operate in harmony with other legal and institutional frameworks, such as the recently approved Commercial, Trade and Industrial Policy, and within the context of the Sixth National Development Plan. Thus, while the policy is well-intended, its implementation is conceived within an existing structural problem in terms of the nature and operation of the institutional framework and this might stand in the way of achieving desired results. For instance, coordination of different sectors and institutions implementing MSMEs related programmes still remain a challenge for the Ministry of Commerce, Trade and Industry. Besides, there is no systematic approach to graduating non-formal MSMEs to formal. While the system of monitoring is not well-articulated in the MSME policy, at the time this report was being prepared, the Monitoring and Evaluation system was being developed with the support of ILO.

Thus, the execution of the policy may stand challenged because of an absence of a clearly articulated institutional mechanism for its implementation and for coordinating various MSME interventions.

#### **4.1.6 The Private Sector Development (PSD) Programme**

The Government has led the process of creating a Private Sector Development (PSD) Action Plan that it considers as its road map to creating the right environment for investment, infrastructure development and private sector-led economic growth and employment generation. The action plan proposes rapid improvements and specific reforms to the investment climate, particularly targeted at high potential sectors such as non-traditional/gemstone mining, tourism, agriculture and resource based manufacturing. Private sector led employment generation is an objective of this programme.

#### **4.1.7 National Youth Policy, 2005**

The official policy on youth development in Zambia is the National Youth Policy of 2005. The policy seeks to promote self-employment for the youths through entrepreneurship development and provision of basic skills training facilities. The policy has its diagnosis right and identifies that most of the youths are school dropouts at the levels of Grades 7, 9 and 12. Further, the policy recognizes that one of the major problems in Zambia is youth unemployment. Another positive feature of the policy is that it is accompanied by a national action plan. However, there are no clearly defined strategies concerning the promotion of employment initiatives for youths. Besides, the National Youth Development Council, which is supposed to implement and coordinate youth programmes, is not strong enough to carry out its mandate. As a matter of fact, the National Youth Development Council has long been earmarked for restructuring so it has been operating on an ad hoc basis with no clear guidelines. Funding to the council also remains inadequate.

#### **4.1.8 Other Related Policies**

There are other policies which impact on employment and where employment is seen as a solution to addressing the challenges of poverty. Examples include the National Gender Policy, which identifies employment as a means of empowering women both economically and socially and the passing of the Citizen's Empowerment Act (September 2006), the creation of the Citizens' Empowerment Commission (discussed further below), and the policy on decentralization that all provide opportunities for employment growth. Other policies include the Education Policy and the Technical Education and Vocational Training (TEVET) Policy. In addition, Government adopted the child labour policy in June 2010 that should help deal with the problem of child labour in Zambia and thus prevent the substitution of adults by child workers in employment.

#### **4.1.9 Decent Work Country Programme**

In addition, the ILO-supported Zambia Decent Work Country Programme (DWCP) was officially launched in May 2007. "The consultative process with the constituents for a Decent Work Country Programme for Zambia was initiated in 2005" (ILO, 2007). The key stakeholders involved in the identification of national decent work priorities included the Ministry of Labour and Social Security (MLSS), the employers' organisation - Zambia Federation of Employers (ZFE), and the workers' organisations, Zambia Congress of Trade Unions (ZCTU) and the Federation of Free Trade Unions (FFTUZ).

The goal of the decent work country programme for Zambia is: "more and better jobs for women and men in Zambia, resulting from the National Employment and Labour Market Policy (NELMP) implemented under the Ministry of Labour and Social Security, supported by social partners, connected to the Fifth National Development Plan, the United Nations Assistance Framework and the Joint Assistance Strategy for Zambia, and with national and international budgetary support (in the next 4-6 years)" (ILO, 2007:8). On this basis, the DWCP for Zambia identifies and prioritises three issues: (i) more and better employment for the youth, women and people with disabilities, supported by enhanced Labour Market Information System (LMIS), (ii) responding to HIV/AIDS challenges in the world of work, and (iii) eliminating child labour, particularly worst forms.

In the context of employment promotion, the DWCP has some distinct strengths. Firstly, it is well targeted in terms of addressing the employment needs of youths, women and people with disabilities. These are the vulnerable groups that are often excluded in accessing benefits of economic development in Zambia. The DWCP is also designed in such a way that it specifies outcome indicators and outputs, thus assuring effective performance monitoring and evaluation. The DWCP also assigns a role for social partners (e.g. trade unions) in the planning, implementation, monitoring and evaluation process. However, the costing and source of funds of the DWCP for Zambia is at the moment unclear. Other aspects that are unclear relate to sustainability issues beyond the ILO and donor support of the programme. In the context of this study, it is also the case that the DWCP for Zambia, particularly as it relates to youths does not specify targeted interventions for rural youth

employment. Nonetheless, the DWCP is very inspiring in the sense of its focus on youths, child labour and the challenge of HIV/AIDS at the workplace in Zambia.

In summation, it has been established that the policy structure dealing with employment in Zambia constitutes a number of sector policies, strategies and national development plans which altogether exist to address the challenge of employment generation. However, it is the case that this policy structure is not underpinned by a systematic or harmonised approach. As such, these policies, strategies and programmes of intervention on employment come across as ‘stand alone policies’ without a clear mechanism for their coordination and harmonisation. At best, the current approach to employment policy coordination is methodologically inadequate. A major gap constraining effective policy implementation for improved formal employment generation, therefore, is that the existing policy structure operates without much thought of a multi-sector coordination and implementation strategy. This is also evident from the absence of a driving institution for employment generation and, let alone, for the coordination of various policies on employment. Beyond the absence of a coordinated approach, however, it became apparent that existing policies suffer from certain challenges of their own. For instance, the National Employment and Labour Market Policy, lacks an implementation action plan to facilitate the translation of the policy into concrete actions. It also suffers from perennial under funding constraining its full implementation. Absence of active labour market policies that should be embedded into the policy framework came across as another gap as was the lack of effective employment targeting in the majority of policies and strategies. Transcending these gaps and challenges however, calls for leadership at the institutional level that should act to ensure that the employment agenda is prioritised, executed systematically and adequately resourced. As the SADC, Regional Integrative Strategic Development Plan recommends, ‘harmonization of policies and programmes for employment creation should assume priority in national development plans’ (SADC, RISDP, 2009:88);

## **4.2 Investment Incentives and Employment Generation**

Another dimension related to the employment challenge in Zambia is the investment-employment nexus. Over the last few years, the policy of Government has been “to accelerate private sector investment so as to achieve increased and diversified economic and employment growth” (SNDP, 2010:14). Employment growth is seen as arising from increased investment. Thus, the main strategy has been to (i) undertake legislative, regulatory and institutional reforms to create an enabling environment for foreign private investment (ii) undertake investment promotion efforts that include privatisation and investment - oriented incentives for foreign direct investment. As the SNDP states, “the overall intended effect of these reforms and investment incentives has been to create decent employment in the various areas of investments” (SNDP, 2010:14).

A key institution charged with the responsibility to operationalise the investment promotion channel as a strategy for employment growth is the Zambia Development Agency (ZDA)<sup>10</sup> which came into operation in 2006 and has since existed to rationalise investment and trade promotion in line with the One-Stop-Shop investment principle. Thus, over the last five years the ZDA has pursued investment and trade promotion activities and has provided substantial investment related incentives. Despite these incentives, however, the ensuing growth of formal employment has been minimal over the last five years. Admittedly, the economic crisis of 2008-2009 led to a reduction in new investment, but a substantial stock of investment capital has been accumulated over the past 5 years and thus pre-dates the global economic meltdown.

This section addresses the policy question of why formal employment has not grown over the last few years despite substantial investments and significant incentives provided by Government to the private sector. The section has three main parts: the first dealing with the features of investment incentives, the second dealing with the governance of FDI in Zambia and the third part dealing with implementation progress and the contribution of foreign direct investment incentives to employment promotion.

#### 4.2.1 Main Features of Investment Incentives in Zambia

The main investment incentives currently offered by the ZDA are summarised in Table 3 below.

**Table 3: Investment Incentives offered by the Zambia Development Agency<sup>11</sup>**

Priority	Minimum Criterion	Incentives	Implementing agency
Large investors / public private partnerships (PPP)	US\$10 million investment value	IPPA <sup>12</sup> providing, at a maximum: <ul style="list-style-type: none"> <li>• Income tax holidays up to 5 years, &amp; diminishing tax breaks for an additional 5 years</li> <li>• Waivers on dividend taxes &amp; import duties</li> <li>• Deferment of VAT on machinery &amp; equipment</li> </ul>	ZDA & PPP Unit of MoFNP
Priority sectors & MFEZs	US\$500,000 investment value	<ul style="list-style-type: none"> <li>• 5-year income tax and dividend holiday</li> <li>• Escalating taxes over the subsequent 5 years</li> <li>• Zero-rated import duties on inputs and fixed assets for 5 years</li> </ul>	ZDA

<sup>10</sup> Other sector specific institutions for regulating investment in respective sectors have also been established. These include the National Construction Council(NCC) for the construction sector; Energy Regulation Board(ERB) for the energy sector, the National Roads Board of Zambia for the roads and infrastructure sector, the Pensions and Insurance Authority for Pensions and Insurance and the Drugs and Poison Board for medicines and drugs

<sup>11</sup> Note that not all foreign private investment coming into Zambia is handled by the Zambia Development Agency. Other Government institutions doing this include the Ministry of Mines and Mineral Development which handles all mining related investment and the Ministry of local Government that also offer business related licences. Each of these ministries has additional sets of incentives within the context of the relevant legislative framework. Appendix 1 provides the main features of the tax and incentives extended to investors in the mines.

<sup>12</sup> IPPA is Investment Promotion and Protection Agreements



		• Deferment of Value Added Tax (VAT) on machinery and equipment.	
<b>Rural MSMEs</b>	Rural domicile	5-year tax holiday	ZDA
<b>Urban MSMEs</b>	Urban domicile	3-year tax holiday	ZDA
<b>Exporters</b>	Non-traditional exported good	15% income tax rate	ZDA
<b>Capital goods</b>	-	Duty charged at a rate between 0% and 5%, the rate for other finished goods is 25%	ZRA
<b>Ease of doing business</b>	US\$500,000 investment value	<ul style="list-style-type: none"> <li>• Assistance to obtain land &amp; infrastructure</li> <li>• Tax treaties</li> <li>• Repatriation of profits</li> <li>• Investment guarantees<sup>13</sup></li> </ul>	ZDA Local Government

**Source:** ZDA Act, 2006; ZDA Investor Guide Handbook, 2010

As shown by Table 4 the incentive structure administered by the Zambia Development Agency can be clustered into at least five priority areas: (i) the large Investor and the Public Private Sector Partnership category, (ii) the Priority Sectors and Multi-facility Economic Zone (MFEZ) category, (iii) the rural Micro-Small and Medium Enterprises (MSME) Category, (iv) the Urban MSME category (v) Non-Traditional Exporters' category, and (vi) the easy of doing business category.

The Large Investor and Public Private Partnership category is aimed at attracting investment with a minimum investment value of US\$10 million. Thus, within the context of Investment Promotion and Protection Agreements (IPPAs), this provides income tax holidays to the investor for up to 5 years, followed by diminishing tax breaks for 5 more years, a waiver on dividend tax and import duties and a deferment of the payment of Value-Added Tax (VAT) on machinery and equipment. The government previously offered more generous incentives to investors through Development Agreements (DAs), before the ZDA was established. To attract investment during the economic stagnation of the early 2000s, the DAs offered 20-year tax holidays for a few large mining businesses. Certain foreign firms and their officers – predominantly contractors working on projects funded by the foreign governments – also enjoyed extraordinary limitation of civil or criminal liability as provided for in the Diplomatic Immunity Act administered by the Ministry of Foreign Affairs. The Priority Sectors and MFEZ category is targeted at investment with a minimum investment value of US\$500,000 and provides the following incentives: a 5-year income tax and dividend holiday; escalating taxes over the subsequent five years, zero-rated import duties on inputs and fixed assets for 5 years and deferment of Value-Added Tax on machinery and equipment.

The rural and urban MSMEs categories extend incentives in the form of a 5-year tax holiday and 3-year tax holiday to local MSMEs investing in rural and urban areas, respectively. The Exporters Category is aimed at promoting investment in non-traditional exported goods through a 15 percent corporate income tax rate as opposed to the normal rate of 35%. The ease of doing business category is targeted at investment values of US\$500,000 or more and provides incentives through assistance to obtain land and infrastructure, tax treaties, repatriation of profits and investment guarantees.

In addition to these incentives offered by the Zambia Development Agency, other departments of Government also extend various incentives. For instance, under the Mines

<sup>13</sup> Zambia is a signatory of the Multilateral Investment Guarantee Agency (MIGA).

and Minerals Development Act, investors in the mining sector are required to obtain their investment licences from the Ministry of Mines and Minerals Development.

#### 4.2.2 Governance of Foreign Private Investment in Zambia

Admittedly, the Zambia Development Agency, through the ZDA Act, offers investors a very liberal investment climate. Of concern, however, is that although the ZDA Act provides strict rules on the minimum investment and employment-creation requirements in order for foreign investors to obtain a Zambian residence permit (the minimum is now \$250,000 and 200 employees), it does not stipulate any requirements regarding local content, technology transfer, equity, employment or use of subcontractors for foreign investors, even though foreign investors are encouraged to make a commitment to local participation in their value chains. The Act also allows investors to repatriate their investments freely and to send home profits, dividends, interest, fees and royalties, as well as permitting foreign nationals to transfer abroad wages earned in Zambia.

The manner in which foreign investment is governed in Zambia, therefore, leaves troubling questions. In the particular context of employment, for instance, the only requirement is a pledge to employ at least 200 employees. Beyond that, the Act does not set out guidelines on employment or use of sub-contractors for foreign investors. The nationality of those to be employed is not specified and the immigration authority has accommodated most large investors' requests to use expatriates in mid-level roles. In essence, foreign investors are not obliged to create employment beyond the pledged 200 employees and so have often resorted to maintaining a lean permanent workforce and relied more on sub-contracted and casual workers, thereby contributing to the growth of informal employment at the expense of the anticipated growth in formal employment. The foreign investment-formal employment response relationship has therefore been inelastic and is likely to remain this way until the manner in which foreign investment is governed in Zambia can change. The structure of employment in the mining industry where large scale investment has gone attests to this fact – as shown in table 4 below.

**Table 4: Structure of Employment in the Mining sector in Zambia, 2007-2009**

	2007	2008	2009
Total mining sector workforce	40,017	37,751	32,515
Total sub-contracted workforce	27,083	28,104	24,817
Estimated formal employment <sup>14</sup>	495,340	495,340	495,340
Proportion of mining employment in total	8%	7.6%	6.5%

<sup>14</sup> Formal employment figure is based on the Labour Force Survey 2005.

formal employment			
Proportion of sub-contracted workforce in total mining sector workforce	67%	74%	76%

**Source:** Zambia Chamber of Mines (2010:8); Labour Force Survey, 2005; Author computations

On a related note, as Krugelund writes, “foreign investment incentives have not led to any substantial employment growth because none of the incentives deal with the formation of linkages between Trans-National Companies (TNCs) and domestic companies”(2009:14). In contrast, such policies are put aside in favour of laissez-faire policies to attract FDI (and to a lesser extent also encourage TNCs to upgrade). The only policy that deals with this particular aspect of maximising the benefits of domestic investment is the Citizens’ Economic Empowerment Act (CEEA), which was born as one of six reform areas of the Private Sector Development Reform Programme (PSDRP) and is a central part of the Sixth National Development Plan (SNDP). The CEEA essentially refers back to the 1968-Mulungushi reforms, which officially sought to empower Zambians but ended up empowering the state instead.

The aim of the CEEA is to improve the level of Zambian participation in the economy. In order to reach this aim, the CEEA encourages new investors to find a local partner and existing TNCs to sell shares to Zambians. So far, however, the CEEA policies have not been enforced. Rather, they build on a voluntary commitment, and, as the CEEA has not yet been harmonised with other key industrial policies guiding Foreign Direct Investment, the process of bringing ownership back to the Zambians is built on codes of conduct agreed upon by the main stakeholders in each sector of the economy.

In sum, this discussion of investment - oriented incentives in Zambia points to at least two aspects: First, whether and to what extent the Zambian government is governing foreign direct investment and directing it towards the creation of desired forms and levels of employment is unclear. Second, policy changes for investment promotion have tended to follow the neo-liberal trend of opening up the economy, i.e. they pay attention to the determinants of FDI, not to upgrading or forming linkages to local businesses. Third, and relatedly, the Zambian Government does not seem to have used the – albeit limited – policy space available for ensuring that domestic companies benefit from foreign investment. Finally, only the most recent initiative, the CEEA, focuses on how domestic companies can enhance their ability to respond to FDI.

### **4.2.3 Implementation Progress and FDI Contribution to Employment**

Admittedly, the ZDA has made some progress in attracting investment into various economic sectors. Available information from the Zambia Development Agency indicates, for instance, that over the period 2008 and 2009 total foreign private investment stocks into Zambia increased by 12.6%, in nominal terms, to close at US\$9,622 million in 2009 from

US\$8,549.1 million in 2008. In 2009, foreign private investment inflows were in the form of FDI which closed at US\$7,473.6 million in 2009, followed by other investments at US\$2,000.6 million, financial derivatives at US\$112.2 million and portfolio investment at US\$35.9 million ( See table 5).

**Table 5: Foreign Private Investment Stocks by Type (US\$ million), 2008-2009**

TYPE	2008	2009	% Change
Foreign Direct Investment	6,634.06	7,473.55	12.7
Portfolio Investment	14.36	35.93	150.3
Financial Derivatives	20.00	112.18	460.8
Other Investments	1,880.68	2000.65	6.4
Total	8,549.11	9,622.31	12.6

**Source:** ZDA (2010:13)

With regard to FDI flows and Stocks by country, the ZDA reports that India dominated in 2009 with US\$296.2 million (accounting for 42.6 percent of FDI inflows). This was followed by Canada at US\$ 203 million (29.2 percent), Ireland at US\$180.0 million (25.9 percent), the Netherlands at US\$77.8 million (11.1 percent) and China at US\$75.8 (10.9 percent). In terms of stocks, Canada and India dominate at US\$1,433 million and US\$1,277.9 million in 2009, respectively (ZDA, 2010:16).

A sectoral analysis of FDI flows and stocks indicates that the mining sector dominates in both cases as the major recipient. For instance, in 2009, FDI inflows were largely driven by inflows in to the mining sector at US\$367.2 million (accounting for 52.8 percent) followed by the manufacturing sector at US\$285.7 million (41.1 percent), and wholesale and retail trade US\$65.0 million (9.4 percent) (ZDA, 2010:17). As regards stocks, the mining sector again dominates as the stock rose to US\$4,534.6 million recorded in 2009 from US\$4,089.3 million recorded in 2008. This was followed by the manufacturing sector whose stock stood at US\$1,290.3 million in 2009 from US\$1,088.4 million in 2008. The bank and non-bank financial institutions ranked third as the stock declined to US\$584.4 million from US\$710.8 million registered in 2008.

Therefore, on close inspection it becomes evident that large prospective investors were most interested in the unique opportunities offered by Zambia's mining industries - as seen by the amount of foreign direct investment realised in the mining industry. These investors are responsive to the incentives offered to them and are prepared to invest heavily in modern mines and hospitality facilities, respectively, to capitalize on the fact that Zambia accounts for 10% of global copper reserves, for example. Investment in other sectors is not as substantial. This may reflect the fact that infrastructure has been lacking. Apart from mining and tourism infrastructure which is prioritized and jealously guarded, other infrastructure such as feeder roads, connections to electricity and municipal water that would facilitate enterprise in agriculture and other areas is inadequate (ZDA, 2011).

The huge flow of FDI (both stocks and flows) into the mining sector bears implications for employment generation. The mining sector is generally capital intensive and could therefore

not have generated substantial employment. As can be seen from table 6 which shows the actualisation rates between actual and pledged employment, only 11% of the total pledged jobs were realised in mining for the period 2007 to 2009. This is despite the huge flow of investment into this sector. Therefore, one reason why not many jobs have been created from the recent inflow of foreign investment in Zambia is that much of it is directed to the mining industry which by nature is capital intensive and thus the employment growth arising from such investment has been low.

**Table 6: Pledged Vs Actual Employment by FDI, 2007-2009**

SECTOR	PLEDGED	ACTUAL	IMPLEMENTATION RATE
Finance	21	-	-
Real Estate	1,957	2	0%
Energy	534	32	6%
Mining	8,630	909	11%
Tourism	3,799	529	14%
Transport	2,198	411	19%
Agriculture	6,505	1,431	22%
Construction	3,013	716	24%
Education	120	29	24%
Service	7,774	2,257	29%
Health	476	138	29%
Manufacturing	23276	10,886	47%
ICT	432	407	94%
<b>Totals</b>	<b>58,735</b>	<b>17,746</b>	<b>30%</b>

Source: ZDA (2010a): Author.

One immediate reaction to this table is that there are opportunities for faster formal employment growth in areas like health, manufacturing and ICT as opposed to mining which performed poorly over the period 2007-2009. This implies that any suitable FDI driven solutions to Zambia's employment problem must be less capital intensive and more focused on employment intensive industries. In order for this to be sustainable, however, there has to be an effective way of linking FDI to locally owned businesses.

However, local MSMEs have challenges of their own that need to be addressed in order to place them in better stead for accelerated employment generation. A useful starting point is addressing productivity constraints. Addressing the productivity of medium, small and micro enterprises (MSMEs) should result in significant progress and enhance employment opportunities for Zambians. The majority of MSMEs earn less than ZMK500,000 per month and are also small in terms of numbers of employees according to the 2010 Zambia Business Survey. This low productivity is attributed to low levels of education and a lack of infrastructure such as feeder roads to deliver products to markets. The World Bank's 2010 Doing Business report, cited a 71% average literacy rate and pointed out that most MSMEs' employees have only achieved a seventh grade education or less. Further, few MSMEs are connected to water or electricity infrastructure and most of them are not serviced by decent feeder roads. Education and infrastructure development must be prioritised to address the productivity deficit and improve the earnings and, by extension, the quality of employment for most Zambians. As measured by the value of production or earnings, labour productivity rises by 10% per year of formal schooling and recent surveys have observed that MSME employees require training in entrepreneurship, vocations and ICT to address substantial deficits in operational and management skills (ZBS, 2010).

To create decent employment in Zambia, therefore, more employment intensive industries and value creation should be embraced. This implies reducing the reliance on capital intensive mining and subsistence agriculture and increasing investment in agro-processing, tourism as well as technical fields that support value creation.

In absolute terms, the actual contribution to employment by Trans-national Companies operating in Zambia stood at 60,752 in 2009 (ZDA, 2010:37). FDI stocks accounted for approximately 60,702 or 12% of the 495,784 formal jobs in Zambia (ZDA, 2010:17). Juxtaposed with a labour force estimated at 4.9 million and the 495,784 formal jobs statistic for 2005, foreign private investment seems unequal to the task of generating the millions of quality, formal jobs Zambia requires for equitable development within an acceptable time frame. To put it differently, foreign private investment creates 1 formal job per US\$82,000 invested according to the 2010 Foreign Private Investment and Investor Perceptions report. To absorb the approximately 5,000,000 people in the workforce who are underemployed in informal MSMEs or unemployed, US\$410 billion would have to be attracted. Inflows achieved in recent years have varied between US\$0.7 billion and US\$1.5 billion, implying that if FDI is not coupled with increased value creation by local businesses across all major economic sectors for the creation of desired levels of employment, it would take well over a century to achieve decent employment, for the current population size and the current rate of progress (ZDA, 2010).

### **4.3 Institutional Framework and Coordination Mechanism**

In general, the study establishes that numerous public and private agencies and Institutions are concerned with implementation aspects of human resources and employment in Zambia, as well as the relevant planning tasks and dimensions. The most important of these agencies and institutions are: the Ministry of Education, the

Ministry of Labour and Social Security, the Ministry of Community Development and Social Services, Ministry of Commerce and Trade and Industry, Ministry of Mines and Mineral Development, Ministry of Youth, Sport and Child Development, Universities, the Technical Education and Vocation Training Authority, Enterprises of the Private Sector, Workers’ and Employers Organisations and the Voluntary Sector. For the purpose of this study’s analysis, the roles of Government Ministries and Departments are highlighted.

Accordingly, the main Government Ministry that has administrative jurisdiction over labour and employment issues in Zambia is the Ministry of Labour and Social Security. However, it is important to note that even though there seems to be a public perception that the Ministry of Labour is in charge of employment generation, this study establishes that the role of this Ministry relates mainly to administrative aspects of labour and employment, including the promotion of decent work aspects but has no assigned mandate to drive employment generation in its own right. A gap, therefore, exists in terms of which Ministry drives the employment generation agenda. Other Ministries and Government Departments such the Ministry of Youth, Sport and Child Development, Ministries of Education, Science and Technology, Ministry of Commerce Trade and Industry; and Gender in Development Division(GIDD) only play either supportive and/or facilitative roles in employment generation. Table 7 below provides a matrix of employment generation role in various Government Ministries and Departments.

**Table 7: Key Ministries Involved in Employment Generating Functions**

<b>Government Ministry/Department</b>	<b>Employment Related Focus</b>
1 Ministry of Commerce, Trade and Industry	Private sector development for employment promotion, small business and investment incentive regime
2 Ministry of Labour and Social Security	Enforcement of labour and employment laws/ labour administration
3 Ministry of Youth, Sport and child Development	Youth employment
4 Ministry of Science and Technology	Skills development ( supply side)
5 Ministry of Education	Skill development
6 Ministry of Mines and Mineral development	Private sector driven employment promotion
7 Gender in Development Division	Employment of women/female HR utilisation

**Source:** Author compilation

Some of the functions such as enterprise or entrepreneurship development, training, support for self-employment and promoting employability of the various groups cuts across Ministries. However, the Ministry of Labour is the only Ministry where tripartite structures exist for social partners to play an active role. The social partners also are involved in joint projects on HIV and AIDS, and child labour. The individual social partners also run their own activities in the areas of their competencies. The Tripartite Consultative Labour Council (TCLC) has the mandate to discuss and give recommendations to the Govt in all labour and employment related issues. However, this mandate is not effectively utilised as in practice, the council has concentrated mainly on labour laws rather than being an overall platform



where they meet to discuss labour market policy and jointly plan, evaluate, monitor and implement labour market initiatives in Zambia.

In the absence of institutional frameworks for stakeholder participation across Ministries, the involvement of other partners in other Ministries is ad hoc. In this regard, overall policy and institutional coordination and effective stakeholder participation is an area that needs greater attention. The constant re-organisation of mandates across Ministries has affected consistency and often results in overlap and duplication.

As stated above, the TCLC is the forum that has been used to negotiate labour law reform. However, its lack of an independent secretariat and its ad hoc approach has limited its usefulness in coordinating policies, especially with respect to the labour market. Strengthening this existent structure into an effective platform for advising the government on employment generating strategies within the given economic context, including aspects of implementation, monitoring and evaluation could prove useful. As a matter of fact, consolidation and promotion of tripartism and social dialogue in addressing labour and employment issues accords well with the regional integration agenda which Zambia should foster in line with the implementation of the SADC's Regional Integrative Strategic Development Plan( SADC, RISDP, 2009:88).

In sum, a discussion of the institutional framework for employment generation in Zambia reveals that there is no institution of government (either at department, ministry or cabinet level) charged with the overall responsibility of employment generation. In other words, there is no driving institution for formal employment generation in Zambia. The Ministry of Labour and Social Security that is often associated with this role actually only performs the administrative function in terms of enforcing laws and regulations related to labour and employment issues. In Zambia today, therefore, there is an absence of an institutional mechanism for leading and coordinating various sector policies, strategies and programmes on employment – which gap needs to be filled.

## **5.0 Recommendations and Conclusions**

### **5.1 Recommendations**

From the analysis in the paper, the following specific recommendations are made:

- (1) The institutional framework for employment must have leadership and improve on coordination***

The study establishes that there exists a structural problem in the nature and operation of the institutional framework for formal employment generation in Zambia, which stands in the way of achieving desired levels of formal employment. Different sectors and institutions are implementing employment related policies, strategies and programmes without a clear



interface or mechanism that ensures elimination of possibilities of duplication or indeed one that can reinforce best practices. If this structural problem is to be overcome, there has to be a more harmonised and well - coordinated policy programming and implementation effort. A call is, therefore, made for the Zambian Government to mandate the Ministry of Finance and National Planning to be the focal government institution that should drive the employment generation agenda as well as provide a coordination mechanism for various policies and institutions dealing with formal employment in Zambia. This would resonate well with the SNDP, which has integrated employment in the overall macroeconomic framework.

## ***(2) Improving Labour Market and Employment Statistics***

The study has revealed the lack of reliable and current statistics on employment in Zambia and asserts that the national economy is operating in a statistical vacuum in so far as labour market and employment statistics are concerned. Therefore, emphasis needs to be made on the generation of data to provide a basis for evidence based planning and monitoring in the area of employment. This study, therefore, calls on:

- a. Government to increase its institutional financial support and human resource development to the Ministry of Labour to enable it capture employment and labour market data in a timely and comprehensive manner.
- b. Government to increase the capacity of civil society organisations to generate adequate statistics on employment through its partnership with the donor community as well as private sector. This can be done by applying international standards in the design of relevant surveys to capture employment and labour market data.
- c. Government to begin to report on employment creation targets in every national budget- alongside economic growth and inflation targets- and provide on how to achieve the employment target set in the Sixth National Development Plan (2011-2015).

## ***(3) Re-orienting the education doctrine to improve the quality of skills, employability and productivity***

The study reveals that large groups of new market entrants, particularly the youths, lack many of the skills required for a productive working life in Zambia and that there is an existence of a skills mismatch between the skills youths are coming out of the education system with and those required by the labour market. A related problem is the growing phenomenon whereby employers are demanding prior work experience before employing new labour market entrants, much to the disadvantage of recent graduates. Within this context the study recommends the following:

- a. Strengthening the education and training systems with the objective of improving the employability of youths.

- b. Introducing a youth learnership wage and a youth training subsidy for companies providing youth apprenticeship programmes and on-the -job training.
- c. Promotion of non-curricular activities such as sports and music and grading such activities.

**(4) *Active Labour Market Policies***

The study establishes that Active Labour Market Policies have not received adequate policy attention in the existing policy structure for employment generation in Zambia. However, ALMPs can be usefully implemented as Government programmes that intervene in the fight against unemployment and poverty. On this basis, the study recommends that:

- a. Government implements ALMPS involving labour market training, job creation in the form of public and community work, enterprise creation and employment subsidies that should be targeted at vulnerable groups such as youths, older people, women and the disabled.
- b. Enact legislation providing for continuous training at the district level in modern vocational techniques and entrepreneurship.
- c. Enable free provincial vocational colleges, with satellite training centres in all districts that should deliver training to the majority of the unemployed in rural areas that need it most.

**(5) *Governing Investment for improved employment returns***

The study establishes that the manner in which foreign investment is governed in Zambia leaves much to be desired. Foreign investors are not obliged to create employment beyond the pledged 200 employees and so have often resorted to maintaining a lean permanent workforce and relying more on sub-contracted and casual workers which has only led to informal employment. To address the need to ensure that foreign direct investment and domestic investment can stimulate formal employment, the study recommends:

- a. A re-visitation of the structure of investment incentives to ensure it supports domestic investment
- b. The need to link FDI to domestic firms as a means of increasing the capacity of MSMEs in Zambia through technological transfers and enhanced quality standards in the outputs.

**(6) *Economic diversification and value addition***

The study reveals that employment creation has been driven by the mining industry which is essentially capital intensive with very few backward and forward linkages to the rest of the economy. Other regions (e.g. latin America) have creatively harnessed the positive growth effects in the mining industries to support sectors that are more employment-intensive such

as manufacturing and agriculture. For a long time Zambia has relied on the mining industry to generate economic and employment growth. In order to create the sustainable large numbers of formal jobs that Zambia requires to reduce poverty, the study recommends that:

- a. Government aggressively pursues, as a compliment to the mining sector, the development of employment-intensive sectors such as agriculture and manufacturing by implementing targeted industrial policies.
- b. Government must increase investment in agro-processing, tourism as well as technical fields that support value creation.

### **(7) The rising role of the private sector in employment creation**

The study clearly shows the critical role of the private sector in employment creation. While the Government has the duty of creating an enabling environment for the private sector to operate effectively, the private sector should contribute much more to employment creation for Zambians. Among others, the private sector, especially FDI, should strengthen linkages with local businesses to enhance technology and skill transfer, employment creation for Zambians and subsequently contribute to economic development of the country. Furthermore, JCTR encourages the private sector to invest in value addition so as to boost the manufacturing base of the country and further take advantage of the existing market for the finished products.

## **5.2 Conclusion**

In summation, this survey set out to inquire into the formal employment challenge in Zambia, particularly looking at the policies, incentives and institutional structure dealing with employment generation in Zambia. This was in order to understand how best to inform sustainable strategies for formal employment in the future. The conclusion the paper reaches is that that efforts to create formal employment in Zambia have been insufficient and constrained by inadequacies in at least five areas: the lack of institutional leadership and effective prioritization of the employment agenda at the official level; a disarticulate institutional structure and coordinating mechanism that hamper effective execution and implementation of policies; an ineffective investment incentive and regulatory regime, and the low status of skills development.

## **5.3 Areas for future Research**

The study has brought out a number of insights regarding policies, institutions and investment incentives supporting employment generation in Zambia. It also points to some areas for future research that include:

- A Study on dynamics of informal employment in Zambia
- Cost – Benefit analysis of investment incentives in terms of employment generation in Zambia.
- Analysis of the labour legislative framework and its implications for employment growth in Zambia.

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## **Appendix 1: Mining Tax Regime & Incentives**

A number of financial incentives have been created specifically to encourage investment in the mining industry in Zambia. These include:

### **Royalties**

A royalty is payable calculated as 2% of the market value of minerals freight on board (f.o.b) less the cost of smelting, refining and insurance, handling and transport from the mining area to the point of export or delivery within Zambia. Royalty payments may be deferred if the cash operating margin of a holder of a Large Scale Mining License falls below zero.

### **Corporate Tax**

Exporters of copper and cobalt are levied 35% of taxable income whereas other mineral and "non-traditional" commodities (i.e. excluding copper and cobalt) attract a levy of 15%. Companies listed on the Lusaka Stock Exchange are levied at 30% of taxable income.

### **Relief from Income Tax**

Investment in mining, including prospecting, attracts deductions from income tax on the following expenditures:

- capital expenditure; allowances of 25% on plant, machinery and commercial vehicles; 20% on non-commercial vehicles; 5% on industrial buildings.

- prospecting expenditure under special circumstances.
- mining expenditure under special circumstances
- mining expenditure on a non-producing mine
- mining expenses incurred by a mine of irregular production close to the end of its life.

### **Relief from other Surcharges**

A holder of a mining right is exempt from customs, excise and Vat duties in respect of all machinery and equipment required for exploration or mining activities

### **Remission**

There are no restrictions in respect of the amount of profits, dividends, or royalties that may be externalized, although a withholding tax of 15% is levied.

In general, the Zambian tax regime also provides the following terms.

- 100% deduction of pre-production expenses and other capital expenditures as defined in the Income Tax Act.
- Accelerated depreciation allowances for expenditure on machinery and equipment which does not qualify for the 100% deduction. Unlimited carry forward of losses.

### **Appendix II: List of Institutions from which Interviewees were drawn**

1. Ministry of Commerce Trade and Industry
2. Ministry of Labour and Social Security
3. Zambia Development Agency
4. Central Statistics Office
5. Zambia Federation of Employers
6. University of Zambia
7. United Nations Economic Commission for Africa
8. International Labour organisation
9. Economics Association of Zambia
10. Zambia Congress of Trade Unions
11. Federation of Free Trade Union in Zambia
12. Cabinet Office
13. Ministry of Finance and National Planning
14. Centre for Informal Sector Promotions
15. Civil Society for Poverty Reduction



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